

REPORT ON EXAMINATION
OF THE
DARWIN NATIONAL ASSURANCE COMPANY
AS OF
DECEMBER 31, 2009



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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.

A handwritten signature in black ink, appearing to read 'Karen Weldin Stewart', written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 16th day of June, 2011



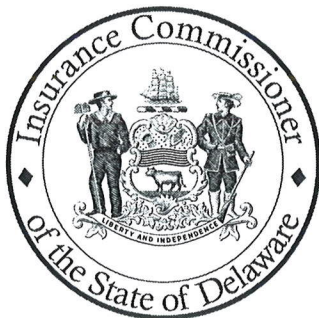
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

DARWIN NATIONAL ASSURANCE COMPANY

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

Attest By: *Sonia C. Harris*

Date: 16 June 2011



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 16th day of June, 2011.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

December 15, 2010

Honorable Joseph Torti, III
Chairman, Financial Condition (E) Committee,
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Department of Business Regulation
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Honorable Karen Weldin Stewart
Commissioner
Delaware Department of Insurance
Rodney Building
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Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 09.009, dated December 24, 2008, an Association examination has been made of the affairs, financial condition and management of the

DARWIN NATIONAL ASSURANCE COMPANY

hereinafter referred to as, (Company), or (DNA) and incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1807 North Market Street,

Darwin National Assurance Company

Wilmington, DE 19802. The examination was conducted at administrative offices of the Company, located at 199 Water Street, New York, NY 10038.

The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

This examination was a multistate coordinated examination of Allied World Reinsurance Company (NH) - (AWRE), Allied World Assurance Company (U.S.) Inc. (DE) - (AWUS), Allied World National Assurance Company (NH) - (AWNAC), Darwin National Assurance Company (DE) - (DNA), Darwin Select Insurance Company (AR) - (DSI), and Vantapro Specialty Insurance Company (AR) - (Vantapro) (collectively the Allied US Entities). AWRE, AWUS and AWNAC are wholly owned subsidiaries of Allied World Assurance Holdings (U.S.) Inc. (AWUSH), a Delaware holding company. DNA is owned by Darwin Professional Underwriters Inc. (DPUI), which is a wholly owned subsidiary of AWRE. DSI and Vantapro are subsidiaries of DNA. The ultimate parent of all the Allied US Entities is Allied World Assurance Company Holdings, Ltd.(AWAH), a Bermuda holding company. These concurrent examinations were conducted in accordance with the Association Plan of Examination guidelines established by the National Association of Insurance Commissioners (NAIC). Examiners representing the states of Delaware, Arkansas and New Hampshire participated in these concurrent examinations, and Reports of Examination for each of the six U.S. domestic companies were filed separately.

The last examination of DNA was conducted as of December 31, 2005. This examination covers the intervening four (4) year period from January 1, 2006, through December 31, 2009, 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, 2009. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (NAIC Handbook). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating key activity processes, system controls and procedures used to mitigate those risks. The examination also included assessing the accounting principles used and significant financial estimates made by management, as well as evaluating overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by both the Company's Internal Audit Department (IAD) as regards their oversight of compliance with Sarbanes-Oxley (SOX), including risk analysis, documentation, test work, and remediation efforts over weaknesses identified, as well as by the Company's external accounting firm, Deloitte & Touche, LLP (D&T). Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

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

The examination was conducted concurrently with that of the Company's five (5) Allied World U.S. affiliates. Separate reports of examination were filed for each company.

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

- Corporate Records
- Employee and Agents Welfare
- Fidelity Bonds and Other Insurance
- NAIC Ratios
- Legal Actions
- Regulatory Agency Correspondence
- All Other Asset and Liability Items Not Mentioned

SUMMARY OF SIGNIFICANT FINDINGS

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

SUBSEQUENT EVENTS

Quota Share Reinsurance Agreement with Bermuda affiliate; Allied World Assurance Company, Ltd

Effective March 4, 2010, the Company entered into a quota share reinsurance agreement with its Bermuda affiliate, Allied World Assurance Company, Ltd (AWAC), for the Company's Canadian branch business.

Change DNA's Common Capital Stock

DPUI, the Company's immediate parent, filed with the Delaware Department of Insurance to reduce the number of outstanding shares of DNA by declaring a 2,000 : 1 reverse stock-split, which would have the effect of reducing DNA's issued and outstanding shares of common stock from 3,500,000 shares to 1,750 shares. The reason for this was to reduce the Delaware franchise tax, which is based on number of outstanding shares. As of December 10, 2010, the DNA certificate of incorporation was amended to reduce the number of authorized common shares from 10,000,000 to 5,000, and to increase the par value of each share from \$1.00 to \$2,000.

AWAH \$300 million Senior Debt Issuance

On November 9, 2010, AWAH priced an offering of \$300 million aggregate principal amount of senior notes due 2020, pursuant to their effective shelf registration. The use of the proceeds will include share repurchases and general corporate purposes.

Termination of Program Administrators Agreement with K&B Underwriters

The Program Administrators Agreement between K&B Underwriters, DNA and DSI for medical malpractice and general liability for Senior Living and Nursing Homes was terminated effective December 31, 2010.

Redomestication of Allied World Assurance Company Holdings, Ltd

On December 1, 2010, AWAH, the Company's ultimate parent announced that it completed the redomestication of its group holding company from Bermuda to Switzerland. The new Swiss holding company will remain subject to the U.S. Securities and Exchange

Commission reporting requirements, and will continue to report its consolidated financial results in U. S. dollars and under U. S. Generally Accepted Accounting Principles.

COMPANY HISTORY

DNA was originally incorporated on January 14, 1972 in the state of Delaware under the name Peninsula Property and Casualty Company and commenced business on January 31, 1972. General Electric Mortgage Insurance Services, Inc. held all outstanding shares of the Company from its inception until December 30, 1993. At that time, Peninsula Insurance Company, domiciled in the state of Maryland, acquired the Company.

On June 30, 1994, the Company was sold to an affiliate, Security Insurance Company and on December 15, 1994, the Company was sold back to Peninsula Insurance Company. On December 22, 1995, the Company was acquired by AEGIS Holding, Inc. and as of February 29, 1996, Peninsula Property and Casualty Company became known as U.S. Aegis Energy Insurance Company.

On May 1, 2004, the Company was acquired by Darwin Group, Inc. (DGI), its parent, Alleghany Insurance Holdings, LLC, and its parent, Alleghany Corporation, all incorporated in the state of Delaware. On May 21, 2004, the Company's name was changed to Darwin National Assurance Company. On May 24, 2006, DPUI completed an initial public offering (IPO) of 6,000,000 shares of its common stock. Prior to the IPO, Alleghany Insurance Holdings, LLC controlled approximately 90% of the stock of DPUI. Subsequent to the IPO, Alleghany Insurance Holdings, LLC controlled approximately 54.9% of the stock of DPUI. On May 30, 2006, the Delaware Department of Insurance approved a Form A exemption regarding the reorganization of DGI to the subsidiary of DPUI as ultimate control remained with Alleghany Corporation.

In 2008, AWRE, obtained control of DNA, DSI and Vantapro by obtaining direct control of the parent company, DPUI, a Delaware holding corporation. DPUI owned 100% of the issued stock of DGI. DGI owned 100% of the issued and outstanding stock of DNA, and DNA owned 100% of the issued and outstanding stock of DSI and Vantapro. In September of 2009, DGI was merged into DPUI.

Common Capital Stock

At December 31, 2009, the Company had 10,000,000 common shares authorized with a par value of \$1 per share, of which 3,500,000 shares were issued and outstanding, resulting in total capital stock of \$3,500,000. All shares of the Company are owned by DPUI.

Dividends

In 2009, DNA declared and paid an ordinary dividend to its stockholder, DPUI in the amount of \$34,700,000 as approved by the Board of Directors.

Reconciliation of Capital and Surplus

The following reconciliation of capital and surplus for the period December 31, 2005, to December 31, 2009, was extracted from the Company's filed Annual Statements and does not reflect examination changes:

Capital and Surplus, December 31, 2005		<u>\$173,583,425</u>
<u>2006</u>		
Net income	\$8,623,473	
Change in net unrealized capital gains or (losses)	(94,690)	
Change in net deferred income tax	4,038,677	

Change in non-admitted assets	(2,458,477)	
Surplus adjustments: Paid in	228,853	
	<u>\$10,337,836</u>	
Capital and Surplus, December 31, 2006		<u>\$183,921,261</u>
<u>2007</u>		
Net income	\$35,768,326	
Change in net unrealized capital gains or (losses)	293,473	
Change in net deferred income tax	4,112,753	
Change in non-admitted assets	(1,795,939)	
Surplus adjustments: Paid in	(3,500,000)	
	<u>\$34,878,614</u>	
Capital and Surplus, December 31, 2007		<u>\$218,799,875</u>
<u>2008</u>		
Net income	\$36,482,728	
Change in net unrealized capital gains or (losses)	1,712,502	
Change in net deferred income tax	9,119,476	
Change in non-admitted assets	(10,616,256)	
	<u>\$36,698,450</u>	
Capital and Surplus, December 31, 2008		<u>\$255,498,325</u>
<u>2009</u>		
Net income	\$58,884,379	
Change in net unrealized capital gains or (losses)	4,728,240	
Change in net deferred income tax	(1,484,758)	
Change in non-admitted assets	(2,691,047)	
Surplus adjustments: Paid in	477,191	
Dividends to stockholders	(34,700,000)	
Aggregate write-ins for Special Surplus from additional deferred tax asset	2,581,281	
	<u>\$27,795,286</u>	
Capital and Surplus, December 31, 2009		<u>\$283,293,612</u>

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and business of the Company shall be managed by the Board. The bylaws provide that the number of directors that shall constitute the whole Board shall not be less than two members or more than fifteen. Each

director shall be elected for a term of one year and serve until such director's successor is elected and qualified.

The Board, by vote of a majority of the whole Board, may from time to time designate one or more committees. The bylaws provide that each committee report its actions in the interim between meetings of the Board at the next meeting of the Board or as otherwise directed by the Board.

Dividends on the capital stock may be declared by the Board on shares of any class or series of capital stock of the Company. The Board may declare these at such times and in such amounts as conditions of the Company render advisable.

Directors

The Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2009, is as follows:

<u>Name</u>	<u>Principal Occupation</u>
Richard Edward Jodoin	Vice Chairman, Allied US Entities
Worth Gordon Knight	President of the Company
John Langton Sennott Jr.	Executive Vice President and Chief Corporate Strategy Officer of AWAH

Officers

The bylaws state that the officers of the corporation shall consist of a President, a Secretary, a Treasurer, and may, at the discretion of the Board of Directors, include a Chairman and one or more Vice Chairmen and one or more Vice Presidents (including Executive Vice

Presidents or Senior Vice Presidents). The following persons were elected as officers and were serving in that capacity at December 31, 2009:

<u>Name</u>	<u>Office</u>
Worth Gordon Knight	President
Timothy Joseph Curry	Secretary, Senior Vice President and Deputy General Counsel
Robert John Larson	Treasurer
John Justin McElroy	Executive Vice President
David John Newman	Executive Vice President and Chief Underwriting Officer
Paul Christopher Martin	Executive Vice President and Chief Actuarial Officer
Mark Ira Rosen	Executive Vice President and Chief Claims Officer
Wesley David Dupont	Assistant Secretary

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. §4919.

Holding Company System

The Company is a member of an insurance holding company system as defined under Chapter 50, “Insurance Holding Companies” of the Delaware Insurance Code. The Company is a wholly owned subsidiary of DPUI. On October 20, 2008, DPUI was acquired by AWRE, whose ultimate parent is AWAH. The Company has investments in two wholly owned insurance subsidiaries, DSI and Vantapro. The following depicts an abbreviated organizational chart of the Company’s relationship within the holding company system at December 31, 2009:

<u>Company</u>	<u>Domicile</u>	<u>% own</u>
Allied World Assurance Company Holdings, Ltd	Bermuda	

Darwin National Assurance Company

Allied World Assurance Company, Ltd	Bermuda	100%
Allied World Assurance Holdings (Ireland) Ltd	Bermuda	100%
Allied World Assurance Holdings (U.S.) Inc.	Delaware	100%
Allied World Assurance Company (U.S.) Inc.	Delaware	100%
Allied World National Assurance Company	New Hampshire	100%
Allied World Reinsurance Company	New Hampshire	100%
Darwin Professional Underwriters	Delaware	100%
Darwin National Assurance Company	Delaware	100%
Darwin Select Insurance Company	Arkansas	100%
Vantapro Specialty Insurance Company	Arkansas	100%

Affiliated Agreements

The following material agreements were in effect between the Company and its affiliates at December 31, 2009:

Master Agency Agreement

Effective January 1, 2008, the Company entered into a master agency agreement with DPUI. Under this agreement, DPUI will continue as the entity through which the Company interacts with non-affiliated producers, including the transmitting of invoices to third-party producers, receipt of premiums from third-party producers and making claim payments on insurance policies.

Cost Sharing Agreement

Effective January 1, 2008, the Company entered into a cost sharing agreement with DPUI and Evolution Underwriting, Inc. (EUI). Under the terms of this agreement, DPUI charges back to DNA and EUI each subsidiary's allocable share of the corporate expenses, rent and the tangible assets and software incurred by DPUI. EUI and its subsidiaries were sold by DPUI on July 2, 2010.

Tax Sharing Agreement

The Company was operating under an amended and restated tax sharing agreement with DPUI since 2007 (“DPUI Tax Agreement”), whereby DPUI became the lead tax filing entity for the Company and other affiliates. The Allied US Entities operate under a Tax Allocation Agreement dated October 20, 2008 (“the AWUSH Tax Agreement”). After the acquisition of DPUI and its subsidiaries, DPUI was automatically included in the AWUSH Tax Agreement as a new affiliate of AWUSH, although the DPUI Tax Agreement remained in effect.

The AWUSH Tax Agreement provides that estimated tax payments are made quarterly as if the Company were filing its own federal income tax return for such taxable year. The method of allocation among affiliates is subject to the written tax sharing agreements and based on separate return calculations with current credit for net losses to the extent the losses provide a benefit in the consolidated tax return. Any separate tax liability owed by the Company is payable to its parent within ten days of the filing date. The Company’s parent will pay separate tax return refunds within thirty days of filing, except as otherwise noted. The AWUSH Tax Agreement was filed on behalf of the Company as a Form D and approved by the Delaware Department of Insurance. The DPUI Tax Agreement is replaced after the tax year ending in December 31, 2009.

Administrative Services Agreements

Effective February 27, 2009, the Company entered into three separate administrative services agreements with Newmarket Administrative Services, Inc. (NAS), Newmarket Administrative Services (Bermuda), Ltd (NASB) and Newmarket Administrative Services (Ireland) Limited (NASI). Under the agreements, NAS, NASB and NASI charge the Company for certain services performed for the Company (including investment/asset management,

clerical/administrative, claims, actuarial, human resources, internal audit, etc.) incurred by NAS, NASB and NASI. The Company will pay NAS, NASB and NASI for services commercially reasonable cost plus 10%. The costs associated with these services are charged to the Company quarterly.

Cross Services Agreements

Effective February 27, 2009, the Company entered into two separate cross services agreements with NAS and NASB. These are service and equipment agreements. Under the agreements, the Company charges NAS and NASB for certain services performed for NAS and NASB (accounting/finance, human resources, information technology and supervisory) incurred by the Company and also for equipment (furniture, office supplies, phones, software and computers). NAS and NASB will pay the Company for services commercially reasonable cost plus 10%. The costs associated with these services are charged to NAS and NASB quarterly.

Service and Expense Sharing Agreement

Effective January 1, 2010, the Company entered into a Service and Expense Sharing Agreement with its affiliates, AWUS and AWNAC, whereby AWUS and AWNAC will provide, upon request, the following services to the Company: reinsurance administration, accounting, insurance underwriting, operational and facilities, including equipment and supplies, personnel, claims, actuarial, rental space, and legal. The Company will pay an amount equal to all charges and expenses associated with the services provided (i.e. salaries) on an actual cost basis. In addition, the Company will provide, upon request, the following services to AWUS and AWNAC: insurance underwriting, operational and facilities, including equipment and supplies,

rental space, and risk management. AWUS and AWNAC will pay an amount equal to all charges and expenses associated with the services provided (i.e. salaries) on an actual cost basis.

Other Agreements

In addition to the above agreements, the Company is party to a multiline quota share agreement with AWAC, its Bermuda affiliate. Through December 31, 2009, the Company was party to an intercompany reinsurance arrangement with DSI. Both agreements are discussed in the “Reinsurance” caption of the examination report

Corporate Governance

The Company’s corporate governance is integrated with that of its ultimate parent, AWAH. AWAH holds overall responsibility for governance but delegates responsibility for the execution of certain control processes to respective operating platforms. Allied US is considered a platform consisting of the Company and its affiliates AWUS, AWNAC, AWRE, DSI and Vantapro. Based on interviews, supporting documentation, and other information obtained and evaluated during this examination, corporate governance of Allied US was considered strong.

Board of Directors and Audit Committee

AWAH’s governance process establishes the roles of its Audit Committee and Board of Directors. Two Boards provide oversight of the Company, the AWAH Board and the Company’s specific Board. Together, the Boards are responsible for overseeing the internal controls over financial reporting established by management and the process by which management satisfies itself that they are working effectively. The Boards are apprised of the Company’s financial position, operating results and objectives and strategies. Additionally, the Boards are made

aware of sensitive information, investigations, and improper acts in a sufficient and timely manner.

The Company does not have a separate Audit Committee, and thus, relies on the AWAH Audit Committee for monitoring and assisting the Board. Additionally, the AWAH Head of Internal Audit directs the internal audit program across all AWAH operations and subsidiaries. The program is designed to provide management and the Board, through its Audit Committee, with reasonable assurance that AWAH's controls and procedures are able to contain risks within acceptable limits.

Enterprise Risk Management (ERM)

Allied World has established a formal ERM framework to analyze its risk profile and adopt appropriate risk mitigation strategies. The framework describes the control processes that are utilized by management to monitor, control and achieve their business objectives. In addition, it defines the organization's risk tolerances and risk appetite and measures how the organization performs within these boundaries. Allied World continuously refines its ERM framework and overall risk culture to provide assurance that they will achieve their financial objectives while remaining within their risk appetite. Risk assessment is an ongoing process with periodic updates and improvements being made to reflect changes in the Company's operations and processes as well as changes in the industry, economic and business environment.

The Enterprise Risk Committee oversees, reviews and helps management assess risks and exposures that could materially impact the Company. Separate from this Board delegated committee, there is a Risk Management Committee (RMC) made up of senior managers of the Company who serve to recognize, evaluate and respond to the broad spectrum of risks impacting the organization. The RMC consists of the Chief Financial Officer, Chief Risk Officer, their

Chief Underwriting Officers, and General Counsel and also includes senior representation from all geographic divisions within Allied World. The RMC reviews the risk profile as well as outputs from stress tests to ensure constant alignment between risk taking activities and their risk appetite.

There is an annual risk assessment performed by the Chief Risk Officer and Internal Audit which identifies significant internal and external risks that the Company faces. There is a separate section within the risk assessment that specifically looks at fraud risks. The risk assessment is presented to and reviewed by the RMC periodically. This risk assessment also feeds the audit plan for the year and is presented to management and the Audit Committee.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2009, the Company was licensed to transact multiple lines of insurance business in 49 states and the District of Columbia. The Company is eligible to write excess and surplus lines business and an accredited reinsurer in the state of Arkansas.

Plan of Operation

For the year ending 2009, the Company reported total direct premiums written in the amount of \$123,423,709. Approximately 45% or \$55,801,739 of the Company's direct written premium was written in 5 states: New York (14.2%), California (9.9%), Texas (7.6%), Pennsylvania (7.5%), and Florida (6.0%). Direct premium written in the other 45 jurisdictions amounted to \$67,621,970.

The Company is licensed to write D&O liability, E&O Liability, Medical Malpractice Liability, General Liability and Property insurance, but has generally limited its writings to

Medical Professional Liability (claims-made) and Other Liability (claims-made and occurrence basis).

AWAH (ultimate parent) has segregated itself into three platforms: U.S., International (which includes Bermuda, Europe and Asia) and Reinsurance. Within the U.S. platform, the group provides a diverse range of specialty liability products, with a particular emphasis on coverage for healthcare and professional liability risks. They offer a selection of direct casualty insurance (which focuses on general casualty for construction, consumer products, energy, manufacturing, real estate and medical and healthcare products) and general property insurance (which focuses on a wide range of industries including hotels, casinos, manufacturing, real estate, retail chains and municipalities). The Allied US Entities target generally small and middle-market, non Fortune 1000 accounts domiciled in North America, including public entities, private companies and non-profit organizations. During 2008 and 2009, they enhanced their U.S. insurance operating platform, principally through hiring underwriting talent, through an expanded network of branch offices, located in strategically important locations across the country and through upgrades to their IT platform to accommodate the increasing business demands. All this has allowed the group to assume a leading role as a writer of primary professional liability and other specialty liability coverage for small firms.

Prior to December 31, 2007, all of the Company's gross premiums written were produced by DPUI, the Company's parent, under the terms of its Underwriting Management and Services Agreement. DNA also received claims, underwriting, management and administrative services from DPUI until the services agreement was terminated on that date. Since then, the Company's products have been distributed through independent producers including brokers, agents and program administrators located throughout the United States.

During 2009, the Company's insurance policies were placed through a network of approximately 153 insurance intermediaries, including excess and surplus lines wholesalers and regional and national retail brokerage firms. A significant portion of the Company's \$123.4 million of direct written premium was produced within a relatively small number of intermediary firms. In addition to direct writings, the Company also utilized Program Administrators to market its products (refer to Program Administrator Agreements below). The top 5 producing firms; American Professional Agency Inc. (\$37.1 million), Marsh & McLennan Companies, Inc. (\$11.8 million), Professional Government Underwriters (\$6.8 million), Swett & Crawford Group (\$5.5 million) and Willis Group (\$5.3 million), accounted for 53.9% of the Company's total direct written premium in 2009. Two of the top five producers, (American Professional Agency, Inc. and Professional Government Underwriters) were program administrators.

Program Administrators

At year end, the Allied US Entities were engaged in seven active programs offering a variety of products including professional liability, excess casualty and primary general liability. Business written through a program was serviced by the program administrator, but the Company maintained administrative control including claims (although this may have been outsourced in certain situations), review of underwriting, financial condition, IT capabilities and ongoing audits and reviews. DNA retained administrative control for three program administrators and outsourced claims to a TPA with one program. During 2009, DNA wrote over \$44.6 million through programs which accounted for approximately 36.2% of its total direct writings.

Best's Rating

Based on A.M. Best's current opinion of the consolidated financial condition and operating performance of the property and casualty members of AWAH, the Company was assigned a Best's rating of A (Excellent) for the year ended 2009.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the four year period since the previous examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premium Written</u>	<u>Net Income</u>
2009	\$700,837,662	\$283,293,612	\$ 80,906,659	\$ 58,884,379
2008	\$690,460,275	\$255,498,325	\$190,118,717	\$ 36,482,728
2007	\$585,943,013	\$218,799,875	\$188,537,496	\$ 35,768,326
2006	\$442,010,386	\$183,921,261	\$148,730,550	\$ 8,623,473
2005	\$334,203,978	\$173,583,425	\$ 80,372,777	\$(20,824,005)

Since December 31, 2005, the Company's financial results were as follows:

- Approximately 109.7% increase in admitted assets. DNA became part of the Allied Group in 2008 and entered into a quota share reinsurance agreement with AWAC. The growth was primarily attributable to an increase in business written and net cash from operations, and from increases in the receivable from the AWAC agreement above and in the receivable from DSI related to the 90% quota share reinsurance agreement.
- Approximately 63.2% increase in capital and surplus. Surplus increased due to the normal growth of the Company over the period, including a large increase in net income (which is further described below).
- Approximately 0.66% increase in net premium written (however, NPW fluctuated throughout the period under review). While gross premiums written increased during the period under examination, net premiums written increased from 2006 through 2008, and then decreased from 2008 to 2009 as a result of an increase in ceded premiums written to AWAC.

- Approximately 382.8% increase in net income. Underwriting income and net investment gain in 2009 resulted in the large increase in net income between 2008 and 2009. The increase in underwriting income was largely the impact of the 70% quota share treaty with AWAC and favorable development on loss and LAE reserves. The large increase between 2006 and 2007 was also attributable to net underwriting and investment gains. The increase in net underwriting gain was due to the lower 2007 calendar year loss ratio recorded, favorable development for prior years and a large decrease in underwriting expenses.

REINSURANCE

As of December 31, 2009, the Company's reinsurance program consisted primarily of ceded reinsurance. In the ordinary course of business, the Company purchases coverage from third parties for substantially all its lines of business. Given the nature of the loss exposure of its lines of business, the Company generally purchases third party excess of loss treaty reinsurance to mitigate the volatility of its book of business by limiting exposure to frequency and severity of losses. In certain cases, the Company will purchase facultative reinsurance. The Company purchases both fixed and variable cost excess of loss treaty reinsurance.

The Company is party to a Multiple Line Non-Obligatory Quota Share Reinsurance Agreement with its Bermuda affiliate, AWAC, effective October 20, 2008. Under this agreement, the Company cedes 70% of all direct and assumed policy liabilities effective on or after October 20, 2008. This represents the Company's gross liability including incurred but not reported (IBNR) on each policy, less known and unknown recoveries from all other reinsurance. This agreement applies to all lines of business written by the Company. Prior to becoming an affiliate, AWAC was a reinsurer on a number of the Company's ceded reinsurance contracts. In 2009, ceded premiums under these contracts totaled \$21,759,743.

Effective July 1, 2005, the Company entered into a reinsurance agreement with DSI, whereby 90% of business written by DSI, after cession to external reinsurers, is assumed by the

Company on a quota share basis. The Company assumed premiums written from DSI of approximately \$150,856,577 in 2009. This contract was terminated for policies effective January 1, 2010 and subsequent, but remains in place for policies effective prior to January 1, 2010.

The impact of reinsurance on the premiums of the Company and DSI in 2009 is shown below:

	<u>DSI</u>	<u>DNA</u>
Direct Written Premiums	\$ 209,405,783	\$ 123,423,709
Assumed (Other than inter-company)	<u>2,859,115</u>	<u>11,226,443</u>
Gross Written Premiums	\$ 212,264,898	\$ 134,650,152
Ceded:		
Various property and casualty QS treaties	<u>44,646,479</u>	<u>34,883,705</u> *
Net	\$ 167,618,419	\$ 99,766,447
Pooling Percentage	<u>90%</u>	
Cession from DSI to DNA	<u>150,856,577</u>	<u>150,856,577</u>
Net	\$ 16,761,842	\$ 250,623,024
Multiline quota share to AWAC	<u>0</u>	<u>169,716,365</u>
Net after cession to AWAC	<u><u>\$ 16,761,842</u></u>	<u><u>\$ 80,906,659</u></u>

*Includes treaties with AWAC prior to acquisition

Assumed Reinsurance

As noted above, the Company assumed 90% of DSI's net premiums written at December 31, 2009.

Prior to January 1, 2008, DPUI underwrote and administered specialty liability insurance business that was issued on three wholly-owned subsidiaries of Alleghany: Capitol Indemnity Corporation, Capitol Specialty Insurance Corporation, and Platte River Insurance Company (Capitol Companies). The Company was formerly a majority-owned subsidiary of Alleghany. Effective January 1, 2008, the underwriting and administration was transferred to DNA. The

Company has had reinsurance agreements with the Capitol Companies since July 1, 2004, whereby any of the business underwritten on behalf of the Capitol Companies would be 100% assumed by DNA. The Company assumed premiums written from the Capitol Companies of \$4,146,850 in 2009. The authority to underwrite new and renewal business and issue business on the Capitol Companies was terminated in April 2009, after the Company was acquired by AWRE.

In October 2008, the Company purchased the renewal rights for a line of specialty liability insurance business from Great American Insurance Company (GAIC). In conjunction with the purchase, the Company and GAIC entered into a reinsurance agreement whereby any of the business underwritten on behalf of GAIC for a one year period would be 100% assumed by DNA. The Company assumed premiums written from GAIC of \$7,078,593 in 2009.

Ceded Reinsurance

The Company cedes business to AWAC through the 70% Multiline Quota Share Agreement, as discussed above, and to various third party reinsurers. The treaty reinsurance program consists of excess of loss and pro rata reinsurance. The Company purchases both fixed and variable cost excess of loss treaty reinsurance from third parties.

- Fixed rate excess of loss reinsurance provides indemnification to the Company in excess of a fixed amount of losses incurred up to a maximum recoverable amount. The maximum amounts recoverable when expressed as a loss ratio cap vary from a minimum of 250% to a maximum in excess of 700% of ceded premium payable within the terms of the contracts.
- Variable reinsurance premium basis enables the Company to retain a greater portion of premium if its ultimate loss ratio is lower than an initial provisional loss ratio set out in the reinsurance contract. When expressed as a loss ratio cap, these variable rated contracts vary from 225% to 300% of the maximum rate of ceded premium payable within the terms of the contracts. In some instances, DNA has purchased variable rated excess of loss reinsurance that has no maximum amount recoverable.

Notwithstanding the quota share agreement with AWAC, the Company retains levels of loss that vary by product line. For specific classes of small business written through Program Administrators, the Company retains limits that range from \$350 thousand to \$500 thousand of loss per claim. For medical malpractice, the first \$1 million is retained. For most of the D&O and E&O classes of business, the Company retains limits that range from \$1.85 million to \$2.0 million. For the General Casualty liability product line, Company retentions vary between \$0 and \$9 million depending on the type of insured and attachment level of coverage provided.

In addition, the Company retains various additional amounts known as coinsurances that vary from as low as 20% for some Auto classes to as high as 72% for General Casualty. The Company has maximum retentions per claim that vary between \$9.2 million and \$12.0 million for professional and medical lines, and between \$18.0 million and \$20.5 million for General Casualty.

ACCOUNTS AND RECORDS

Accounting System and Information/IT Process Flows

All necessary accounting records of the Company are maintained on electronic data processing equipment (EDP), made available to the Company under its service agreements with its affiliates, NAS, NASB and NASI. The general ledger is maintained on a statutory basis with additional accounts used to convert to the accrual basis suitable for Generally Accepted Accounting Principles.

As part of this examination, INS Services, Inc. performed a review of the Company's controls over its information and technology IT environment.

General Background and Overview

The Company processes all its U.S. related business electronically via networked, enterprise level applications and systems. The U.S. Data Center is located in Carlstadt, NJ and hosted by SunGard Availability Services. Prior to December 31, 2009, the Company also utilized a data center at AWAH's Bermuda location.

The Company uses the Sungard GL system to maintain its general ledger and financial reporting. In 2010, the Company transitioned to the Sun GL system, and financial reporting is accomplished at the Enterprise Data Warehouse located at the Carlstadt, NJ Data Center, consistent with the Allied World U.S. systems platform. The Enterprise Data Warehouse is the primary reporting vehicle for the Company as of 2010.

Accompanying are narratives describing the primary computer applications utilized by the Company to perform its key processes:

Primary Computer Applications for Premiums

The primary computer applications utilized by the Company for premium and underwriting transactions are "Dragon" for premium transactions and "iVOS" for claims. The Allied World U.S. companies use "Dragon", "Genius", and "TIRS". "Dragon" is the Darwin legacy system and "Genius" is the legacy system of the Allied World companies. During the examination period, both the Genius and Dragon applications were utilized by AWUS and AWNAC to create reservations, quote, bind, book, issue policies, perform post-bind transactions, and generate billings and accounts receivable. The Company used Dragon for these functions. Subsequent to the Darwin acquisition, AWUS and AWNAC began renewing all policies in the Dragon application and discontinued use of the Genius system for underwriting and premium processing. All policies for AWUS and AWNAC are now written through

“Dragon”, and claims are processed through “iVOS”, as the “Genius” system is in runoff and handles only claims and endorsements on policies originally written in “Genius”.

The TIRS system is utilized by AWRE to perform underwriting and accounting functions related specifically to its reinsurance operations. The TIRS system has an underwriting and accounting module and is utilized to record reservations and bound policies, perform post-bind transactions, and to account for estimated and actual premium and related data.

Primary Computer Applications for Investments

The Company’s investment management is outsourced to various investment managers and held in custody at Mellon Bank, N.A. The Company’s investment accounting is outsourced to BlackRock, Inc.

BlackRock receives daily trading files from the respective investment managers as well as daily transactions from the Custodian. BlackRock enters this information into their PAM system and reconciles the transactions.

On a monthly basis, BlackRock sends the Company a monthly “Investment Package” which contains the monthly PAM reports. The PAM reports consist of a par reconciliation (between custodian and investment manager), an asset reconciliation (between BlackRock and investment manager), and journals for the Company to book into the general ledger. Each month, the custodian and investment managers make monthly holdings / activity reports available to the Company on password-protected portals.

Primary Computer Applications for Disbursements (Claims)

The Allied World US Entities’ claims are processed and all claims related financial information is tracked based on the system through which the underlying policy was processed.

For instance, Genius processed policies have claims processed in Genius and Dragon processed policies have claims processed in iVOS. iVOS is the claims system that interfaces with the Dragon underwriting system. As discussed in “Primary Computer Applications for Premiums,” the Company discontinued the use of the Genius system in 2009 in favor of the Dragon system.

Independent Accountants

The Company’s financial statements are audited each year by the firm of Deloitte & Touche LLP (D&T), of New York, NY. The Examiners reviewed the audited statutory financial statements for all years under examination. For all years under review, D&T issued an unqualified opinion.

As noted in the “Scope of Examination” section of this Report, the examiners reviewed D&T’s 2009 workpapers, and incorporated their work and findings as deemed applicable to the current examination.

Actuarial Opinion

The Company’s loss reserves and related actuarial items were reviewed by G. Christopher Nyce, FCAS, MAAA, with KPMG LLP, who issued a statement of actuarial opinion based on the financial information presented by the Company. The opinion stated that the reserves and related actuarial values carried on the balance sheet were computed in accordance with accepted loss reserving standards and principles and are reasonable in the aggregate for unpaid loss and loss expense obligations and all unearned premium obligations of the Company related to long duration contracts under the terms of its contracts and agreements and met the requirements of the insurance laws of the state of Delaware.

The consulting firm of INS Consultants, Inc., Philadelphia, PA was contracted to do an independent loss reserving review. The findings from that review are discussed in Note 2 of the “Notes to Financial Statements” section of this Report.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2009, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2009

Statement of Liabilities, Surplus and Other Funds, December 31, 2009

Underwriting and Investment Exhibit, Statement of Income, December 31, 2009

Capital and Surplus Account, Statement of Income, December 31, 2009

Schedule of Examination Adjustments

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

**Analysis of Assets
As of December 31, 2009**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	Notes
Bonds	\$ 557,815,954		\$ 557,815,954	1
Preferred stocks	46,400		46,400	1
Common stocks	57,679,249	\$ 3,268,515	54,410,734	1
Cash and short-term investments	20,052,490		20,052,490	1
Receivable for securities	17,513		17,513	1
Investment income due and accrued	5,431,115		5,431,115	1
Uncollected premiums and agents' balances in course of collection	16,571,311	1,033,092	15,538,219	
Amounts recoverable from reinsurers	6,303,660		6,303,660	
Other amounts receivable under reinsurance contracts	2,951,504		2,951,504	
Current federal and foreign income tax recoverable	2,599,663		2,599,663	
Net deferred tax asset	23,560,795	14,752,541	8,808,255	
Receivables from parent, subsidiaries and affiliates	26,852,012		26,852,012	
Aggregate write-ins:				
Prepaid Other	(9,500)	(9,500)	0	
Excise Tax Overpayment	10,143		10,143	
Total Assets	<u>\$ 719,882,309</u>	<u>\$ 19,044,647</u>	<u>\$ 700,837,662</u>	

**Statement of Liabilities, Surplus and Other Funds
As of December 31, 2009**

<u>Liabilities, Surplus and Other Funds</u>		<u>Notes</u>
Losses	\$ 171,586,325	2
Reinsurance payable on paid losses and loss adjustment expenses	11,323,213	
Loss adjustment expenses	99,636,161	2
Commissions payable, contingent commissions and other similar charges	7,611,962	
Other expenses	17,466,945	
Taxes, licenses and fees	1,547,258	
Current federal and foreign income taxes	1,263,895	
Unearned premiums	40,285,392	
Ceded reinsurance premiums payable	41,428,785	
Payable to parent, subsidiaries and affiliates	20,915,687	
Payable for securities	4,478,427	
Total Liabilities	<u>\$ 417,544,050</u>	
Aggregate write-ins for special surplus funds	\$ 2,581,281	
Common capital stock	3,500,000	
Gross paid in and contributed surplus	179,016,404	
Unassigned funds (surplus)	98,195,927	
Surplus as regards policyholders	<u>\$ 283,293,612</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 700,837,662</u></u>	

Underwriting and Investment Exhibit - Statement of Income
As of December 31, 2009

STATEMENT OF INCOME

As of December 31, 2009

UNDERWRITING INCOME

Premiums earned	\$ 115,855,597
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DEDUCTIONS

Losses incurred	\$ 19,196,291
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Loss adjustment expenses incurred	19,026,672
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Other underwriting expenses incurred	17,586,106
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Total underwriting deductions	55,809,069
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Net underwriting gain or (loss)	\$ 60,046,528
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INVESTMENT INCOME

Net investment income earned	\$ 23,664,857
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Net realized capital gains or (losses)	404,677
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Net investment gain or (loss)	\$ 24,069,534
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OTHER INCOME

Net gain or (loss) from agents' or premium balances charged off	\$ -
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Finance and service charges not included in premiums	0
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Aggregate write-ins for miscellaneous income	0
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Total other income	\$ -
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Net income before dividends to policyholders and before federal income taxes	\$ 84,116,062
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Dividends to policyholders	0
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Net income after dividends to policyholder but before federal income taxes	\$ 84,116,062
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Federal and foreign income taxes incurred	25,231,683
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Net income	\$ 58,884,379
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**Capital and Surplus Account – Statement of Income
As of December 31, 2009**

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2008	<u>\$ 255,498,325</u>
GAINS AND (LOSSES) IN SURPLUS	
Net income	\$ 58,884,379
Change in net unrealized capital gains or (losses)	4,728,240
Change in net deferred income tax	(1,484,758)
Change in non-admitted assets	(2,691,047)
Surplus adjustments:	
Paid in	477,191
Dividends to stockholders	(34,700,000)
Special Surplus funds	<u>2,581,281</u>
Change in surplus as regards policyholders for the year	<u>\$ 27,795,286</u>
Surplus as regards policyholder, December 31, 2009	<u><u>\$ 283,293,612</u></u>

SCHEDULE OF EXAMINATION ADJUSTMENTS

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

NOTES TO FINANCIAL STATEMENTS

Assets

(1) Investments

Investment Operations functions are performed on the Allied World level in Bermuda. The Company utilizes third-party Investment managers (Gen Re New England Asset Management) to provide certain discretionary investment management services on behalf of the Company. The accounting for Investments is outsourced to Blackrock Solutions.

Total invested assets as of December 31, 2009 were comprised of the following:

	2009 A/S	% of Admitted Assets
Bonds	\$557,815,954	79.6%
Preferred Stocks	46,400	<1%
Common Stocks	54,410,734	7.8%
Cash & Short-term investments	20,052,490	2.9%
Receivable for Securities	17,513	<1%
Total Invested Assets	\$632,343,091	90.2%

The following reflects the changes in invested assets from the prior examination:

	2009 A/S	2005 A/S	Amount Change	% Change
Bonds	\$557,815,954	\$111,685,687	\$446,130,267	399.5%
Preferred stocks	46,400	0	46,400	n/a
Common Stocks	54,410,734	25,438,896	28,971,838	113.9%
Cash & Short-term investments	20,052,490	174,494,971	(154,442,481)	-88.5%
Receivable for Securities	17,513	0	17,513	n/a
Total Invested Assets	\$632,343,091	\$311,619,553	\$320,723,538	102.9%

The Company's bonds represented 88.2% of invested assets and 79.6% of admitted assets as of December 31, 2009 and all were investment grade securities, primarily rated as Class 1,

with short-to-medium term duration. At December 31, 2009, 76.7% of the portfolio was invested in securities issued by U.S. states and territories and U.S corporate bonds.

The Company's bond portfolio increased by \$14.2 million, or 2.5%, to \$570.8 million as of December 31, 2009, compared to the corresponding 2008 amount. While total bonds remained largely unchanged, the portfolio mix shifted. The Company sold all non-affiliated equity securities and reinvested the proceeds into the fixed income portfolio.

The Company's investment in preferred and common stock represented 8.6% of invested assets and 7.8% of admitted assets as of December 31, 2009. Stocks decreased by \$21.5 million, or 28.4%, to \$54.5 million as of December 31, 2009, compared to the corresponding 2008 amount due to the sale of all non-affiliated equity securities.

Cash and short-term investments increased by \$14.9 million, or 285.7%, to \$20.1 million as of December 31, 2009 compared to the corresponding 2008 amount. The increase in cash is the result of funds that were yet to be reinvested in the fixed income portfolio from the sale of securities mentioned above.

Affiliated Investments

The Company purchased all the issued and outstanding shares of DSI on May 2, 2005 for \$25.9 million. The purchase resulted in goodwill of \$3.6 million, which is being amortized on a straight-line basis over a ten year period. Goodwill amortization relating to DSI was \$364,640 in 2009, with the unamortized goodwill balance as \$1.94 million at year end.

On November 30, 2007, the Company purchased all the issued and outstanding shares of Vantapro for \$3.175 million. The purchase resulted in goodwill of \$175,123, which is being amortized on a straight-line basis over a ten year period. Goodwill amortization relating to

Vantapro was \$17,512 in 2009, with the remaining unamortized goodwill balance as \$138,639 at year end.

Liabilities

(2) Losses	\$(171,586,325)
Loss Adjustment Expenses	<u>(99,636,161)</u>
	<u>\$(271,222,486)</u>

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The Delaware Department of Insurance retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2009. The Consulting Actuary's analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook – 2009 Edition. The review does not address the collectability of reinsurance recoverables. Should any of the Company's reinsurers fail to fulfill obligations as stated in their contracts, a contingent liability would need to be established.

The conclusions set forth in the Consulting Actuary's report are based on information provided by the Company, including the 2009 Annual Statements, the related 2009 Statement of Actuarial Opinion signed by G. Christopher Nyce, FCAS, MAAA of KPMG, the certifying actuarial firm and the actuarial report that accompanied the opinion.

The Consulting Actuary performed an analysis on the Company's book of business by segment of business on both a gross and a net basis for loss, defense and cost containment (DCC) expense and adjusting and other (A&O) expense. Procedures undertaken by the examination staff on control testing and accuracy testing indicate that the underlying loss and LAE data provided to the Consulting Actuary were reliable.

The Consulting Actuary also reviewed the Company's exhibit which balances the year-end 2009 data to Schedule P, on an all-lines total basis. The exhibit showed that the year-end amounts were closely reconciled to the Schedule P amounts.

The review by INS concluded that total loss and LAE reserve to be \$267.8 million. This is approximately \$3.8 million less than the Company's held amount of \$271.2 million. On a gross basis, the INS estimate is \$433.7 million which is \$4.1 million more than the Company's held amount, \$429.6 million.

The consulting actuary also reviewed a selection of ceded reinsurance agreements and found them to have contract terms consistent with risk transfer.

Based on work performed, the Consulting Actuary found the Company's carried December 31, 2009 net and gross loss and LAE reserves to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

A review was performed of appropriate balance sheet and forepart files to verify corrective action had been taken with regard to prior examination report comments and recommendations.

SUMMARY OF RECOMMENDATIONS

There were no specific recommendations as a result of this examination.

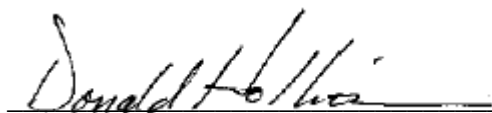
CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2005</u>	<u>December 31, 2009</u>	<u>Increase (Decrease)</u>
Assets	<u>\$334,203,978</u>	<u>\$700,837,662</u>	<u>\$366,633,684</u>
Liabilities	<u>\$160,620,553</u>	<u>\$417,544,050</u>	<u>\$256,923,497</u>
Aggregate write-ins for other than special surplus funds		\$ 2,581,281	\$ 2,581,281
Common Capital Stock	\$ 3,500,000	3,500,000	0
Gross Paid In and Contributed Surplus	182,039,213	179,016,404	(3,022,809)
Unassigned Funds (Surplus)	<u>(11,955,788)</u>	<u>98,195,927</u>	<u>110,151,715</u>
Total Surplus as Regards Policyholders	<u>\$173,583,425</u>	<u>283,293,612</u>	<u>109,710,187</u>
Totals	<u>\$334,203,978</u>	<u>\$700,837,662</u>	<u>\$366,633,684</u>

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc., and its Information Technology consulting firm, INS Services, Inc. is acknowledged. In addition, the assistance and cooperation of examiners representing the states of Arkansas, and New Hampshire, as well as the Company's outside audit firm, Deloitte & Touche, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Don Hollier, CFE
 Examiner-In-Charge
 State of Delaware
 Northeastern Zone, NAIC