EXAMINATION REPORT

OF THE

ARROWOOD INDEMNITY 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

ARROWOOD INDEMNITY COMPANY

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

Attest By: Sonia C. Harris

Date: 26 January 2012

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 26th day of January, 2012.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

OF THE

ARROWOOD INDEMNITY 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 26th day of January, 2012

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September 28, 2011

SALUTATION

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Committee, NAIC
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Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 11-016, dated February 16, 2011, an Association examination has been made of the affairs, financial condition and management of the

ARROWOOD INDEMNITY COMPANY

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware as a stock company with its home office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware. The examination was conducted at the main administrative office of the Company, located at 3600 Arco Corporate Drive, Charlotte, North Carolina.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2007. This examination covered the period from January 1, 2008, 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.

This 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 the examiners perform an examination to evaluate the financial condition and identify prospective risks of the Company. In doing so, the examiners reviewed corporate governance, identified inherent risks of the Company, and evaluated the controls and procedures used to mitigate the identified 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 applicable annual statement instructions.

During the course of the examination, consideration was given to the work performed by the Company's external accounting firm. Certain workpapers prepared by the external accounting firm were incorporated into the examiners work papers if deemed appropriate and in accordance with the *NAIC Handbook.*

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulation or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material adjustments to the Company's financial statements that warranted disclosure in this examination report.

SUBSEQUENT EVENTS

There were no significant subsequent events that warranted disclosure in this examination report.

COMPANY HISTORY

On December 3, 1979, the Company was incorporated under the laws of the State of Delaware as a stock property and casualty insurance company. The Company was used to transfer the corporate domicile of its former immediate parent company, Royal Indemnity Company, from the State of New York to the State of Delaware on March 31, 1980.

By consent to action by the sole shareholder and through a special meeting of the Board of Directors, the Company and its immediate parent entered into a merger agreement to become effective with the approval of the Commissioners of the States of Delaware and New York. The surviving corporation, Royal Indemnity Company, a Delaware corporation, assumed all assets, liabilities, rights, privileges, immunities, powers and franchises of both companies. Approved by the Commissioners of the States of Delaware and New York, the merger became effective March 31, 1980.

On July 17, 1996, the Company’s ultimate parent, Royal Insurance Group plc. and SunAlliance Group plc., a United Kingdom entity, merged and became known as RSA Insurance Group plc., formerly known as Royal & Sun Alliance Insurance Group plc. (RSAIG).

In September 2003, Royal & Sun Alliance USA, Inc. (RSAUSA) announced a strategic change that resulted in the sale of the majority of RSAUSA’s businesses under various renewal rights transactions. In 2004, RSAUSA also implemented a Plan of Reorganization and Consolidation that reduced the number of its insurance companies in the United States.

Effective December 31, 2004, Phoenix Assurance Company of New York was merged into Royal Insurance Company of America. Royal Insurance Company of America along with American and Foreign Insurance Company and Globe Indemnity Company were then merged into the Company.

Effective December 31, 2005, following receipt of regulatory approvals, The Sea Insurance Company of America was merged into the Company.

At December 31, 2005, the Company had two insurance subsidiaries, Marine Indemnity Insurance Company of America (Marine) and Arrowood Surplus Lines Insurance Company. Marine was sold on January 17, 2006, following receipt of all regulatory approvals.

Effective September 30, 2006, Arrowpoint, Group Inc. (AGI) contributed its common shares of Security Insurance Company of Hartford (SICH) to the Company. Effective May 25, 2006, SICH was redomesticated from Connecticut to Delaware and was merged into the Company effective September 30, 2007.

On March 3, 2007, Arrowpoint Capital Corp (Arrowpoint), which was formed in 2006 and owned and operated by the Company's management and independent directors, purchased 100% of the interests of Arrowpoint General Partnership (AGP), the US holding entity which owned all of the RSAUSA businesses formerly owned by RSAIG for $300 million in deferred consideration. The deferred consideration will be funded from the future performance of the RSAUSA business, only to the extent that dividends approved by the Delaware Department of Insurance become available. The closing of the transaction followed the Delaware Insurance Commissioner's order (Order) approving the acquisition, subject to a number of conditions that affect RSAIG, Arrowpoint, and the Company. With the closing, RSAIG contributed $287.5 million of additional capital to AGP which was in turn contributed to the Company.

In accordance with the above noted Order, the Company cannot pay dividends or sell or distribute assets, not in the ordinary course of business, without the Delaware Department of Insurance's approval. The Delaware Department of Insurance has appointed a claims monitor to receive and act upon policyholder complaints, track indemnity reserve adequacy, monitor litigation management, review claims denials and review all other aspects of sound claims practices.

Common Capital Stock

As of December 31, 2010, 50,000 shares authorized, issued and outstanding at $100 par value represented the Company's common capital stock, for a total of $5,000,000. AGI, a Delaware corporation, owns 100% of the outstanding stock. AGI is ultimately owned by Arrowpoint, a Delaware corporation.

On June 18, 2007 an amended Certificate of Incorporation of Royal Indemnity Company was filed with the Delaware Secretary of State, changing the Company's name from Royal Indemnity Company to Arrowood Indemnity Company. Also on June 18, 2007, the Delaware Commissioner of Insurance certified the amended Certificate of Incorporation. After regulatory approval was received, the bylaws were changed to reflect the change of name to Arrowood Indemnity Company, effective September 15, 2007.

Capital and Surplus

During the period covered by this examination, there were no changes in special surplus funds or common capital stock. Gross paid-in and contributed surplus increased $1,126,600 from $3,071,521,781 to $3,072,648,381.

CORPORATE RECORDS

The minutes of the Board of Directors, Shareholders and committees of the Board were reviewed for the period under examination. The recorded minutes adequately documented activities and transactions of the Company.

Board meetings are held, at least annually, after the annual Shareholders meeting as required by the bylaws. Shareholder(s) are required to meet on the last Wednesday in April at an hour fixed by the directors, unless it is a holiday, whereas the meeting will be the next day. Annually, the shareholder elected Board members according to the bylaws and officers were appointed by the Board of Directors.

There are six committees of the Board which are appointed each year at the annual Board of Directors meeting. The committees consist of the following: Audit, Risk & Compliance; Compensation; Executive; Investment; Loss Reserve; and Pension & Benefits. Charters are maintained for each of the Committees. A review of the Committee minutes indicated in depth involvement in Company operations and oversight by the Board of Directors.

Copies of the Form B Holding Company Registration Statements filed with the Delaware Department of Insurance during the period under examination were reviewed. Per the review, the Company has complied with the provisions of Regulation 13 of the Delaware Insurance Code.

MANAGEMENT AND CONTROL

Pursuant to General Corporation laws of the state of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or under the direction of a Board of Directors, which shall be determined by the shareholder.

During the period under review, the Board of Directors, as required, held three annual meetings after the annual shareholders' meetings, as well as regular and special meetings. A quorum of one-third of the number of directors fixed by the board is required.

The Board of Directors consists of thirteen members, three of which are considered outside directors. The bylaws require that the number of Directors shall not be less than 7 nor more than 21. The Board contains the appropriate number of directors.

Directors duly elected and serving at December 31, 2010 and their residence locations are as follows:

Name	Address	Business Affiliation
John (NMN) Tighe, (Board Chairman)	Waxhaw, NC	President & Chief Executive Officer
Sean Antony Beatty	Huntersville, NC	Senior VP & Chief Financial Officer

Dennis William Cahill	Basking Ridge, NJ	Senior VP & Chief Operating Officer
Catherine Ann Carlino	Charlotte, NC	Senior VP, Corporate Operations, Planning and Governance Executive
Robert James Dixon	Southport, NC	Senior VP & Chief Human Resources Officer
Andre (NMN) Lefebvre	Nashua, NH	Senior VP & Financial Risk Officer
Daniel Robert Keddie	Charlotte, NC	VP & Chief Actuary
David Dean Shumway	Charlotte, NC	Senior VP & Chief Investment Officer
Julie Ann Fortune	Rock Hill, SC	Senior VP & Chief Claims Officer
James Francis Meehan	Simsbury, CT	Senior VP & General Counsel
Michael John Crall	Westlake Village, CA	Outside Director, Retired
Edward Joseph Muhl	Bonita Springs, FL	Outside Director, Retired
Larry Gene Simmons	Franklin, TN	Outside Director , Retired

Pursuant to the Amended and Restated Bylaws adopted on September 15, 2007, the officers shall be a President, one or more Vice Presidents (the number thereof and variations in title to be determined by the Board of Directors), a Corporate Secretary and a Treasurer. There may also be one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as the Board of Directors may from time to time deem advisable. Two offices may be held by the same person except the offices of President and Corporate Secretary.

The officers of the corporation shall hold office at the pleasure of the Board of Directors or until their successors have been elected and qualified. The senior and required officers elected during 2010 and serving at December 31, 2010 were as follows:

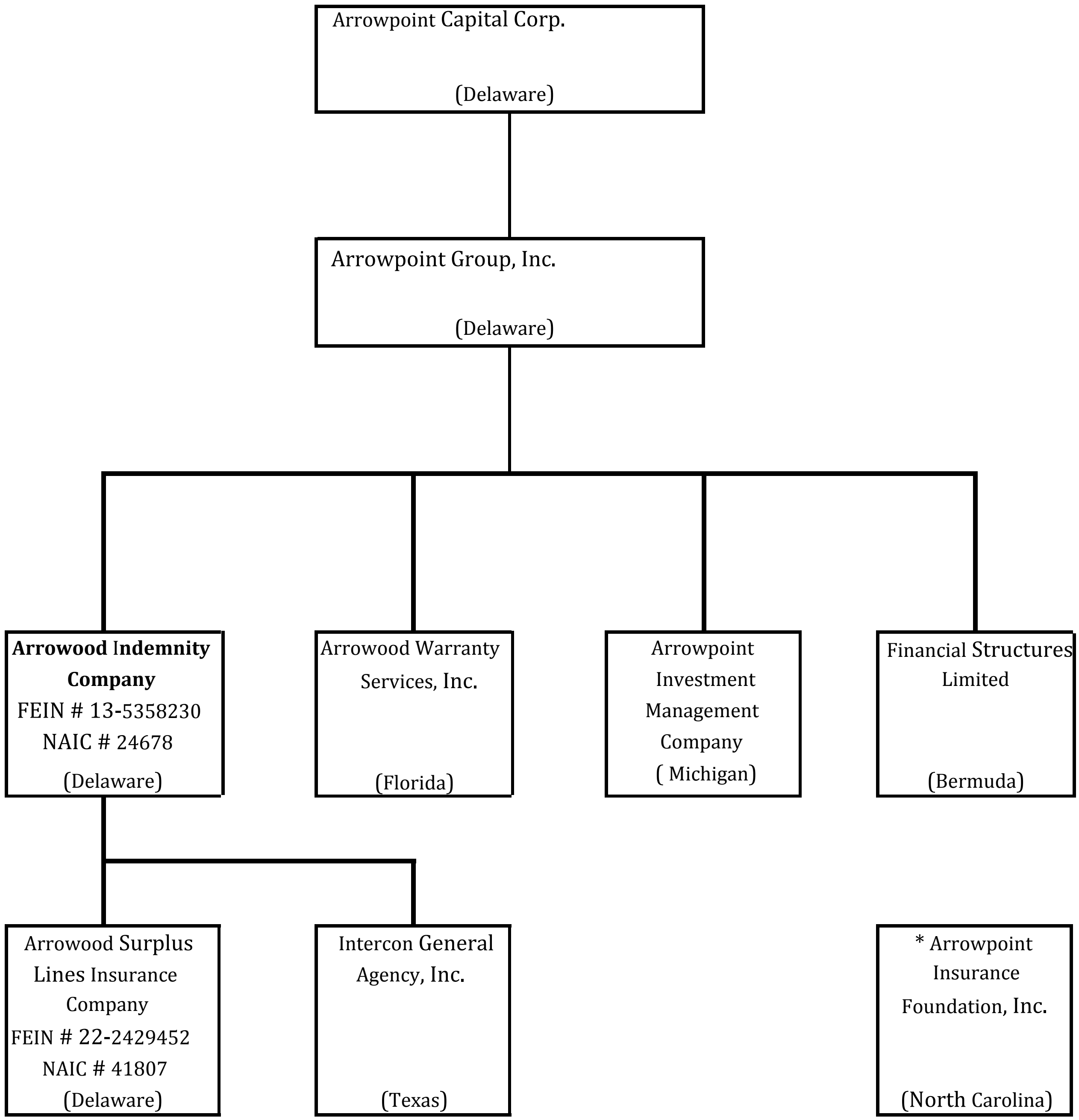
Name	Title
John (NMN) Tighe	President and Chief Executive Officer
Sean Antony Beatty	Senior VP and Chief Financial Officer
Dennis William Cahill	Senior VP and Chief Operating Officer
Catherine Ann Carlino	Senior VP, Corporate Operations, Planning and Governance Executive
Robert James Dixon	Senior VP and Chief Human Resources Officer
Andre (NMN) Lefebvre	Senior VP and Financial Risk Officer
Julie Ann Fortune	Senior VP and Chief Claims Officer
James Francis Meehan	Senior VP and General Counsel
David Dean Shumway	Senior VP and Chief Investments Officer
Daniel Robert Keddie	VP & Chief Actuary
David Michael Davenport	VP & Controller
Linda Young Pettigrew	Corporate Secretary
Gwyn Wallace Fuller	Treasurer

Key officers have remained the same since the prior examination period. In addition, these officers have held their positions since the Company entered into runoff status.

Holding Company System

The Company is a wholly owned subsidiary of AGI a Delaware corporation, which is owned by Arrowpoint. Arrowpoint, a Delaware corporation, is the ultimate parent of the holding company.

The following is an organizational chart that reflects the identities and interrelationships between the Company, parent, all affiliated insurers, and other members of the holding company as of December 31, 2010:



* Nonprofit Corporation

Affiliated Agreements

As of December 31, 2010, the Company had the following service agreements in effect with its parents and affiliates:

- A Tax Allocation Agreement became effective December 31, 2007 between the Company, Arrowpoint, AGI, and the various subsidiaries of Arrowpoint. The agreement provides for Arrowpoint, AGI and subsidiaries to allocate among themselves the federal income tax liability of the affiliated group and certain related matters with special provisions applicable to the insurance group members so as to be consistent with the requirements of Section 1504 (a) of the Delaware Insurance Code and other applicable state laws. It provides that each subsidiary contribute its fair share to the taxes payable by the affiliated group and that each subsidiary be compensated for the reduction or other tax benefit resulting from its inclusion in the affiliated group and that AGI act as settlement intermediary for the affiliated group. By letter dated June 12, 2007, the Delaware Department of Insurance approved the execution of this agreement effective December 31, 2007.

- An Investment Management Services Agreement between the Company and its affiliate, Arrowpoint Investment Management Company (Arrowpoint Investment), became effective April 1, 2007. The agreement is to remain in effect until terminated. In accordance with the terms of the agreement and per investment guidelines, Arrowpoint Investment shall; purchase, invest in or otherwise, acquire, sell, transfer, exchange or dispose of, and generally deal in and with any and all forms of investments on behalf of the Company's investment portfolio. All investment guidelines and instructions given by the Company shall be in accordance with the applicable investment provisions of the Delaware Insurance Law, and the Company shall be responsible for assuring that all investment guidelines and instructions comply with such law. The Company will pay Arrowpoint Investment a monthly fee equal to the Company's proportional share of the actual operating costs and expenses incurred by Arrowpoint Investment, less any fees collected from any other clients of Arrowpoint Investment, as allocated among the U.S. insurance subsidiaries of Arrowpoint based upon the value of the assets managed for each. Arrowpoint Investment shall invoice the Company for the fee, which should be paid within 30 days of the invoice date. By letter dated June 21, 2007, the Delaware Department of Insurance approved the execution of this agreement.

- An Administrative Services and Expense Sharing Agreement between the Company and its affiliates became effective April 1, 2007. The agreement is for a term of one (1) year unless cancelled at any time by agreement of the companies. The agreement shall automatically renew for successive one-year terms. In accordance with the terms of the agreement, the Company will provide certain services and allocate expenses to its affiliates. Allocation of expenses will be based on the actual cost of the service received and used by the affiliated companies, or will be pro-rated or based on a pre-set formula using premium and other factors, such as time spent. The allocation of the expenses will be no greater than that which a company would expend in providing services for its own company. Each of the affiliates shall reimburse the Company within 30 days following the preceding month in an amount equal to the expenses paid by the Company for the preceding month. Effective July 27, 2007, the agreement was amended to provide for the reimbursement of AGI by the Company for contributions to, and expenses associated with, The Maccabees Staff Pension Plan, formerly the Royal Maccabees Official Staff Pension Plan (Maccabees Plan). Royal Maccabees Life Insurance Company was a former affiliate of the Company. By letters dated June 12, 2007 and August 9, 2007, the Delaware Department of Insurance approved the execution of this agreement and the amended agreement effective April 1, 2007. The Maccabees Plan was merged into The Pension Plan of Arrowood Indemnity Company effective December 31, 2010, as noted below in the “Pensions, Stock Ownership and Benefit Plans” section of this report.

Corporate Governance

Six key committees provide governance to the Company and provide the Board of Directors guidance and independence which is crucial to the success of a solvent run-off of the Company. Key areas relative to the Company’s effective corporate governance are discussed as follows:

Board of Directors and Committees

The membership criteria and terms for the Board of Directors were reviewed for the six key committees as follows:

Audit, Risk and Compliance Committee
Compensation Committee
Executive Committee
Investment Committee
Loss Reserve Committee
Pension and Benefits Committee

Review of the Committee minutes indicated in depth involvement in Company operations. Management regularly provides the Board of Directors with necessary information to enable the Board to perform its duties. The Board is updated on all Committee activity on a regular basis.

Review of the Board of Directors for the Company indicates there are three independent directors that have been in that position since 2006. Three of the five members (including the Chairman) of the Audit, Risk and Compliance Committee are outside directors. Both internal and external auditors report to the Audit, Risk and Compliance Committee. As recommended by the *NAIC Handbook*, all of the Compensation Committee members are independent from management.

Risk Management Activities

The Company has a Risk Management policy, which is overseen by the Audit, Risk and Compliance Committee. The Audit, Risk and Compliance Committee meets regularly and discusses pertinent information relating to the risk management process. A report is provided at each meeting regarding the most recent strategic risk assessment completed by the Company.

Any changes to risk ratings and addition or deletion of risks are presented for discussion, including emerging risks, and provided to the full Board of Directors for review. Discussion of strategic risk assessment and other relevant risk management topics are evidenced in the Board of Director's and Committee minutes. Risk management (including corporate governance framework) is approved and overseen by the Board of Directors and its Committees.

FIDELITY BONDS

Arrowpoint, the Company's ultimate parent, has obtained fidelity coverage through a Financial Institution Bond (Form 25), and additional coverage through a Financial Institution Excess Bond (Form E). The underlying or primary bond provides fidelity protection with a single loss liability limit of $5,000,000 and an aggregate amount of $10,000,000, with a single loss deductible amount of $500,000 against loss resulting from dishonest or fraudulent acts of the directors, officers and employees. The Financial Institution Excess Bond covers a single loss limit of $5,000,000 and an aggregate loss limit of $10,000,000 excess of the primary policy. The second excess is a quota share follow form bond with a single loss limit of $40,000,000 and an aggregate limit of $80,000,000.

The limits of coverage in the current bond meet the amount of fidelity bond insurance suggested by the *NAIC Handbook*.

Other Insurance Coverage

The Company is included as an insured on all other insurance policies issued in the name of the Company group, Arrowpoint and its subsidiaries and their subsidiaries. Arrowpoint maintains three programs of insurance, including: (1) Property; (2) Casualty; and (3) Combined

Specialty Liability. The limits of liability, as of the examination date, were deemed sufficient. Arrowpoint's insuring agreements included property damage, business interruption, transit (inland and marine) risks, general liability, auto liability, workers' compensation, employer's liability, combined specialty insurance that includes directors and officers liability, professional liability (errors and omissions), and employment practices liability.

PENSIONS, STOCK OWNERSHIP AND BENEFIT PLANS

The Company's immediate parent sponsors two benefit plans which cover the employees of the Company and former employees of Royal Maccabees Life Insurance Company, a former indirect subsidiary of the Company. These two plans were merged together effective December 31, 2010. The Company shares in the annual funding cost of the plans under the Administrative Services and Expenses Sharing Agreement. The Company has no direct liability for these obligations. The Company's pension expense amounted to $24.0 million in 2010.

The Company provides certain health care and life insurance benefits for retired employees. Employees who meet specific age and service requirements may become eligible for these benefits upon attainment of retirement age while working for the Company. Life insurance benefits are generally set at a fixed amount.

Net post-retirement healthcare and life insurance benefit costs for the year ended December 31, 2010, was $3.3 million and included the expected cost of such benefits for newly eligible or vested employees, interest costs, gains and losses arising from differences between actuarial assumptions and actual experience and amortization of prior service costs. The

Company made contributions to the plan, net of contributions from participants, of $2.6 million in 2010 as claims were incurred.

The unfunded post-retirement benefit obligation for retirees and other fully eligible or vested plan participants was $31.5 million at December 31, 2010. The benefit obligation for active non-vested employees was $1.0 million as of December 31, 2010.

The Company has a voluntary defined contribution plan for which all employees are eligible. Participants can contribute up to 75% of their eligible compensation, but there is a maximum established by the IRS code each year. The Company makes matching contributions based on employee's participation in the plan up to a maximum of 5% of eligible compensation. The Company’s contribution to the plan was $1.3 million for 2010 and 2009. At December 31, 2010, the fair value of the assets of the plan was $154.7 million.

The Company has a qualified non-contributory defined benefit pension plan (Unisun Plan) that covers the past employees of Unisun Insurance Company and its affiliates prior to 1998. AGI acquired Unisun Insurance Company in 1999. The Company became the Unisun Plan sponsor in 2002. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. On December 11, 1997, the Board of Directors of Unisun Insurance Company agreed to freeze eligibility and benefit accruals under the Plan effective December 31, 1997. No participant will accrue benefits under the plan formula after December 31, 1997, except that service credit for vesting purposes will continue after the freeze date. The Plan continues to operate on an ongoing basis with frozen benefit accruals.

In accordance with an agreement effective March 5, 2007, between the Pension Benefit Guaranty Corporation (PBGC), the Company’s former owner and AGI, a standard termination of the Plan will commence. MWM Consulting Group, Inc., Unisun Plan’s actuary, will prepare a termination valuation report for the Plan and the Company will manage the termination process, including notifying participants and preparing and submitting the required IRS filings. The termination process will begin no later than December 31, 2012.

As a result of the Company's decision in 2007 to terminate the plan, the Company recorded a liability based on the estimated termination cost. The Company incurred $0.0 million and $1.0 million expense in 2010 and 2009 respectively as a result of a revaluation of this liability.

The accumulated benefit obligation as of December 31, 2010, was $6.3 million. The discount rate was 6.07% at December 31, 2010. The fair values of plan assets were $7.3 million as of December 31, 2010. The expected return on plan assets was 8% for December 31, 2010.

The Company offers benefits to eligible current or former employees for benefits after their employment but before their retirement for involuntary termination through a severance program relating to weekly earnings, COBRA coverage and outplacement service. The Company has an accrual for this obligation.

TERRITORY AND PLAN OF OPERATION

The Company has certificates of authority and is licensed to do business in all jurisdictions within the United States, including the District of Columbia, Canada and Guam as of December 31, 2010. The Company and its affiliate, Arrowood Surplus Lines Insurance Company, are currently in runoff and are no longer writing new business. Management's focus is to successfully meet policyholder obligations and to achieve a solvent runoff.

At December 31, 2010, the Company's business plan continues to focus on the following major areas:

- Claim Management: Meet policyholder obligations and provide stewardship over corporate assets.
- Reinsurance Recoverables: Effectively manage the reinsurance assets to maximize cash inflow.
- Investment Management: Optimize asset type and maturity mix such that all expected liability outflows are matched with equivalent investment asset inflows.
- Legal: Provide proper management and resolution of claim, corporate litigation and regulatory risks.
- Operational Effectiveness: Maintain the processes, systems and operating platforms to support a solvent run-off.
- Expense Management: Continually ensure that expense base is commensurate with the work that needs to be done.

The Delaware Department of Insurance has appointed a claims monitor, who will receive and act upon policyholder complaints, track indemnity reserve adequacy, monitor litigation management, review claims denials and review all other aspects of sound claims practices.

GROWTH OF THE COMPANY

The following information reflects the admitted assets, surplus as regards policyholders, gross premiums written and net income since the prior examination:

Year	Admitted Assets	Surplus as Regards Policyholders	Gross Premiums Written	Net Income (Loss)
2010	$1,975,021,565	$ 321,182,283	$ (4,703,628)	$ (57,773,919)
2009	2,227,585,073	337,956,364	(1,527,133)	(24,969,681)
2008	2,510,706,039	331,460,374	(5,128,950)	(101,319,166)
2007	2,998,163,220	445,627,238	(1,341,916)	(362,063,867)

The Company has experienced decreasing admitted assets and surplus during the period under examination due to the runoff position. Over the three-year examination period, admitted assets decreased by 34% and surplus as regards policyholders decreased 28%.

LOSS EXPERIENCE

The reserves for losses and loss adjustment expenses as of December, 31, 2010 were $678.73 million and $302.38 million respectively. The Company's 2010 Schedule P, Part 2 reflects a one-year redundancy of $37.25 million for years 2009 and prior; however, the Company experienced adverse development in three of the last five years. Per the Company's Actuarial Report, the adverse development in prior calendar years was due to strengthening of A&E reserves and general liability coverage. Re-estimation of Workers Compensation reserves also contributed to adverse development, in particular for accident years 1998 through 2000, driven largely by increases in medical inflation.

REINSURANCE

Assumed

The Company is in runoff and is not assuming any new premiums. At year-end 2010, there were no assumed premiums from affiliates. The Company reported ($4,900,000) assumed reinsurance premiums from non-affiliated insurers.

Ceded

Prior to September 30, 2007, the Company participated as lead company in a reinsurance pool (the Royal Indemnity Pool) with affiliated companies. Each of the member companies ceded to the Company 100% of all premiums, losses and loss adjustment expenses, commissions, premium taxes, and certain other operating expenses in connection with the policies issued. The Company then retroceded back to the pool members their respective pooled percentages.

The reorganization of the Company, which took place over several years, was completed on September 30, 2007, with the other pool members either sold or merged into the Company. As a result, the pooling agreement was terminated effective September 30, 2007.

The Company maintains treaty reinsurance on an excess of loss basis for property, casualty and marine exposures.

Property

Property catastrophe reinsurance is in place, with a limit of $150,000,000 in excess of $20,000,000, with the $150,000,000 layer 90% reinsured. This treaty was last renewed May 1, 2004. Property per risk coverage is subject to a limit of $195,000,000 over a $5,000,000 net retention with the Company co-participating in the first three of the five layers. The first excess layer provides coverage of $10,000,000 in excess of $5,000,000 and the Company's co-participation is 37%. The second excess layer provides coverage of $15,000,000 in excess of $15,000,000 and the Company's co-participation is 4%. The third excess layer provides coverage of $30,000,000 in excess of $30,000,000 and the Company's co-participation is 4%. The fourth excess layer provides coverage of $40,000,000 in excess of $60,000,000 and is 100% placed. The fifth excess layer provides coverage of $100,000,000 in excess of $100,000,000 and is 100% placed.

Casualty and Clash

Casualty and Clash coverage is reinsured in four layers up to a limit of $45,000,000 in excess of a net retention of $5,000,000 with the Company co-participating in the first of four layers. The first excess layer provides coverage of $5,000,000 in excess of $5,000,000 and the Company's co-participation is 23.5%. The second excess layer provides coverage of $10,000,000 in excess of $10,000,000. The third and fourth excess layers each provide additional $15,000,000 coverage.

Workers' Compensation

A Workers' Compensation treaty provides reinsurance coverage for losses occurring during the 2004 treaty period in four layers up to a limit of $95,000,000 in excess of $5,000,000 retention for risks attaching on policies incepting in the 2003 treaty period. The first excess layer provides coverage of $7,500,000 in excess of $5,000,000. The second excess layer provides coverage of $12,500,000 in excess of $12,500,000. The third excess layer provides coverage of $25,000,000 in excess of $25,000,000. The fourth excess layer provides coverage of

$50,000,000 in excess of $50,000,000. An additional Workers' Compensation treaty provides reinsurance coverage for losses occurring during the 2004 treaty period in a single layer up to a limit of $20,000,000 in excess of $5,000,000 retention for risks attaching on policies incepting in the 2004 treaty period. This treaty is 90% placed.

Terrorism

An aggregate terrorism treaty provided reinsurance coverage up to $345,000,000 over a net retention of $25,000,000. The Company had varying co-participation in the seven layers over the $25,000,000 retention. Of the original reinsurance coverage for this treaty, only $100,000,000 in the first two layers excess of the retention remain in force with a 10% co-participation in each of the two layers. The other layers were terminated in 2004. The first excess layer provides coverage of $50,000,000 in excess of $25,000,000 and the second excess layer provides coverage of $50,000,000 in excess of $75,000,000.

Specialty

Specialty casualty coverage provides reinsurance of $11,000,000 in excess of $1,000,000 retention with a 20% co-participation for business written by the Company's Grocers segment and 45% co-participation for business written by the Company's other segments. Specialty property coverage is reinsured up to $14,800,000 above $200,000 retention in three layers with a 40% co-participation in the first layer of $1,300,000 excess of $200,000 retention. The Company commuted 22.5% of this placement in 2010. The second excess layer provides coverage of $3,500,000 in excess of $1,500,000 and the third excess layer provides coverage of $10,000,000 in excess of $5,000,000. The second and third layers were 100% placed. The Company has an annual aggregate deductible of $3,000,000. Grocers casualty coverage provides reinsurance of $11,000,000 in excess of $1,000,000 retention with a 10% co-participation in the excess.

Umbrella

Commercial lines umbrella coverage provides reinsurance of $6,000,000 in excess of $4,000,000. Personal lines umbrella coverage provides reinsurance of $5,000,000 in excess of $5,000,000.

Marine

Ocean marine coverage is reinsured on a risk attaching basis in three layers up to $20,000,000 in excess of $1,500,000 retention and on a loss occurring basis in four layers up to $35,000,000 in excess of $1,500,000 retention. The Company commuted 4% of the risk attaching layers in 2010. The Company also commuted 4% of the first, third and fourth loss occurring layers and 5% of the third loss occurring layer in 2010.

Specialty marine coverage is reinsured in four excess layers up to $19,500,000 in excess of $500,000 retention. The Company commuted 10% of this placement in 2010.

DPIC

Design Professional Insurance Company (DPIC) casualty coverage provides reinsurance of $9,000,000 in excess of $1,000,000 retention with 25% co-participation. The Company commuted 7.5% of this placement in 2010.

Runoff coverage was invoked for all of these treaties except the Property Catastrophe, Aggregate Terrorism and Ocean Marine treaties.

Royal & Sun Alliance Insurance Aggregate Excess of Loss Agreement

Effective September 30, 2003, the Company entered into an aggregate excess of loss reinsurance agreement with Royal & Sun Alliance Insurance plc of the United Kingdom (RSAUK), a former upstream parent of the Company. The agreement provides the Company with up to $1.225 billion in excess of loss coverage in excess of an attachment point of $4.0103 billion which was the outstanding loss and allocated loss adjustment reserves at September 30, 2003, gross of workers' compensation tabular discount, less the net premium. The gross premium for this coverage was $962,000,000. The Company was allowed a ceding commission equal to 35% of premium, or $336,700,000 of which, $288,600,000 was immediately paid. The remaining $48,100,000 will be paid to the Company on a prorated basis in proportion to the losses paid by RSAUK, and is included with the net premium of $625,300,000 in order to calculate the amount of interest due on funds withheld of $673,400,000 ($625,300,000 plus $48,100,000) at inception.

As of December 31, 2004, the Company had ceded the full limit under the treaty. In accordance with the terms of the agreement, the premium, net of commission, is held by the Company and is reflected on the balance sheet as Funds Held by Company under Reinsurance Treaties. Interest accrued for the benefit of RSAUK on the funds held balance in the amounts of $30,300,000 and $42,500,000, as of December 31, 2010, and December 31, 2009, respectively. RSAUK has provided a letter of credit for the benefit of the Company equaling the difference between the ceded reserves and the funds held balance.

The Company's paid loss and loss adjustment expenses subject to the treaty exceeded the attachment point in the fourth quarter 2008. As a result, the Company has recorded ceded paid loss and loss adjustment expenses of $252.7 million and $302.5 million for the years ended December 31, 2010 and 2009, respectively. The Company has received reimbursement from RSAUK by a reduction in the Funds Held liability and a release of assets from the trust account.

The Delaware Department of Insurance approved the execution of the original agreement on December 23, 2003, and also recognized it as prospective reinsurance on December 29, 2003. The Delaware Department of Insurance also approved the execution of an amended and restated agreement on February 20, 2007, in connection with the Company's change in ownership and control.

Royal & Sun Alliance Insurance Indemnification Agreement

Effective September 30, 2003, the Company entered into an Indemnification Agreement with RSAUK. Under the agreement, RSAUK provided the Company a letter of credit securing payment to the Company for certain reinsurance recoverables. The Indemnification Agreement and letter of credit resulted in an increase to statutory surplus of the Company of $76,200,000 as of December 31, 2010, through a reduction in the Provision for Unauthorized Reinsurance.

ACCOUNTS AND RECORDS

The Company reports all financial accounting transactions on the Oracle General Ledger (OGL), which was implemented January 1, 2001. The OGL is part of the Arrowpoint financial system (AFS). AFS resides in a client/server environment that uses an Oracle database for information storage. The major components of AFS are three modules of Oracle applications: Oracle General Ledger, Oracle Accounts Payable and Oracle Fixed Assets. OGL is the official book of records for all financial accounting operations. Accounting activity is recorded via automated interfaces from the front-end systems, primarily claims and reinsurance systems for insurance activity, payroll and accounts payable systems for expenses, and the investment accounting system for investment results. Authorized employees have the ability to enter manual journal entries. Entries are reviewed by management before posting. GL Control staff can also post journals authorized by management in addition to balancing and posting interfaces.

Automated systems are utilized to capture and report most activity. Automated interfaces are used to record results on a monthly basis to the general ledger. The primary systems are CLASS and CPMS/PMS for claims, URS for reinsurance, ACCOUNT RECON for premium and deductible billing and PAM (CAMRA prior to 9/1/2010) for investment results. Home office personnel enter data in these systems. Branch personnel enter claims and reinsurance accounting activity.

Monthly reconciliations of the general ledger to detail individual supporting account detail ledgers are performed by the various departments involved. Reconciliations are maintained in a centralized database.

A review of the controls in information systems was performed by INS Services, Inc. The Company is in runoff and has been operating on the same systems that were reviewed and tested during the previous examination. As such, INS Services, Inc. performed a desk review of the Company's responses to Exhibit C – Evaluation of Controls in Information Technology (IT).

STATUTORY DEPOSITS

Listed below are the statutory deposits which were verified during the examination:

State, Etc.	Type of Deposit	Book Adjusted Carrying Value	Fair Value
Arizona	Bonds	$ 16,077,526	16,578,630
Arkansas	Bonds	2,776,925	2,589,531
California	Bonds	185,163,339	193,144,678
Delaware	Bonds	4,176,157	3,842,803
Florida	Bonds	2,442,574	2,554,914
Georgia	Bonds	2,265,361	2,174,974
Idaho	Bonds	1,353,650	1,215,178
Kansas	Bonds	148,934	148,823
Kentucky	Bonds	130,402	111,169
Massachusetts	Bonds	17,602,960	16,832,376
Missouri	Bonds	2,980,758	2,804,729
Nevada	Bonds	1,012,471	896,654
New Hampshire	Bonds	6,528,645	6,854,704
New Mexico	Bonds	6,064,115	6,286,109
North Carolina	Bonds	37,976,160	38,052,183
Oklahoma	Bonds	305,187	309,340
Oregon	Bonds	31,507,381	32,213,330
Rhode Island	Bonds	99,910	105,012
South Carolina	Bonds	1,249,919	1,305,820
Tennessee	Bonds	301,192	305,752
Texas	Bonds	409,696	416,384
Virginia	Bonds	621,241	583,784
Guam	Bonds	60,459	51,542
Canada	Other	83,021,449	84,418,410
Aggregate alien and other	Bonds, Other	497,149,569	527,234,153
Total		**$ 901,425,980**	**$ 941,030,982**

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2010:

Analysis of Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account

Analysis of Assets
December 31, 2010

	Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$1,549,274,645	$0	$1,549,274,645
Preferred Stock	4,893,038	0	4,893,038
Common Stock	192,407,440	0	192,407,440
Mortgage Loans	62,982	0	62,982
Properties occupied by the company	114,471	0	114,471
Properties held for sale	8,500	8,500	0
Cash and Short-Term Investments	41,283,063	0	41,283,063
Other Invested Assets	4,330,741	0	4,330,741
Receivable for Securities	22,826,973	0	22,826,973
Investment Income Due and Accrued	13,986,885	0	13,986,885
Uncollected Premiums and Agents' Balances in Course of Collection	4,694,259	4,694,259	0
Deferred Premiums	2,042,818	0	2,042,818
Accrued Retrospective Premiums	4,000,000	4,000,000	0
Reinsurance Recoverables from Reinsurers	77,483,640	0	77,483,640
Funds held by or Deposited with Reinsured Companies	1,013,754	0	1,013,754
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	55,063,631	7,658,626	47,405,005
Furniture and Equipment, including Health Care Delivery Assets	377,810	377,810	
Receivable from Parent, Subsidiaries and Affiliates	9,409,420	8,545,999	863,421
Aggregate Write-ins for Other Than Invested Assets	19,423,707	2,391,018	17,032,689
Total Assets	$2,002,697,777	$27,676,212	$1,975,021,565

Liabilities, Surplus and Other Funds
December 31, 2010

Losses	$ 678,725,289	*Note 1*
Reinsurance Payable on Paid Loss and Loss Adjustment Expense	974,846	
Loss Adjustment Expenses	302,377,814	*Note 1*
Commission Payable, Contingent Commissions and Other Similar Charges	1,200,000	
Other Expenses	18,080,037	
Taxes, Licenses and Fees	20,791,691	
Borrowed money	45,249,201	
Unearned Premiums	8,304,403	
Ceded Reinsurance Premiums Payable	778,858	
Funds Held by Company Under Reinsurance Treaties	409,041,896	
Amounts Withheld or Retained for Account of Others	25,327,350	
Remittances and Items not Allocated	512,757	
Provision for Reinsurance	43,755,348	
Payable to Parent, Subsidiaries, and Affiliates	2,737	
Payable for Securities	9,904,226	
Aggregate Write-ins for Liabilities	88,812,829	
Total Liabilities	$1,653,839,282	
Aggregate Write-ins for Special Surplus Funds	$ 599,700,000	
Common Capital Stock	5,000,000	
Gross Paid in and Contributed Surplus	3,072,648,381	
Unassigned Funds (surplus)	(3,356,166,098)	
Total Surplus as Regards Policyholders	$ 321,182,283	
Total Liabilities, Surplus and Other Funds	$1,975,021,565	

Summary of Operations
December 31, 2010

Income:		
Premiums earned	$	(3,200,067)
Net investment income earned		75,838,240
Net realized capital gains		19,782,459
Other income/(expenses)		(58,283,610)
Total income	$	34,137,022
Expenses:		
Losses incurred		15,185,160
Loss adjustment expenses incurred		27,923,747
Other Underwriting Expenses		68,007,960
Aggregate Write-ins for Underwriting Deductions		(7)
Federal and Foreign Income Tax Incurred		(19,205,920)
Total Expenses	$	91,910,940
Net Income (Loss):	$	(57,773,918)

Reconciliation of Capital and Surplus
December 31, 2009 to December 31, 2010

Capital and Surplus, December 31, 2009		$ 337,956,364
Net Income (Loss)		(57,773,918)
Additions:		
Change in net unrealized capital gains or (losses)	$ 20,838,529	
Change in net unrealized foreign exchange capital gains	4,467,575	
Change in nonadmitted assets	1,058,699,607	
Change in Provision for Reinsurance	13,220,630	
Total Additions		1,097,226,341
Deductions:		
Change in net deferred income tax	$(1,056,226,504)	
Total Deductions		(1,056,226,504)
Capital and Surplus, December 31, 2010		$ 321,182,283

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Losses **$678,725,289**
Loss Adjustment Expenses **302,377,814**

The Delaware Department of Insurance contracted with INS Consultants, Inc. (Consulting Actuary) to perform an actuarial review of the Company's reserves. The Consulting Actuary performed the actuarial review on the Arrowpoint Group, which included both the Company and its wholly owned subsidiary, Arrowood Surplus Lines Insurance Company. The actuarial staff at the Company provided the Consulting Actuary with their statement of actuarial opinion and the supporting actuarial data and documents. The Consulting Actuary's review consisted of separately analyzing the Arrowpoint Group's book of business on both a net and gross basis (via a ceded reserve analysis approach) for loss and defense and cost containment expense. The examiners reviewed samples of claim and policy files in order to test the underlying data supporting the reserves. No material exceptions were noted during that review.

In the Consulting Actuary's opinion, the Company's booked net loss and LAE reserves as of December 31, 2010, are reasonably stated.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has complied with all prior examination recommendations.

SUMMARY OF RECOMMENDATIONS

There are no recommendations that warrant disclosure in the report.

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, 2010	December 31, 2007	(Decrease)
Assets	$1,975,021,565	$2,970,463,220	($995,441,655)
Liabilities	1,653,839,282	2,552,535,982	($898,696,700)
Capital and Surplus	321,182,283	417,927,238	($96,744,955)

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

Respectfully submitted,

Lu Ann D. Therrell

Lu Ann D. Therrell, CFE
Examiner In-Charge
State of Delaware
Northeastern Zone, NAIC