013853 - Starr Indemnity & Liability Company

Report Revision Date: 07/09/2013

Rating and Commentary [1]	*Financial* [2]	*General Information* [3]
Best's Credit Rating: 10/17/2012	**Time Period:** 2nd Quarter - 2013	**Corporate Structure:** N/A
Rating Rationale: 10/17/2012	**Last Updated:** 08/27/2013	**States Licensed:** 11/01/2011
Report Commentary: 07/09/2013	**Status:** Quality Cross Checked	**Officers and Directors:** 06/14/2013

Best's Credit Rating Methodology   Disclaimer   Best's Rating Guide

Additional Online Resources

Related News	Archived AMB Credit Reports
Rating Activity and Announcements	Corporate Changes & Retirements
Company Overview	AMB Country Risk Reports - United States

[1] The Rating and Commentary date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report.

[2] The Financial date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process.

[3] The General Information date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

Ultimate Parent: Starr International Company, Inc.

Starr Indemnity & Liability Company

399 Park Avenue, New York, New York, United States 10022

Tel.: 646-227-6300 **Web:** N/A **Fax:** 646-227-6620

AMB #: 013853	**Ultimate Parent:** 055404	**NAIC #:** 38318	**FEIN#:** 75-1670124

Best's Credit Ratings

Best's Financial Strength Rating: A **Outlook:** Stable

Best's Issuer Credit Rating: a **Outlook:** Stable

Rating Effective Date: 10/17/2012

Financial Size Category: XIV

Report Revision Date: 07/09/2013

Rating Rationale

Rating Rationale: The ratings reflect Starr Indemnity & Liability Company's (SILC) solid risk-adjusted capitalization, experienced and knowledgeable management team, improved underwriting performance and its existing strategic relationships with key quality insurance companies. The ratings also consider the financial resources and flexibility available through its ultimate parent, Starr International Company, Inc. These strengths are somewhat offset by the continuing execution risk associated with successfully implementing management's business plan as well as ongoing large or catastrophic exposures that can impact underwriting performance.

The company is increasingly focusing on its direct distribution, targeting diverse lines such as accident and health, financial lines, primary and excess casualty coverages, including programs managed and/or produced by specialty subsidiaries which prior to the 2012 reorganization, were subsidiaries of C.V. Starr & Co., Inc. In addition, SILC benefits from the management, underwriting, claims handling and loss control expertise provided by these subsidiaries. While it is expected that the diversification of SILC's business across several commercial lines and distribution sources will minimize the impact of any specific event on the company, SILC maintains comprehensive reinsurance to mitigate the impact of large losses on its net exposures on a per risk basis and to catastrophic events.

The company may be challenged to meet its business plan as a result of continuing competitive market conditions. In addition, while it has established relationships with several key participants in its target markets, the company's ability to build and maintain market share will have to be proven over time. Although improved since 2010, underwriting performance remains variable due to potential large losses on certain lines of business as well as losses on some of its non-renewed program business. The company, however, remains robustly capitalized, and A.M. Best expects that the company will maintain a level of risk-adjusted capital that remains supportive of its ratings throughout the company's planned growth period. A.M. Best will closely monitor SILC's performance against its business plan.

Although A.M. Best believes the company is well positioned at its current rating levels, factors that could lead to negative rating pressures include operating performance falling short of A.M. Best's expectations, driven by either underwriting or investment results, or a decline in risk-adjusted capitalization that no longer supports the current ratings.

Five Year Rating History

Date	BEST'S FSR	BEST'S ICR
10/17/2012	A	a
10/17/2011	A	a
08/26/2010	A	a
06/22/2009	A	a
05/29/2008	A	a

View 25 Year Rating History

Key Financial Indicators

Period Ending	Statutory Data ($000)					
	Premiums Written		Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholder's Surplus
	Direct	Net				
2012	1,032,596	625,300	21,399	14,934	2,904,072	1,871,266
2011	801,450	402,493	10,600	1,678	1,158,332	538,973
2010	437,847	239,684	1,901	3,425	913,058	523,604
2009	139,839	97,590	-23,605	-22,874	723,158	518,742
2008	3,426	19,807	-2,588	-2,230	288,647	215,138
06/2013	608,874	402,620	7,672	542	3,058,456	1,749,178
06/2012	483,580	297,411	-3,149	-5,550	1,393,240	564,743

Period Ending	Profitability			Leverage			Liquidity	
	Combined Ratio	Investment Yield (%)	Pre-Tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2012	98.2	2.3	4.3	2.7	0.3	0.9	284.2	176.6
2011	100.4	3.2	3.1	3.2	0.7	1.9	187.3	249.4
2010	99.6	3.4	1.1	...	0.5	1.2	238.2	222.0
2009	121.3	1.6	-42.3	...	0.2	0.6	354.2	164.0
2008	150.9	3.1	-44.2	...	0.1	0.4	400.7	121.3
5-Yr Avg	101.4	2.7	0.7	...	...	...	...	...
06/2013	99.3	2.5	2.4	6.7	0.4	1.2	235.5	194.3
06/2012	101.7	3.2	-1.4	9.9	0.9	2.4	168.4	157.2

(*) Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.
(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

Business Profile

Starr Indemnity and Liability Company (SILC) is a direct subsidiary of Starr Insurance Group, Inc. (SIG), an intermediate holding company, of the Starr International Company, Inc. (SICO) organization. SICO invests in insurance and reinsurance companies, with a presence in North America (SILC, Starr Surplus Lines Insurance Company (Starr Surplus Lines) and Starr Insurance & Reinsurance Limited (SIRL), Europe (Starr Syndicate Ltd., a Lloyd's syndicate (Starr Syndicate), and Asia (Starr International Insurance (Asia) Ltd. and Starr International Insurance (Singapore) Ltd.). In addition, SICO's subsidiaries Starr Underwriting Agencies, LLC (SUAL) and Starr Adjustment Services, Inc. offer safety, loss control, fronting and claims services to both the Starr insurance operations and third parties. SICO also has significant non-insurance operations (mainly investment operations) which account for the majority of SICO's revenue.

Starr Insurance Holdings, Inc. (f/k/a Starr USA Holdco, Inc.) (Starr Insurance Holdings), the parent company of SIG, manages the investments for SILC's insurance operations.

Effective January 1, 2012, the following corporate transactions were completed resulting in the creation of the intermediate holding company, SIG, within the SICO holding company system: (i) SIG became the direct parent of SILC, Starr Surplus Lines, and Starr Syndicate; (ii) SIG acquired from C. V. Starr & Co., Inc., SUAL in exchange for one hundred percent (100%) of the cumulative non-voting preferred shares of SIG. The cumulative non-voting shares do not have any control features (i.e., rights to name a director or shareholder consent rights); and (iii) SIG contributed certain of the Starr agency entities (listed below) to SILC as additional paid-in capital:

(a) C.V. Starr & Company (California), a California corporation, and its subsidiaries;

(b) Starr Aviation Agency, Inc., a New York corporation, and its subsidiary;

(c) Starr Marine Agency, Inc., a New York corporation, and its subsidiaries;

(d) Starr Marine Agency, Inc. of California, a California corporation; and

(e) Starr Technical Risks Agency, Inc., a New York corporation, and its subsidiaries.

In December 2012, the following corporate transactions were completed resulting in (i) the creation of a new intermediate holding company, Starr Insurance Holdings (formerly known as Starr USA Holdco, Inc.), which is a direct, wholly owned subsidiary of SICO, and (ii) Starr USA Asset Holdings, LLC (formerly known as Starr Insurance Holdings, Inc. (Starr Holdings LLC)), which was converted from a Nevada corporation to a Nevada limited liability company, becoming a direct, wholly owned subsidiary of SILC:

(a) SICO contributed all of the issued and outstanding shares of capital stock of Starr Holdings LLC to Starr Insurance Holdings.

(b) Starr Holdings LLC then converted from a corporation to a limited liability company under Nevada law.

(c) Starr Holdings LLC then distributed all of its interest in one hundred percent (100%) of the issued and outstanding shares of common stock of SIG to Starr Insurance Holdings.

(d) Starr Insurance Holdings then contributed all of its one hundred percent (100%) membership interests in Starr Holdings LLC to SIG, which in turn, contributed all of the membership interests in Starr Holdings LLC to SILC. Starr Holdings LLC continues to own all of the issued and outstanding shares of capital stock or membership interests of certain of its subsidiaries.

(e) SIG then contributed all of its interest in one hundred percent (100%) of the issued and outstanding shares of capital stock of each of Starr Syndicate, Starr Surplus Lines, and Starr Equipment Corp., a Delaware corporation, to SILC.

SILC is headquartered in Texas with administrative offices in New York City. SICO is headquartered in Switzerland.

SILC (formerly known as Republic Insurance Company) was purchased by Starr Holdings LLC, currently an direct U.S. subsidiary of SICO, from Columbia Insurance Company (Columbia), an indirect subsidiary of Berkshire Hathaway, in October 2007. At the time of the acquisition, the company's book of business was in runoff. SILC's runoff liabilities are fully reinsured by Columbia via an unlimited excess of loss reinsurance agreement. Columbia is also managing the runoff. Starr Holdings LLC contributed nearly $218 million in capital to SILC in 2007 to fund the execution of the new business plan. A further $325 million was contributed in 2009, to increase the company's surplus base.

Scope of Operations

Scope of Operations: SILC currently operates as a direct writer of casualty products produced through brokers, and as a direct writer or quota share reinsurer in programs managed by subsidiary agencies and non-affiliated, specialized managing general agencies. SILC's product offering includes commercial property and casualty, marine, aviation, D&O and A&H coverages.

SILC is also well positioned to be a reinsurer as needed. SILC continues to target industrial (specialized and complex), commercial, retail and governmental entity risks domiciled in the United States and insures risks in all 50 states. The lines growing the most in 2012 are Accident and Health, Construction Workers Compensation and Financial lines.

SILC has grown rapidly since its inception in 2007 with over $600 million in net premiums written and over $1 billion in direct written premium in 2012.

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written	
	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)	($000)	(%Chg)
2012	1,032,596	28.8	116,664	59.7	523,960	11.0	625,300	55.4
2011	801,450	83.0	73,036	63.6	471,993	94.4	402,493	67.9
2010	437,847	213.1	44,634	-22.3	242,797	143.5	239,684	145.6
2009	139,839	999.9	57,467	216.5	99,717	999.9	97,590	392.7
2008	3,426	...	18,155	...	1,774	...	19,807	...
06/2013	608,874	25.9	77,121	38.6	283,375	17.2	402,620	35.4
06/2012	483,580	31.2	55,662	54.7	241,831	11.5	297,411	58.5

Territory

The company is licensed in the District of Columbia, Puerto Rico and all states.

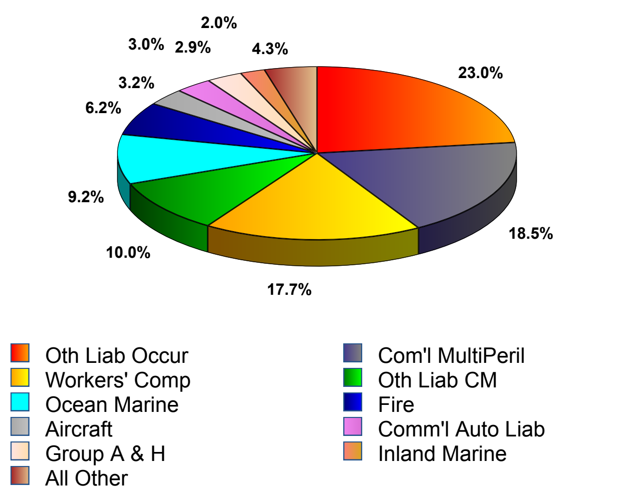
Business Trends

Business Trends (Continued ...)

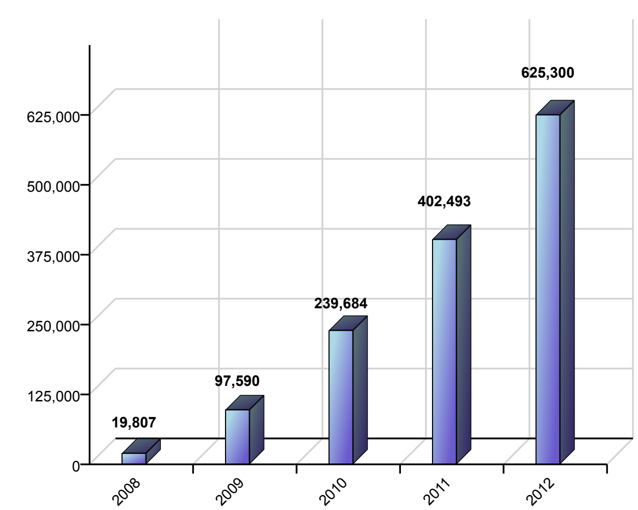
2012 By-Line Business ($000)

Product Line	Direct Premiums Written ($000)	Direct Premiums Written (%)	Reinsurance Premiums Assumed ($000)	Reinsurance Premiums Assumed (%)	Reinsurance Premiums Ceded ($000)	Reinsurance Premiums Ceded (%)	Net Premiums Written ($000)	Net Premiums Written (%)	Business Retention %
Oth Liab Occur	303,552	29.4	8,060	6.9	167,582	32.0	144,031	23.0	46.5
Com'l MultiPeril	122,331	11.8	...	...	6,733	1.3	115,598	18.5	94.5
Workers' Comp	54,973	5.3	58,928	50.5	3,292	0.6	110,609	17.7	97.1
Oth Liab CM	92,416	8.9	-201	-0.2	29,634	5.7	62,582	10.0	66.5
Ocean Marine	207,782	20.1	11,803	10.1	161,764	30.9	57,822	9.2	27.0
Fire	13,322	1.3	31,040	26.6	5,652	1.1	38,710	6.2	87.3
Aircraft	123,761	12.0	195	0.2	104,140	19.9	19,816	3.2	16.0
Comm'l Auto Liab	28,478	2.8	...	...	9,725	1.9	18,753	3.0	65.9
Group A & H	32,177	3.1	29	0.0	14,015	2.7	18,191	2.9	56.5
Inland Marine	18,585	1.8	41	0.0	6,095	1.2	12,530	2.0	67.3
All Other	35,219	3.4	6,768	5.8	15,329	2.9	26,658	4.3	66.6
Total	1,032,596	100.0	116,664	100.0	523,960	100.0	625,300	100.0	54.8

2012 Top Product Lines of Business (Net Premiums Written)



5 Years of Net Premiums Written ($000)



Business Trends (Continued ...)

By-Line Reserve ($000)

Product Line	2012	2011	2010	2009	2008
Oth Liab Occur	160,611	71,583	24,457	2,775	...
Com'l MultiPeril	52,146	17,087	3,372	...	...
Workers' Comp	44,090	6,980	833	...	...
Oth Liab CM	67,695	41,412	14,089	803	...
Ocean Marine	44,965	36,779	26,789	12,469	1,331
Fire	22,658	23,546	11,732	8,762	1,700
Aircraft	15,325	18,561	9,959	7,530	697
Comm'l Auto Liab	12,177	3,262	15	539	...
Group A & H	12,463	20,334	5,220	2,241	248
Inland Marine	1,802	67	...	...	...
All Other	43,935	48,198	17,595	679	2,078
Total	477,868	287,807	114,061	35,798	6,054

Market Share / Market Presence

Geographical Breakdown By Direct Premium Writings ($000)

	2012	2011	2010	2009	2008
New York	188,420	144,945	83,692	26,945	...
California	120,953	104,035	48,297	12,794	...
Texas	85,650	69,487	52,821	22,954	3,426
New Jersey	62,981	25,685	12,762	6,558	...
Aggregate Alien	56,987	40,868	9,831	...	...
Alabama	41,901	23,573	6,098	1,866	...
Louisiana	39,188	31,045	22,199	9,249	...
Tennessee	38,333	29,339	20,186	4,753	...
Florida	37,493	31,008	20,257	6,659	...
Virginia	30,753	12,002	7,807	1,400	...
All Other	329,939	289,462	153,897	46,662	...
Total	1,032,596	801,450	437,847	139,839	3,426

Risk Management

SILC's enterprise risk management (ERM) program is integrated into SICO's global ERM Committee through the group's ERM Management Committees. The global ERM Committee members are comprised of senior management at SICO and other members of senior management across the organization.

The company's risk management primarily focuses on insurance risk including catastrophe, pricing, credit, business diversification, cycle management and reserving risks. Insurance risks are managed by establishing and maintaining limits for underwriting authority and approvals, and employing analytics and controls which mitigate collection risk and underwriting losses.

Risk management also focuses on operational risk, implementing the best use of technology to benefit data and risk analysis as well as information security. In addition, the group maintains disaster recovery plans for IT systems and ongoing operations. Other non-insurance financial risk is handled in part by maintaining a conservative investment strategy. ERM also focuses on compliance, reputation and ethics risks.

Catastrophe Exposure & Management: SILC's book of business is primarily casualty business with property business made up of lower catastrophe exposed business, fire and auto physical damage. SILC's largest catastrophe exposures stems from potential earthquake losses in California and hurricane losses in the Northeast, and is managed on a net basis to minimize the risk to the company's surplus.

Operating Performance

Operating Results: The company's 2012 operating results were favorable despite lower than average investment yields. Net written premiums have increased significantly as the company has implemented its business plans in the direct and broker channels. The growth in premiums has led to improvement in underwriting results, as net premiums rose to a level that sustains the infrastructure built by the company in recent years and a reduction in the expense ratio. Results in the first half of 2012 were negatively impacted by significant losses on the company's program business and higher than average property losses. The second half of 2012 has benefitted from reduced property losses and an improvement in the program business loss ratio as the company non-renewed its unprofitable non-standard auto program in 2011. The company's results in the near to mid-term are expected to remain favorable, with disciplined underwriting producing favorable loss ratios, and a competitive expense ratio. Implementation of the company's business plan may continue to be challenged by market conditions, and by the exposure of the company's results to catastrophic events, which, although limited in severity may produce some variability in results.

The company's pre-tax return on revenue and return on policy holder surplus relative to the composite is low despite favorable underwriting performance as significant increase in earned premium, lower investment income yields and low underwriting leverage (due in large part to its A&E cover) serve to depress the relevant components of the ratios.

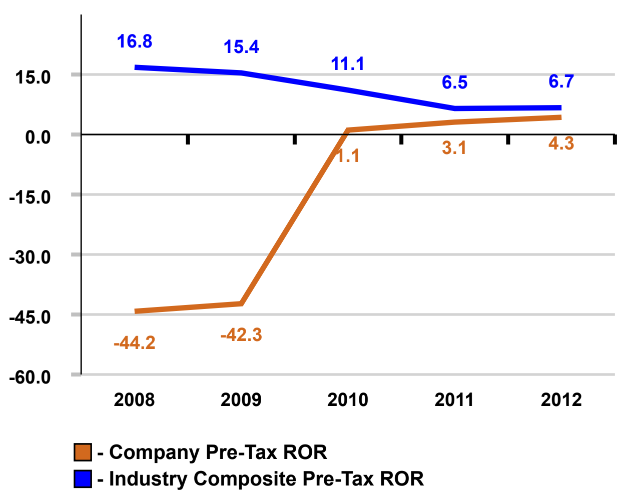
Since its acquisition by Starr Holdings LLC in 2007, A.M. Best has viewed the company as in its early stages of development due to the significant change in business plan and strategy. Accordingly, A.M. Best's expectations for the company continue to be based on company-provided financial projections in addition to recent years' performance.

Profitability Analysis

	Company							Industry Composite		
Period Ending	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return	Pre-Tax ROR	Return on PHS	Operating Ratio	Pre-Tax ROR	Return on PHS	Operating Ratio
2012	21,399	9,607	14,934	7,993	4.3	0.7	90.2	6.7	7.9	92.4
2011	10,600	-1,227	1,678	3,013	3.1	0.6	92.9	6.5	5.6	93.1
2010	1,901	2,419	3,425	3,425	1.1	0.7	87.6	11.1	9.6	88.2
2009	-23,605	-23,205	-22,874	-22,874	-42.3	-6.2	109.9	15.4	11.5	84.6
2008	-2,588	-1,581	-2,230	-2,230	-44.2	-1.0	39.9	16.8	-1.0	83.6
5-Yr Avg/Tot	7,708	-13,987	-5,067	-10,674	0.7	-0.4	92.1	11.3	6.8	88.4
06/2013	7,672	-432	542	36,412	2.4	4.4	92.3	XX	XX	XX
06/2012	-3,149	-6,350	-5,550	-6,352	-1.4	-1.4	94.5	XX	XX	XX

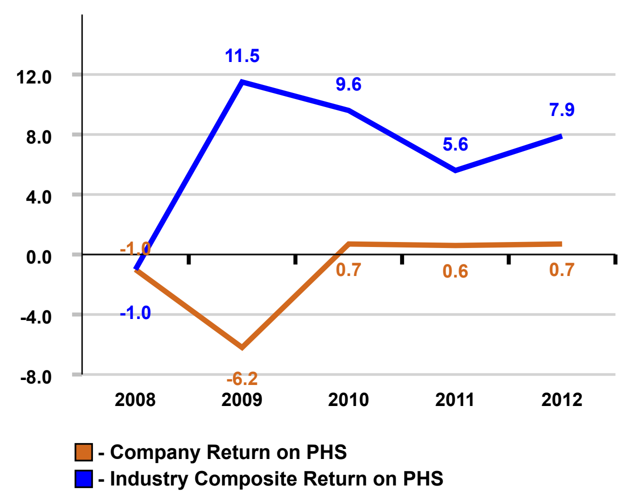
Operating Performance (Continued ...)

Pre-Tax ROR Comparison with Industry Composite



* Industry Composite - Commercial Casualty Composite

Return on PHS Comparison with Industry Composite



* Industry Composite - Commercial Casualty Composite

Underwriting Results

Underwriting Results: The company's underwriting performance continues to benefit from sizable reduction in its expense ratio which benefited from double digit growth in premium each year since its inception. The increase in net premiums was largely due to the continued expansion of direct writing activities. Loss performance has been volatile since its inception in 2008 but the company should begin to benefit as its own loss experience begins to gain credibility. At year-end 2012, the company recorded 6 points of adverse development mainly relating to private passenger automobile liability line of business and the 2011 accident year. At year-end 2011, the company had recorded about 2 points of adverse development which included more sizable redundancies on the group's product and other liability lines and larger adverse development on private passenger auto and special liability. The private passenger automobile liability line experience is primarily attributable to non-standard auto program the company non-renewed in 2011.

The improvement in accident year results was due to better performance on the company's run-off automobile book and growth in the company's direct business versus its agency produced business, which is producing a slightly better underwriting result.

Underwriting Results (Continued ...)

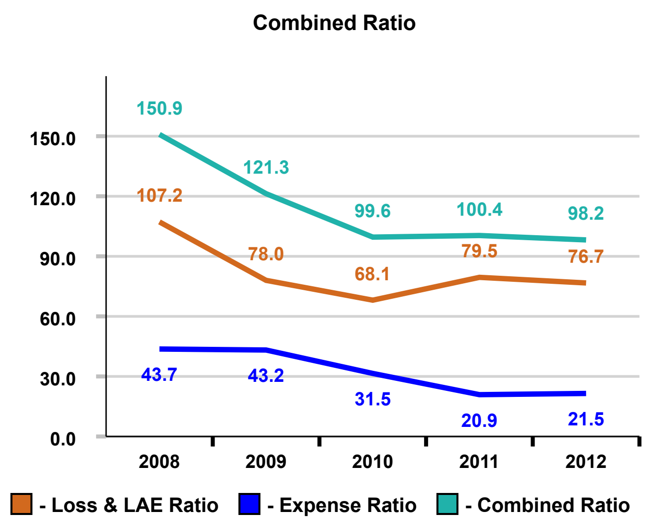
Underwriting Experience

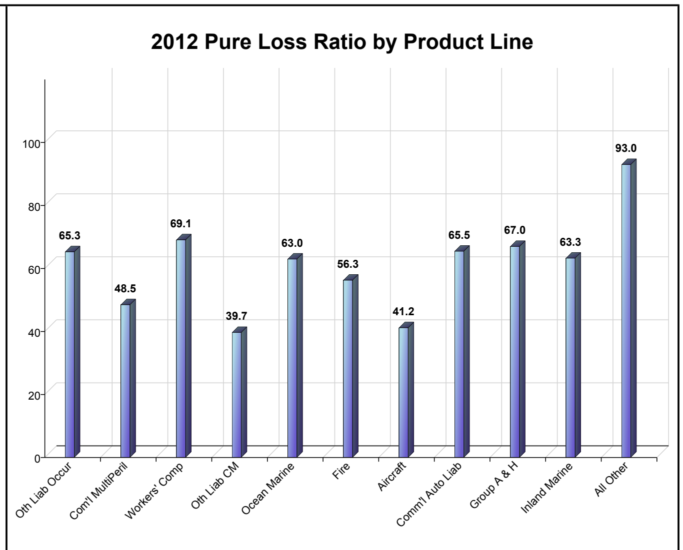
Year	Net Undrw Income ($000)	Loss Ratios: Pure Loss	Loss Ratios: LAE	Loss Ratios: Loss & LAE	Expense Ratios: Net Comm	Expense Ratios: Other Exp.	Expense Ratios: Total Exp.	Div. Pol.	Comb. Ratio
2012	-17,463	60.0	16.7	76.7	7.6	13.9	21.5	...	98.2
2011	-14,498	65.9	13.6	79.5	11.5	9.4	20.9	...	100.4
2010	-19,259	55.3	12.8	68.1	18.4	13.1	31.5	...	99.6
2009	-29,940	67.0	11.0	78.0	25.7	17.5	43.2	...	121.3
2008	-9,080	97.3	9.9	107.2	28.7	15.1	43.7	...	150.9
5-Yr Avg	-90,238	61.7	14.8	76.4	12.2	12.7	24.9	...	101.4
06/2013	-14,649	52.9	25.3	78.2	XX	XX	21.1	...	99.3
06/2012	-19,572	64.1	14.0	78.2	XX	XX	23.5	...	101.7

Loss Ratio By Line

Product Line	2012	2011	2010	2009	2008	5-Yr. Avg.
Oth Liab Occur	65.3	53.9	53.7	53.9	...	59.8
Com'l MultiPeril	48.5	69.3	50.9	...	...	52.8
Workers' Comp	69.1	61.0	62.6	...	...	67.8
Oth Liab CM	39.7	42.6	43.5	46.8	...	41.5
Ocean Marine	63.0	58.2	55.2	65.6	63.8	59.9
Fire	56.3	90.0	67.0	84.6	155.8	73.1
Aircraft	41.2	84.5	60.2	103.1	60.8	66.5
Comm'l Auto Liab	65.5	83.1	53.2	53.1	...	69.0
Group A & H	67.0	70.8	46.9	68.7	50.3	64.2
Inland Marine	63.3	54.8	...	...	...	63.1
All Other	93.0	89.7	61.6	-36.5	155.8	81.2
Total	60.0	65.9	55.3	67.0	97.3	61.7

Underwriting Results (Continued ...)





Direct Loss Ratios By State

	2012	2011	2010	2009	2008	5-Yr. Avg.
New York	72.6	62.2	58.8	85.4	...	66.2
California	54.9	59.5	60.6	45.7	...	57.1
Texas	72.9	57.5	24.0	137.4	349.0	60.1
New Jersey	90.7	53.1	87.0	24.5	...	79.2
Aggregate Alien	44.7	82.3	195.7	...	...	66.7
Alabama	63.8	56.1	46.6	21.7	...	60.4
Louisiana	58.7	43.7	47.7	50.7	...	52.2
Tennessee	74.8	18.1	64.8	48.0	...	53.6
Florida	81.9	45.0	76.9	30.3	...	66.6
Virginia	41.3	15.2	68.2	63.7	...	35.3
All Other	62.7	64.1	44.0	120.2	...	61.3
Total	65.5	58.6	53.0	95.3	-42.1	61.7

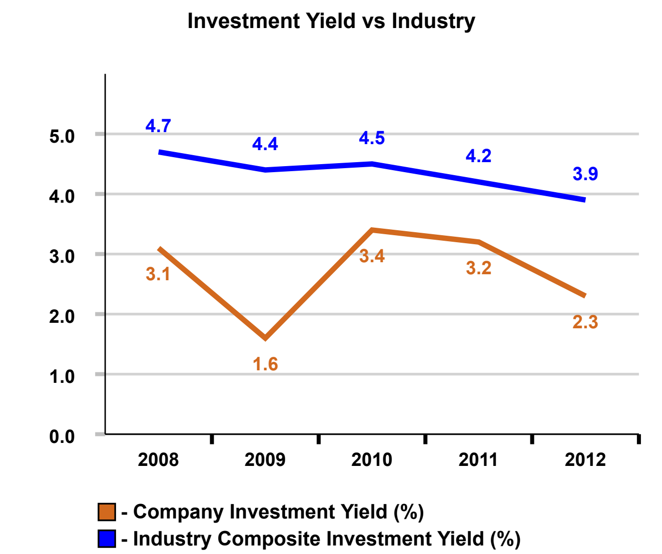
Investment Results

Investment Results: The company maintains a very conservative investment portfolio with the majority of its invested assets in long term bonds and cash equivalents. The bonds are primarily invested in high quality municipal and corporate issues. Investment income has risen consistently, primarily as a result of growth in the invested asset base. While net investment yield increased in both 2011 and 2012, it remained below the peer group, highlighting SILC's different investment allocation, with most of its invested assets in bonds with a lower average maturity and lower yield, as well as a relatively small equity investment portfolio.

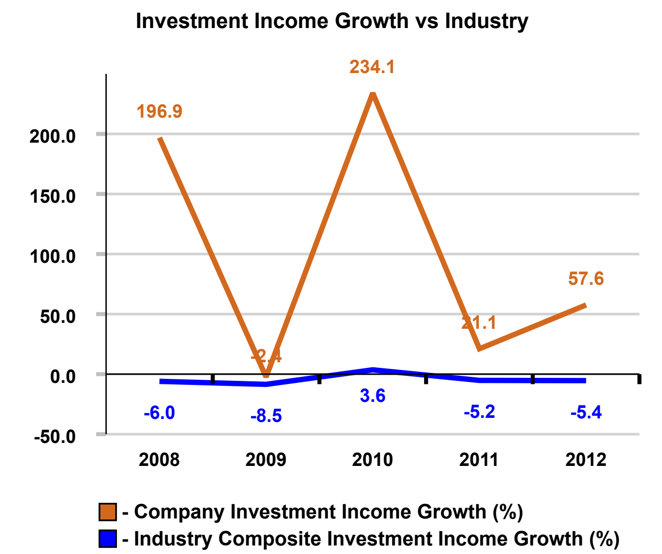
Investment Results (Continued ...)

Investment Gains ($000)

	Company							Industry Composite	
Year	Net Investment Income ($000)	Realized Capital Gains ($000)	Unrealized Capital Gains ($000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2012	40,374	5,328	-6,941	57.6	2.3	2.6	2.2	-5.4	3.9
2011	25,619	2,905	1,335	21.1	3.2	3.5	3.7	-5.2	4.2
2010	21,160	1,005	...	234.1	3.4	3.5	3.5	3.6	4.5
2009	6,334	331	...	-2.4	1.6	1.7	1.7	-8.5	4.4
2008	6,492	-649	...	196.9	3.1	2.8	2.8	-6.0	4.7
5-Yr Avg/Tot	99,978	8,920	-5,606	61.8	2.7	2.9	2.7	-4.4	4.4
06/2013	22,811	974	35,870	38.9	2.5	2.8	4.4	XX	XX
06/2012	16,423	800	-802	35.4	3.2	3.5	3.6	XX	XX



* Industry Composite - Commercial Casualty Composite



* Industry Composite - Commercial Casualty Composite

Balance Sheet Strength

Capitalization

Capitalization: SILC's risk-based capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), is sufficient to support its operations in the near to mid-term. The company's capital position benefits from its low underwriting leverage, conservative investment strategy and the use of highly rated insurers.

However, because the company began writing business in 2007 it is therefore treated as a start-up for the purposes of monitoring risk-based capital and is therefore subject to more stringent capital requirements. The company is expected to manage its capital base conservatively and to maintain its levels of underwriting and investment risk within planned levels. The company is also expected to demonstrate an ability to organically generate surplus through underwriting and investment income. Beginning in 2010, the increase in surplus has benefitted in part by the company's operating profits. During 2012, as part of the 2012 restructuring, the company received as contributed capital, from its new parent intermediate holding company, entities and assets valued at $1.3 billion.

Capital Generation Analysis ($000)

	Source of Surplus Growth							
Year	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	% Change in PHS
2012	21,399	5,328	11,793	-6,941	1,323,267	1,033	1,332,292	247.2
2011	10,600	2,905	11,827	1,335	...	12,356	15,369	2.9
2010	1,901	1,005	-518	...	...	1,438	4,862	0.9
2009	-23,605	331	-401	...	324,835	1,643	303,604	141.1
2008	-2,588	-649	-1,007	...	...	-757	-2,987	-1.4
5-Yr Total	7,708	8,920	21,695	-5,606	1,648,101	15,713	1,653,140	53.7
06/2013	7,672	974	8,103	35,870	-166,963	8,463	-122,088	-6.5
06/2012	-3,149	800	3,202	-802	22,175	9,946	25,770	4.8

Quality of Surplus ($000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2012	...	...	1,897,962	-26,697	1,871,266	10,819	1,882,084
2011	...	...	581,298	-42,324	538,973	999	539,973
2010	...	...	579,240	-55,636	523,604	6,210	529,814
2009	...	...	581,863	-63,121	518,742	269	519,011
2008	...	...	249,861	-34,723	215,138	1,466	216,604
06/2013	...	...	1,731,000	18,179	1,749,178	10,819	1,759,997
06/2012	...	...	596,871	-32,127	564,743	999	565,742

Underwriting Leverage

Underwriting Leverage: SILC began writing business in 2008 with $19.8 million of net premiums written which were mainly derived from its participation as a quota share reinsurer or a direct writer of the Starr agency business, now owned by SILC following a restructuring in 2012. Since 2008 net premium increased significantly and is now distributed mainly through the Starr agency entities. Beginning in 2011, the company's premium growth has been led by unaffiliated brokers as well as its direct business as it focuses on specialty programs written through unaffiliated brokers.

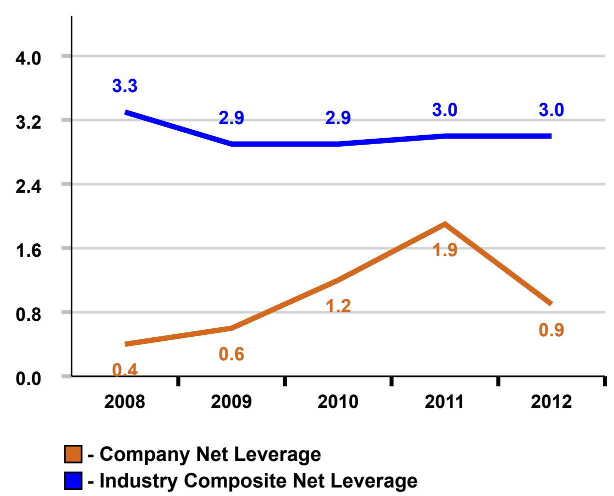
The company's 2012 ceded reinsurance leverage improved significantly in 2012 and is 92% compared to the industry's 86%. The improvement in the company's historically high ceded reinsurance to policyholders' surplus is mainly attributable to an increase in invested assets following the group's restructuring. SILC's reinsurance recoverables amounted to 64% of policyholders' surplus at year-end 2012 and include recoverables relating to its reinsurance arrangement with its prior owner (a Berkshire Hathaway subsidiary - Columbia Insurance Company) on its old and fully reinsured, asbestos and environmental reserves. The reinsurance agreement remains in place. The company's business retention increased in 2012 to 55%. This compares to the industry at 82%.

Leverage Analysis

	Company				Industry Composite			
Year	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2012	0.3	0.3	0.9	1.8	0.8	1.5	3.0	3.8
2011	0.7	0.5	1.9	4.5	0.8	1.5	3.0	3.9
2010	0.5	0.2	1.2	3.1	0.7	1.5	2.9	3.7
2009	0.2	0.1	0.6	2.0	0.7	1.5	2.9	3.8
2008	0.1	...	0.4	2.8	0.9	1.6	3.3	4.3
06/2013	0.4	0.3	1.2	XX	XX	XX	XX	XX
06/2012	0.9	0.7	2.4	XX	XX	XX	XX	XX

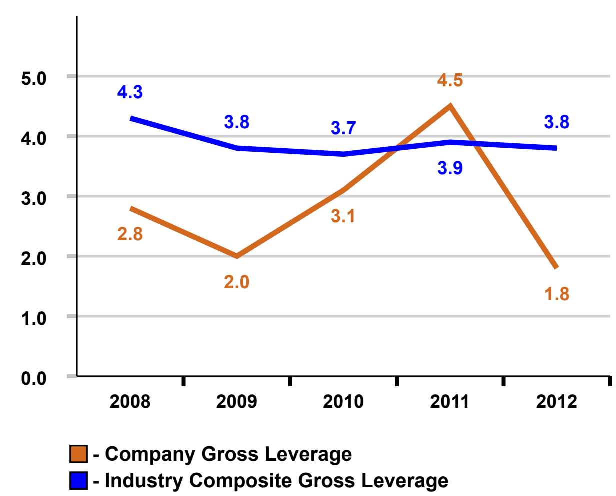
Current BCAR: 218.5

Net Leverage vs Industry



* Industry Composite - Commercial Casualty Composite

Gross Leverage vs Industry



* Industry Composite - Commercial Casualty Composite

Underwriting Leverage (Continued ...)

Ceded Reinsurance Analysis ($000)

	Company				Industry Composite		
Year	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2012	1,722,359	54.8	64.0	92.0	82.6	59.1	84.5
2011	1,429,970	46.5	177.7	265.3	81.6	59.4	84.5
2010	989,223	49.9	142.6	188.9	81.2	57.6	80.4
2009	730,953	49.5	121.7	140.9	82.6	61.2	84.8
2008	508,515	91.8	235.5	236.4	84.6	70.6	97.6

2012 Reinsurance Recoverables ($000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
Foreign Affiliates	43,370	100,833	65,725	...	209,928
US Insurers	213,413	521,047	92,254	-263	826,451
Pools/Associations	6,363	...	135	...	6,498
Other Non-Us	54,794	56,536	44,166	30	155,526
Total(ex Us Affils)	317,940	678,416	202,280	-233	1,198,403
Grand Total	317,940	678,416	202,280	-233	1,198,403

* Includes Commissions less Funds Withheld

Loss Reserves

Loss Reserves: The company's loss reserve development has been unstable since its inception as it is relying mainly on industry experience until it develops a track record of its own experience. The company carries, as a reinsurance recoverable, fully reinsured legacy liabilities relating to the business it wrote when it was part of the Berkshire Hathaway Group.

Loss and ALAE Reserve Development: Calendar Year ($000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2012	Unpaid Reserves to Development (%)
2012	468,785	468,785	...	...	93.1	468,785	100.0
2011	282,235	303,494	7.5	3.9	89.1	189,202	62.3
2010	110,563	118,574	7.2	1.5	67.2	50,634	42.7
2009	34,366	33,759	-1.8	-0.1	60.5	8,101	24.0
2008	5,845	15,293	161.6	4.4	261.5	1,488	9.7
2007	...	1	...	0.0	...	...	...

Loss Reserves (Continued ...)

Loss and ALAE Reserve Development: Accident Year ($000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Unpaid Reserves @ 12/2012	Accident Year Loss Ratio	Accident Year Comb. Ratio
2012	279,583	279,583	...	279,583	70.5	92.1
2011	206,060	228,848	11.1	138,568	86.4	107.4
2010	93,226	100,758	8.1	42,533	73.1	104.6
2009	29,268	23,760	-18.8	6,613	59.0	102.2
2008	5,845	15,292	161.6	1,488	266.5	310.2
2007	...	...	...	...	...	...

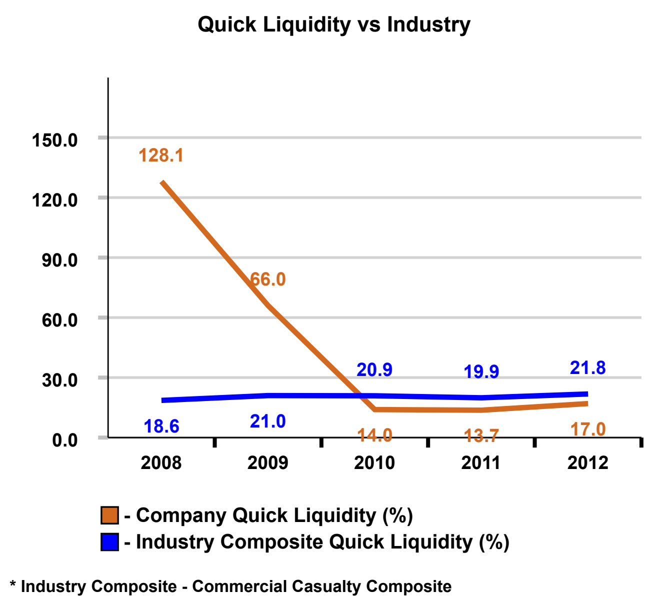
Liquidity

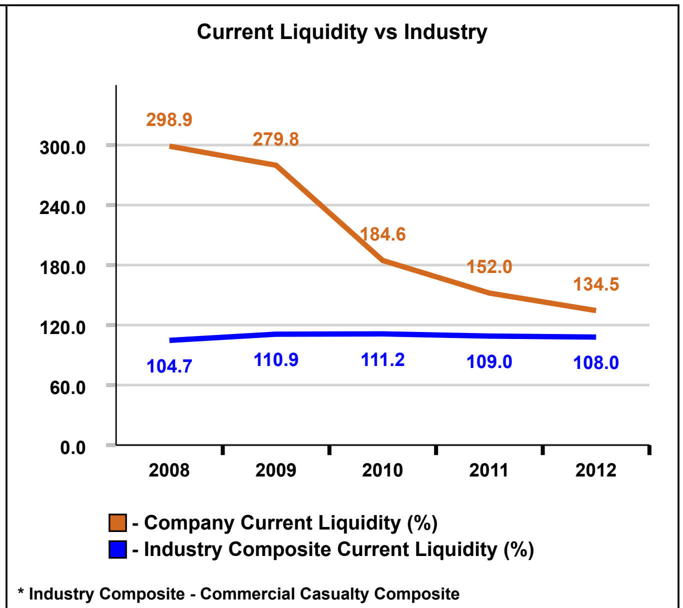
Liquidity: The company maintains current liquidity that exceeds the average of its peer composite. While quick liquidity has been above the peer group average in recent years, it declined since 2010 with the reallocation of cash and short-term investments into long-term bonds. Liquidity is enhanced by positive underwriting and operating cash flows.

Liquidity Analysis

	Company				Industry Composite			
Year	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2012	17.0	134.5	284.2	5.7	21.8	108.0	144.9	10.9
2011	13.7	152.0	187.3	22.9	19.9	109.0	144.5	10.3
2010	14.0	184.6	238.2	16.3	20.9	111.2	146.2	9.0
2009	66.0	279.8	354.2	12.5	21.0	110.9	146.0	9.1
2008	128.1	298.9	400.7	1.0	18.6	104.7	140.8	11.9
06/2013	XX	126.7	235.5	7.0	XX	XX	XX	XX
06/2012	XX	128.5	168.4	19.3	XX	XX	XX	XX

Liquidity (Continued ...)





Cash Flow Analysis ($000)

	Company					Industry Composite	
Year	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2012	238,025	267,304	58,457	169.8	176.6	98.2	110.7
2011	234,857	261,716	4,414	238.4	249.4	96.5	107.6
2010	123,609	144,791	-74,154	204.2	222.0	96.6	108.6
2009	22,210	26,490	45,523	153.7	164.0	98.4	109.5
2008	-949	3,490	-125,469	94.2	121.3	101.2	112.6
5-Yr Total	617,752	703,791	-91,231	...	...	...	...
06/2013	209,258	222,991	47,338	193.7	194.3	XX	XX
06/2012	82,920	100,833	25,819	147.3	157.2	XX	XX

Investments

Investments (Continued ...)

Investment Leverage Analysis (% of PHS)

	Company						Industry Composite	
Year	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2012	0.1	...	...	2.6	2.7	63.4	7.1	10.3
2011	...	...	...	3.2	3.2	...	7.4	9.5
2010	...	...	...	...	...	...	7.2	9.0
2009	...	...	...	...	...	...	6.0	8.2
2008	...	...	...	...	...	...	5.4	9.1

Investments - Bond Portfolio

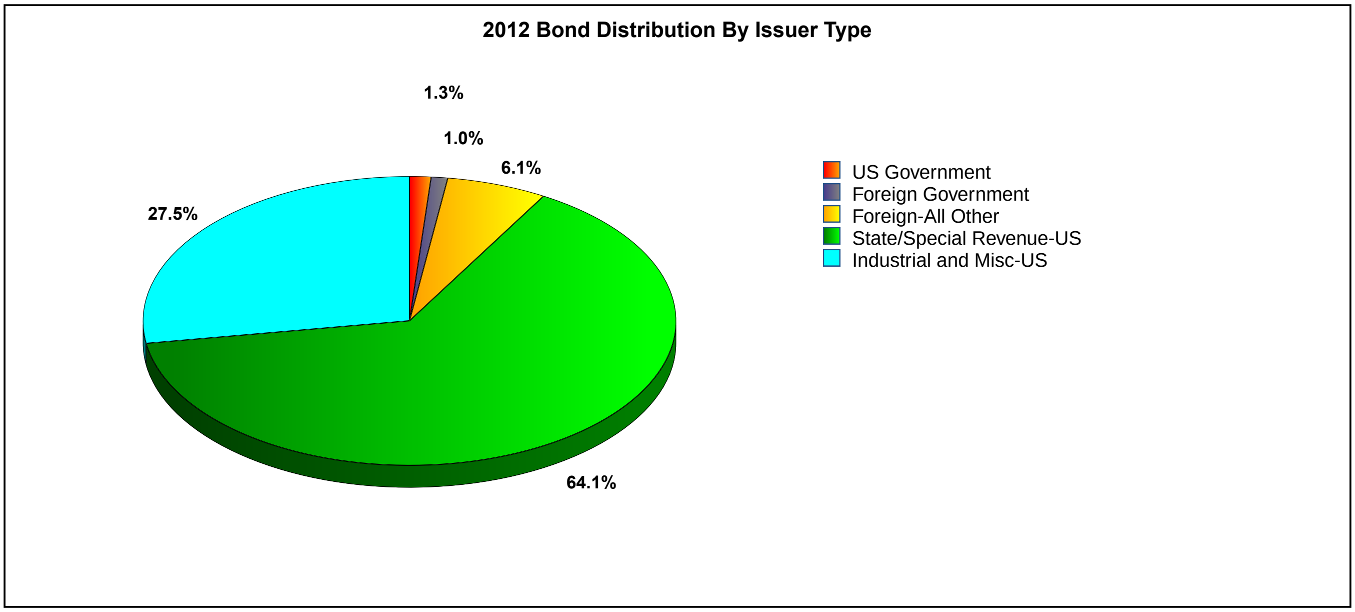
2012 Distribution By Maturity

	Years					
	0-1	1-5	5-10	10-20	20+	Years Average Maturity
Government	0.4	1.4	0.5	...	...	3.6
Government Agencies & Muni.	0.4	10.9	37.4	12.4	3.0	9.0
Industrial & Misc.	0.2	7.5	25.2	...	0.7	7.0
Total	1.1	19.7	63.1	12.4	3.7	8.1

Investments - Bond Portfolio (Continued ...)

Bond Distribution By Issuer Type

	2012	2011	2010	2009	2008
Bonds (000)	1,198,084	857,263	648,907	439,838	135,222
US Government	1.3	0.6	0.6	1.1	7.4
Foreign Government	1.0	0.6	...	...	...
Foreign-All Other	6.1	5.3	5.8	...	...
State/Special Revenue-US	64.1	61.0	57.3	60.3	76.8
Industrial and Misc-US	27.5	32.5	36.3	38.6	15.8



Bond Percent Private vs Public

	2012	2011	2010	2009	2008
Private Issues	3.0	3.2	...	0.2	1.0
Public Issues	97.0	96.8	100.0	99.8	99.0

Bond Quality Percent

	2012	2011	2010	2009	2008
Class 1	91.4	92.5	97.6	100.0	100.0
Class 2	8.4	7.5	2.4	...	...
Class 4	0.2	...	...	...	...

Investments - Equity Portfolio

	2012	2011	2010	2009	2008
Total Stocks(000)	1,235,081	17,117	...	...	...
Unaffiliated Common	4.0	100.0	...	...	...
Affiliated Common	96.0	...	...	...	...

Investments - Other Invested Assets

	2012	2011	2010	2009	2008
Other Invested Assets(000)	112,292	53,827	49,413	125,025	78,045
Cash	98.0	95.9	70.0	5.6	63.8
Short-Term	2.0	4.1	30.0	93.2	36.2
All Other	...	...	...	1.2	...

History

SILC was acquired by Starr USA Asset Holdings, LLC (formerly known as Starr Insurance Holdings, Inc.) (Starr Holdings LLC) in 2007 from Columbia Insurance Company. At the time of its acquisition, the company was known as Republic Insurance Company; it was renamed Starr Indemnity & Liability Company in December 2007. Effective January 1, 2012, Starr Insurance Group, Inc. (SIG), an intermediate holding company then directly owned by Starr Holdings LLC, became the direct parent of SILC. In December 2012, Starr Insurance Holdings, Inc. (formerly known as Starr USA Holdco, Inc.), which is directly owned by Starr International Company, Inc., became the direct parent company of SIG.

The company was organized as a stock property and casualty insurance company in Texas on April 15, 1919. On June 30, 1980, the company merged with Republic Insurance Company of Delaware, Inc. to affect a transfer of the company's domicile. Effective January 1, 1995, the company merged with Republic-Vanguard Reinsurance Company, with the company being the survivor. After a brief period of domestication in Delaware under the name Republic Insurance Company of Delaware, Inc., the company was redomesticated to Texas in 1996, at which time the company's then parent transferred all of Republic's active business to affiliates and placed all of its discontinued reinsurance business, including A&E liabilities, with Republic. Republic was acquired by Columbia Insurance Company effective August 1, 2000.

Management

The company is under the management of President and CEO Charles Dangelo who also serves as President and CEO of Starr Surplus Lines Insurance Company. Mr. Dangelo was the former President and CEO of AIG's Global Risk Management Division.

Officers And Directors

Officers

President and CEO Charles H. Dangelo
EVP and Chief Underwriting Officer James G. Vendetti
SVP Richard A. Bessinger
Vice President and Chief Information Officer Michael Toran
Vice President David H. Baker
Vice President Marina Peck (Claims)
Vice President Alex J. Pittignano
Vice President James Pittinger
Vice President Meredith Ryan-Reid
Vice President Richard Thomas
Secretary and General Counsel Nehemiah E. Ginsburg
Treasurer and CFO William G. Tucker
Director William J. O'Connor (Taxation)
Director Eileen Petraitis (Reinsurance)

Directors

Michael J. Castelli
Charles H. Dangelo
Nehemiah E. Ginsburg
Jeffrey L. Hayman
Joseph C. H. Johnson
Bertil P. Lundqvist
Edward E. Matthews

Regulatory

An examination of the financial condition was made as of December 31, 2008, by the insurance department of Texas. The 2012 annual independent audit of the company was conducted by ParenteBeard LLC. The annual statement of actuarial opinion is provided by Scott J. Roth, ACAS, MAAA, Director of Actuarial Services, Starr Insurance Holdings.

Balance Sheet ($000)

Admitted Assets	12/31/2012	12/31/2011	2012 %	2011 %
Bonds	1,198,084	857,263	41.3	74.0
Preferred Stock	...	...	...	...
Common Stock	48,801	17,117	1.7	1.5
Cash & Short-Term Invest	112,283	53,827	3.9	4.6
Real estate, investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	9	...	...	...
Investments in Affiliates	1,186,280	...	40.8	...
Real Estate, Offices	...	...	...	...
Total Invested Assets	2,545,457	928,207	87.7	80.1
Premium Balances	214,536	133,596	7.4	11.5
Accrued Interest	15,533	11,694	0.5	1.0
Life department	...	...	...	...
All Other Assets	128,547	84,834	4.4	7.3
Total Assets	2,904,072	1,158,332	100.0	100.0

Liabilities & Surplus	12/31/2012	12/31/2011	2012 %	2011 %
Loss & LAE Reserves	477,869	287,811	16.5	24.8
Unearned Premiums	302,909	180,955	10.4	15.6
Conditional Reserve Funds	10,819	999	0.4	0.1
Derivatives	...	...	...	...
Life department	...	...	...	...
All Other Liabilities	241,210	149,593	8.3	12.9
Total Liabilities	1,032,807	619,358	35.6	53.5
Surplus notes	...	...	...	...
Capital & Assigned Surplus	1,897,962	581,298	65.4	50.2
Unassigned Surplus	-26,697	-42,324	-0.9	-3.7
Total Policyholders' Surplus	1,871,266	538,973	64.4	46.5
Total Liabilities & Surplus	2,904,072	1,158,332	100.0	100.0

Interim Balance Sheet ($000)

Admitted Assets	03/31/2013	06/30/2013
Bonds	1,265,916	1,370,083
Common Stock	1,269,286	1,132,771
Cash & Short-Term Invest	147,291	159,621
Other Investments	3,184	11,193
Total Invested Assets	2,685,677	2,673,668
Premium Balances	215,461	221,518
Accrued Interest	14,701	17,168
Reinsurance Funds	86,250	83,430
All Other Assets	46,588	62,673
Total Assets	3,048,677	3,058,456

Liabilities & Surplus	03/31/2013	06/30/2013
Loss & LAE Reserves	536,587	601,817
Unearned Premiums	343,070	382,563
Conditional Reserve Funds	10,819	10,819
All Other Liabilities	266,434	314,079
Total Liabilities	1,156,910	1,309,278
Capital & Assigned Surp	1,898,281	1,731,000
Unassigned Surplus	-6,514	18,179
Total Policyholders' Surplus	1,891,767	1,749,178
Total Liabilities & Surplus	3,048,677	3,058,456

Summary Of 2012 Operations ($000)

Statement of Income	12/31/2012	Funds Provided from Operations	12/31/2012
Premiums earned	503,343	Premiums collected	579,275
Losses incurred	302,094	Benefit & loss-related pmts	174,426
LAE incurred	83,993		
Undwr expenses incurred	134,719	LAE & undwr expenses paid	166,824
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	...	Dividends to policyholders	...
Net underwriting income	-17,463	Underwriting cash flow	238,025
		Net transfer	...
Net investment income	40,374	Investment income	36,790
Other income/expense	-1,512	Other income/expense	-1,512
Pre-tax operating income	21,399	Pre-tax cash operations	273,304
Realized capital gains	5,328		
Income taxes incurred	11,793	Income taxes pd (recov)	6,000
Net income	14,934	Net oper cash flow	267,304

Interim Income Statement ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums earned	322,962	230,464	92,497
Losses incurred	170,845	147,821	23,024
LAE incurred	81,690	32,329	49,360
Undwr expenses incurred	85,076	69,886	15,190
Other expenses incurred	...	...	...
Dividends to policyholders	...	...	...
Net underwriting income	-14,649	-19,572	4,922
Net investment income	22,811	16,423	6,388
Other income/expense	-490	...	-490
Pre-tax operating income	7,672	-3,149	10,820
Realized capital gains	974	800	174
Income taxes incurred	8,103	3,202	4,902
Net income	542	-5,550	6,092

Interim Cash Flow ($000)

	Period Ended 06/30/2013	Period Ended 06/30/2012	Increase / Decrease
Premiums collected	432,700	258,244	174,456
Benefit & loss-related pmts	77,466	89,230	-11,764
LAE & undwr expenses paid	145,976	86,094	59,883
Dividends to policyholders	...	...	...
Underwriting cash flow	209,258	82,920	126,337
Net transfer	...	...	...
Investment income	27,185	18,913	8,272
Other income/expense	-490	...	-490
Pre-tax cash operations	235,952	101,833	134,119
Income taxes pd (recov)	12,961	1,000	11,961
Net oper cash flow	222,991	100,833	122,158

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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