EXAMINATION REPORT

OF THE

ARROWOOD SURPLUS LINES INSURANCE 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 SURPLUS LINES INSURANCE COMPANY

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

Attest By: Sonia C. Harris

Date: 26 January 2012

Insurance Commissioner of the State of Delaware

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

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

OF THE

ARROWOOD SURPLUS LINES INSURANCE 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

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Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 11-017, dated February 16, 2011, an Association examination has been made of the affairs, financial condition and management of the

ARROWOOD SURPLUS LINES INSURANCE 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 November 9, 1982, the Company was incorporated under the laws of the State of Connecticut and commenced business on March 9, 1983, as an excess and surplus lines insurance company. The Company is a wholly owned subsidiary of Arrowood Indemnity Company (AIC). AIC is a subsidiary of Arrowpoint Group, Inc. (AGI), an insurance holding company incorporated in the state of Delaware. The ultimate parent of AGI is Arrowpoint Capital Corp. (Arrowpoint), a Delaware holding company. The previous ultimate parent was

RSA Insurance Group plc (RSAIG), formerly Royal & Sun Alliance Insurance Group plc , a UK company.

Effective July 1, 2003, AGI sold Royal Specialty Underwriting, Inc. (RSUI), an affiliate of the Company, to Allegheny Insurance Holding LLC., a subsidiary of Allegheny Corporation. Under the terms of the sale and related agreements, RSUI had a fronting arrangement with the Company to write direct business through June 30, 2004.

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. This plan included the merger of the Company's previous parent, Royal Insurance Company of America, into AIC.

On May 24, 2006, a Certificate of Conversion From a Non-Delaware Corporation to a Delaware Corporation was executed, converting the Company from a Connecticut corporation to a Delaware corporation. The Certificate of Conversion was then filed with the Delaware Secretary of State on May 25, 2006.

On March 3, 2007, Arrowpoint, a company formed in 2006 and owned by the Company's management and outside 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, AIC, and the Company. With the closing, RSAIG contributed $287.5 million of additional capital to AGP which was in turn contributed to AIC. Effective September 15, 2007, the Company's name was changed from Royal Surplus Lines Insurance Company to Arrowood Surplus Lines Insurance Company.

In accordance with the above noted Order, AIC 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 Capital Paid Up of $5,000,000. The Company has no preferred stock authorized, issued or outstanding. The Company is a wholly owned subsidiary of AIC.

Capital and Surplus

As reported in the prior Report on Examination as of December 31, 2007, gross paid in and contributed surplus amounted to $183,600,000. There has been no change to gross paid in and contributed surplus since the prior examination.

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 Board members are elected by the shareholder(s) and officers are appointed by the Board of Directors in accordance with the bylaws.

There are four 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; Executive; Investment; and Loss Reserve. 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:

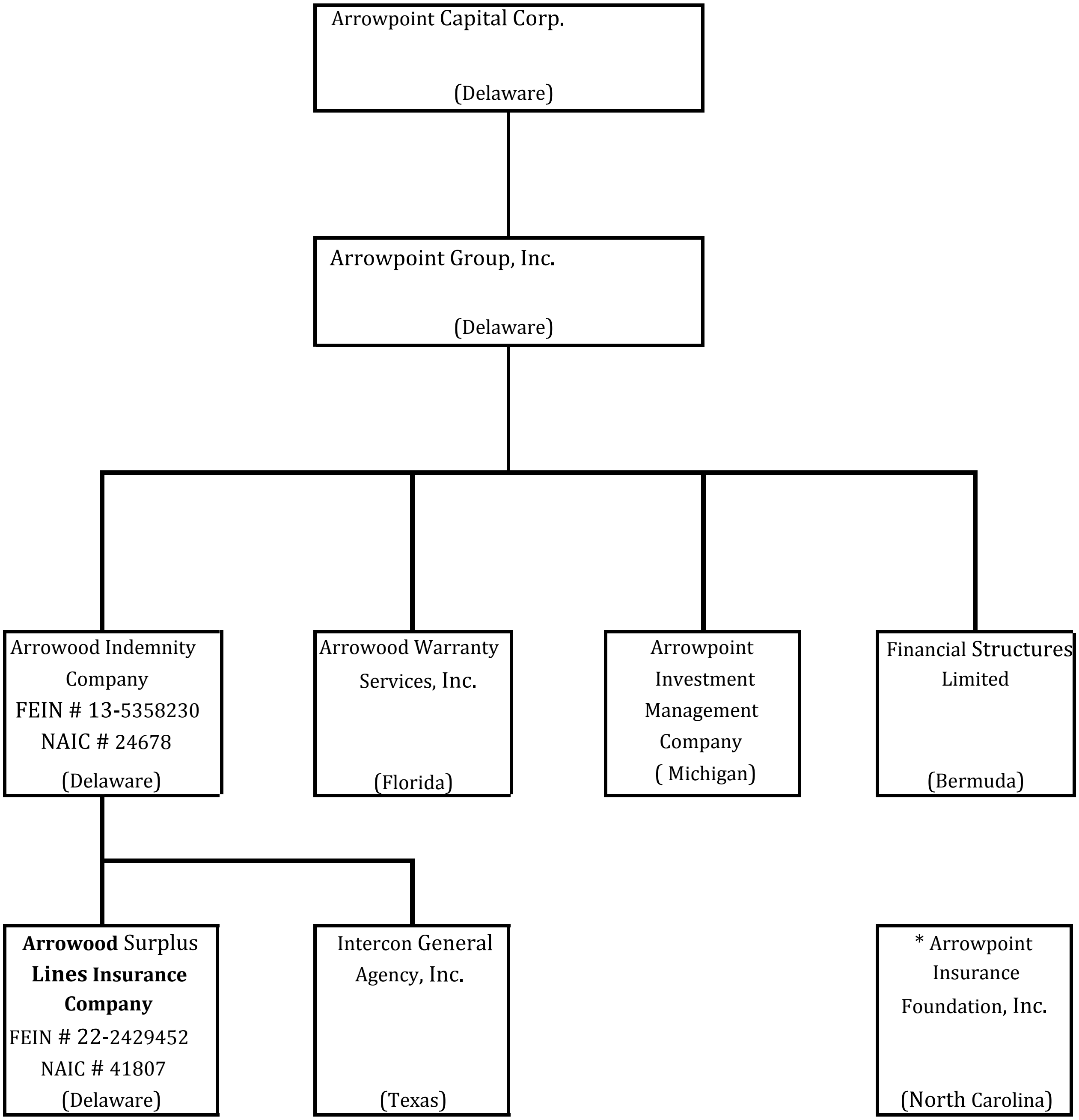
Name	Title
John (NMN) Tighe	President and Chief Executive Officer
Sean Antony Beatty	Senior VP and Chief Financial Officer
Dennis William Cahill	Senior VP and Chief Operating Officer
Catherine Ann Carlino	Senior VP, Corporate Operations, Planning and Governance Executive
Robert James Dixon	Senior VP 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 AIC, which is owned by AGI, a Delaware corporation. 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 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 AIC 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, AIC 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 AIC 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 Arrowpoint Group, Inc. by AIC 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.

Corporate Governance

Four 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 four key committees as follows:

Audit, Risk and Compliance Committee
Executive Committee
Investment Committee
Loss Reserve Committee

Review of the Committee minutes indicated in depth involvement in Company operations. Management regularly provides the Board 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.

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 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 Financial Examiners' 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 does not have any employees. All functions are performed by employees of AIC. Based on the Administrative Services and Expense Sharing Agreement, the Company is allocated its share of all current year expenses, including AIC and AGI benefit plans.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to do business in Delaware and Connecticut as of December 31, 2010, but is currently in run-off and is no longer underwriting new business. Management's focus is to successfully meet policyholder obligations and to achieve a solvent run-off.

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

- Claim Management: Meet our 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 our 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/(loss) since the prior examination:

Year	Admitted Assets	Surplus as Regards Policyholders	Gross Premiums Written	Net Income (Loss)
2010	$240,849,636	$ 175,477,020	$ -0-	$ 13,219,765
2009	238,962,351	156,639,860	-0-	1,133,797
2008	256,493,992	154,324,943	-0-	(12,152,063)
2007	296,092,579	164,387,960	(48,827)	(20,881,651)

Over the three-year examination period, admitted assets decreased by 19% and surplus as regards policyholders increased 7%.

LOSS EXPERIENCE

The reserves for losses and loss adjustment expenses as of December, 31, 2010, were $25,463,661 and $26,092,782 respectively. The Company's 2010 Schedule P, Part 2 reflects a one-year redundancy of $2.37 million for years 2009 and prior.

REINSURANCE

Assumed

The Company reported no assumed reinsurance premiums.

Ceded

The Company is in run-off and has not entered into any new reinsurance treaties since the prior examination. Beginning April 1, 2001, the Company changed its reinsurance program as follows:

Casualty

The Company had two casualty excess of loss treaties in place. The 1st Casualty Excess of Loss treaty provides reinsurance of $250,000 in excess of $250,000. This treaty was originally 97.5% placed. The Company commuted one 7.5% placement.

The 2nd Casualty Excess of Loss treaty provides reinsurance of $500,000 in excess of $500,000. This treaty was originally 90% placed. The Company commuted one 12.5% placement.

A Casualty Excess Cessions Quota Share treaty provides 90% quota share coverage for $1,000,000 of other casualty liability losses in excess of $1,000,000 and also provides 90% quota share coverage for $4,000,000 of professional liability losses in excess of $1,000,000. This treaty was originally 90% placed. The Company commuted one 12.5% placement.

A Casualty Catastrophe Clash Excess of Loss treaty provides $5,000,000 in excess of $406,250 for other casualty liability losses for policies attaching between April 1, 2001 and March 31, 2002; and provides $5,000,000 in excess of $1,000,000 for other casualty liability losses on policies attaching in prior years. The treaty provides $5,000,000 reinsurance coverage for professional liability losses in excess of $706,250 for policies attaching between April 1, 2001 and March 31, 2002; and provides $5,000,000 in excess of $1,000,000 for policies attaching in prior years; and provides $5,000,000 reinsurance coverage for environmental liability losses in excess of $750,000. This treaty was originally 90% placed. The Company commuted one 15% placement.

Environmental

An Environmental Variable Quota Share treaty provides $4,250,000 reinsurance coverage in two layers for environmental policies. The first layer provides 65% coverage of the first $1,000,000. The second layer provides 90% coverage for $4,000,000 in excess of $1,000,000. The treaty was originally 100% placed. The Company commuted one 10% and one 15% placement.

Prior to April 1 2001, the Company’s treaty structure was as follows:

For the period December 1, 1997, through March 31, 1999, a Casualty Quota Share treaty provided five different coverages for all business segments except for environmental and was based upon the limits of the covered policies. In the aggregate, for all policies with limits up to $1,000,000, the quota share coverage was 65%. For all policies with limits of $1,000,001 up to and including $2,000,000, the quota share coverage is 77.5%. For all policies with limits of $2,000,001 up to and including $3,000,000, the quota share coverage is 83%. For all policies with limits of $3,000,001 up to and including $4,000,000, the quota share coverage is 86%. And for all policies with limits of $4,000,001 up to and including $5,000,000 the quota share coverage is 88%. This treaty is 65% placed, net of commuted placements.

For the period April 1, 1999, through April 1, 2001, the Casualty Quota Share treaty provides $4,000,000 coverage in two layers for all business segments except for environmental. The first layer provides 60% coverage of the first $1,000,000. The second layer provides 85% coverage for $4,000,000 in excess of $1,000,000. The treaty was originally 100% placed. The Company commuted a 32.5% and 7.5% placement.

For the period December 1, 1997, through March 31, 1999, a Casualty Catastrophe Clash Excess of Loss treaty provided $5,000,000 excess of $600,000. For the period April 1, 1999, to March 31, 2001, a Casualty Catastrophe Clash Excess of Loss treaty provided $5,000,000 excess of $1,000,000 for casualty liability losses and $5,000,000 excess of $750,000 of environmental liability losses. This treaty was 100% placed.

For the period March 1, 1999, through March 31, 2001, an Environmental Variable Quota Share treaty provides $4,250,000 reinsurance coverage in two layers for environmental policies. The first layer provides 65% coverage of the first $1,000,000. The second layer provides 90% coverage for $4,000,000 in excess of $1,000,000. Both of these layers were originally 100% placed. The Company commuted one 10% and one 15% placement.

Group Reinsurance Coverage

The Company participates in four “Group” level treaties that cover all business written by any Arrowpoint company. The covered exposure is based on a factor of either written or earned premiums. The companies within the Group are able to recover losses, net of reinsurance held at the individual company level, pursuant to the treaty terms once the premiums are paid.

A Group Property Catastrophe treaty provides three layers of reinsurance coverage of $150,000,000 in excess of $20,000,000. The first excess layer provides coverage of $30,000,000 in excess of $20,000,000. The second excess layer provides coverage of $80,000,000 in excess of $50,000,000. The third excess layer provides coverage of $40,000,000 in excess of $130,000,000. This treaty was last renewed May 1, 2004, and the Company’s co-participation for each layer is 10%**.**

A Group Property per Risk treaty provides five layers of reinsurance coverage of $195,000,000 in excess of $5,000,000. 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. Run-off coverage was invoked for this treaty.

A Group Casualty Clash treaty provides four layers of reinsurance coverage of $45,000,000 in excess of $5,000,000. 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 and is 100% placed. The third excess layer provides coverage of $15,000,000 in excess of $20,000,000 and is 100% placed. The fourth excess layer provides coverage of $15,000,000 in excess of $35,000,000 and is 100% placed. Run-off coverage was invoked for this treaty.

A Group 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.

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:

		Book Adjusted Carrying Value	Fair Value
Arkansas	Bonds	$ 139,947	$ 142,466
Delaware	Bonds	2,913,894	2,966,342
Louisiana	Bonds	150,864	160,359
Massachusetts	Bonds	116,668	124,011
New Hampshire	Bonds	263,508	280,094
New Jersey	Bonds	233,336	248,022
New Mexico	Bonds	110,633	117,597
New York	Bonds	5,468,899	5,775,379
Oklahoma	Bonds	115,662	122,942
Aggregate alien and other	Bonds	996,617	1,007,403
Total		**$ 10,510,028**	**$ 10,944,615**

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
Bonds	$221,891,173	$0	$221,891,173
Preferred Stock	100,400	0	100,400
Common Stock	1,248,480	0	1,248,480
Cash and Short-Term Investments	5,803,368	0	5,803,368
Other Invested Assets	2,185,404	0	2,185,404
Receivable for Securities	2,852,591	0	2,852,591
Investment Income Due and Accrued	1,929,432	0	1,929,432
Agents' Balances or Uncollected Premiums	3,832	3,832	0
Reinsurance Recoverables from Reinsurers	4,809,083	0	4,809,083
Aggregate Write-ins for Other Than Invested Assets	29,705	0	29,705
Total Assets	$240,853,468	$3,832	$240,849,636

Liabilities, Surplus and Other Funds
December 31, 2010

Losses	$	25,463,661	*Note 1*
Reinsurance Payable on Paid Loss and Loss Adjustment Expense		231,764	
Loss adjustment expenses		26,092,782	*Note 1*
Other expenses		48,338	
Current foreign and federal income taxes		3,192,846	
Ceded Reinsurance Premiums Payable		635,663	
Amounts withheld or retained by company for account of others		52,500	
Provision for Reinsurance		769,020	
Payable to Parent, Subsidiaries, and Affiliates		819,649	
Payable for securities		8,053,190	
Aggregate Write-ins for Liabilities		13,203	
Total Liabilities	$	65,372,616	
Common Capital Stock	$	5,000,000	
Gross Paid in and Contributed Surplus		183,600,000	
Unassigned Funds (surplus)		(13,122,980)	
Total Surplus as Regards Policyholders	$	175,477,020	
Total Liabilities, Surplus and Other Funds	$	240,849,636	

Summary of Operations
December 31, 2010

Income:			
	Net investment income earned	$	11,738,208
	Net realized capital gains		7,047,745
	Total income	$	18,785,953
Expenses:			
	Losses incurred	$	(10,582,067)
	Loss adjustment expenses incurred		9,705,073
	Other Underwriting Expenses		4,581,527
	Federal and Foreign Income Tax Incurred		1,861,655
	Total Expenses	$	5,566,188
Net Income :		$	13,219,765

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

Capital and Surplus, December 31, 2009		$ 156,639,860
Net Income (Loss)		$ 13,219,765
Additions:		
Change in net unrealized capital gains or (losses)	$ 343,902	
Change in nonadmitted assets	26,323,037	
Change in Provision for Reinsurance	5,248,493	
Total Additions		31,915,432
Deductions:		
Change in net deferred income tax	$ (26,298,037)	
Total Deductions		(26,298,037)
Capital and Surplus, December 31, 2010		$ 175,477,020

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Losses **$25,463,661**
Loss Adjustment Expenses **26,092,782**

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 AIC and the 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	12/31/2010	12/31/2007	Increase (Decrease)
Assets	$240,849,636	$296,092,579	($55,242,943)
Liabilities	65,372,616	159,404,619	(94,032,003)
Capital and Surplus	175,477,020	136,687,960	38,789,060

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

Respectfully submitted,

Lu Ann D. Therrell

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Examiner In-Charge
State of Delaware
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