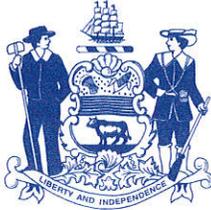


REPORT ON EXAMINATION
OF THE
XL INSURANCE AMERICA, INC
AS OF
DECEMBER 31, 2010

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

XL INSURANCE AMERICA, INC.

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

Attest By: *Brandi Biddle*

Date: 28 Jun 2012



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 28th day of June, 2012.

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

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
XL INSURANCE AMERICA, INC.
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.

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

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 28th day of June, 2012

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April 23, 2012

SALUTATION

Honorable Karen Weldin-Stewart, CIR-ML
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 11-012, an Association examination has been made of the affairs, financial condition and management of the

XL INSURANCE AMERICA, INC.

hereinafter referred to as “Company” or “XLIA” incorporated under the laws of the State of Delaware as a stock company. The Company’s statutory home address is 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the administrative office of the Company located at Seaview House, 70 Seaview Avenue, Stamford, CT 06902.

The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was as of December 31, 2005. This examination covered the period of January 1, 2006, 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.

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

The examination was conducted concurrently with the states of New York and North Dakota. Reports of Examination for each of the seven U.S. domestic companies (four in Delaware) affiliated with the Company were filed separately.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, PricewaterhouseCoopers LLP (PwC). Certain auditor work papers of their 2010 audit have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of tests of controls, risk mitigation and substantive testing.

In addition to items hereinafter incorporated as a part of this report, the following were reviewed without exception and made part of the work papers of this examination:

- Fidelity Bonds and Other Insurance
- Pensions, Stock Ownership and Insurance Plans
- Statutory Deposits

SUMMARY OF SIGNIFICANT FINDINGS

No significant findings were determined as a result of the examination.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

Management and Control

It was recommended that the Company report all changes in directors and principal officers to the Delaware Insurance Department as required by 18 Del. C. § 4919.

The Company has complied.

LOC effect on Provision for Reinsurance

It was recommended that the Company comply with NAIC Annual Statement Instructions for Schedule F, Part 4 and age its paid loss recoverables in accordance with those instructions.

The Company has complied.

FIT Intercompany Settlement

It was recommended that the Company settle their Federal Income Tax related intercompany balances in accordance with the Company's Amended Tax Sharing and Payment agreement.

The Company has complied.

Intercompany Balances

It was again recommended that the Company implement comprehensive procedures to insure that all intercompany balances are settled in accordance with the service agreements.

The Company has complied.

Aging Intercompany Balances

It was recommended that the Company develop the ability to age the intercompany items in the new general ledger and that any old intercompany balances be settled prior to the implementation of the new ledger so that initial balances in the new ledger are fully supportable.

The Company has complied.

Taxes, Licenses and Fees

It was recommended that the Company maintain supporting documentation for account balances recorded in the general ledger. The Company is in violation of 18 Del. C. § 520(b)(3), which states in part "...or to produce its accounts, records and files for examination by the Commissioner when required."

The Company has complied.

Reclassification of Advance Premiums

It was recommended that the Company follow NAIC Annual Statement Instructions when completing both its quarterly and annual statements. Additionally, it was recommended that the Company comply with SSAP 53, paragraph 13 when recording advance premiums.

The Company has complied.

Unearned Premium Reserve

It was recommended that the Company comply with the recommended procedures contained within the NAIC's Accounting Practices and Procedures Manual, SSAP 53, paragraph 6 when calculating the Company's unearned premium reserve on "run-off" policies. Additionally it was recommended that the Company set up estimated accruals for both Written Premium and Unearned Premium Reserve (UPR) that represent written premium and UPR from the cutoff dates to year-end.

The Company has complied.

Commissions Payable

It was recommended that changes in contract terms be communicated timely to the accounting department so that the appropriate accounting entries can be made.

The Company has complied.

Escheatable Property

It was recommended that the Company comply with the various state laws regarding escheatable property.

The Company has complied.

Accounts Payable

It was recommended that the Company develop procedures to ensure that accruals are made for services performed in the current year that remain unpaid at year end.

The Company has complied.

Deductible Recoverable

It was recommended that the Company research and clear the negative deductible balances including issuing a refund to the claimant if it is found that the Company has received deductible payments in excess of the recoverable. It is also recommended that the Company comply with

SSAP 65, paragraph 37 and non-admit deductible recoverable balances over 90 days past their contractual due date or billing date if no contractual due date has been established.

The Company has complied.

Over 90 Day non-admit Receivables

It is recommended that the Company ensure that they post all non-admitted premium receivable balances in compliance with SSAP 6.

The Company has complied.

Non-admitted/Offset Calculation

It was recommended that the Company perform a calculation each year to determine if any accrued retrospective premiums should be non-admitted per the requirements of SSAP 66, paragraph 9.

The Company has complied.

Over Cession of Reserves

It was recommended that the Company take steps to implement controls to ensure future cessions are allocated correctly and ensure that future financial statements are completed correctly in compliance with the NAIC Annual Statement Instructions.

The Company has complied.

IBNR Re-allocation

It was recommended that the Company comply with SSAP 62, paragraphs 17-20 by not taking credit in Schedule F for ceded recoverables due from insolvent reinsurers.

The Company has complied.

Developmental Deficiency on Loss Reserves

It was recommended that the Company use a more conservative approach when calculating their loss reserves.

The Company has complied.

SUBSEQUENT EVENTS

There were no significant events subsequent to the examination date.

COMPANY HISTORY

XL Insurance America, Inc. was formerly known as Winterthur International America Insurance Company. On January 1, 1998, the name was changed to Winterthur International America Insurance Company following the re-domestication of the Company to the State of Wisconsin. Effective July 1, 2001, X.L. America, Inc. (X.L. America), a Delaware corporation, purchased all of the outstanding shares of XLIA. Effective December 24, 2002, XLIA was re-domiciled from the State of Wisconsin to the State of Delaware. On the same date, the State of Delaware approved a name change of the Company from Winterthur International America Insurance Company to XL Insurance America, Inc. On December 31, 2002, X.L. America contributed all of the issued and outstanding shares of common stock of XLIA to XL Reinsurance America Inc., a New York domiciled insurer (XLRA), thereby making XLIA a wholly-owned subsidiary of XLRA. As a result, XL Select Insurance Company, a wholly-owned direct subsidiary of XLIA, became an indirect wholly-owned subsidiary of XLRA.

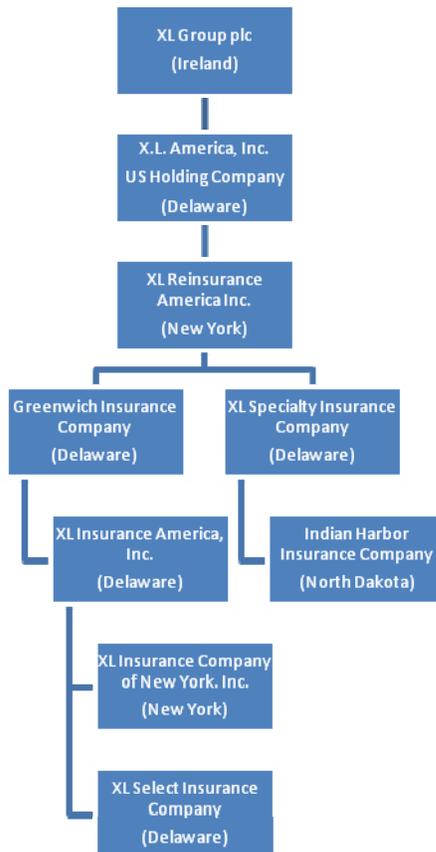
On June 30, 2003, the holding company of X.L. America was restructured. XLRA contributed all of the issued and outstanding shares of common stock of XLIA to Greenwich Insurance Company (GIC), a Delaware domiciled insurer and contributed all of the issued and outstanding shares of XL Insurance Company of New York, Inc., (XLNY) a New York domiciled insurer, to XLIA. There have been no changes in the current examination period.

CORPORATE RECORDS

The recorded minutes of the sole shareholder and Board of Directors (Board) of the Company were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by 18 Del. C. § 1304.

MANAGEMENT AND CONTROL

XLRA is a wholly owned indirect subsidiary of X.L. America, which, in turn, is an indirect wholly owned subsidiary of XL Group plc (Ireland). The following is a partial organizational chart that reflects the identities and interrelationships between the Company, its ultimate Parent, its US parent and other pooled members of the system as of December 31, 2010:



A review of the Insurance Holding Company Annual Registration Statement filings (Form B and Form C) made by the Company for all years under examination revealed that the Company has complied with the requirements of 18 Del. Admin. Code § 1801.

Board of Directors

Pursuant to the general corporation laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the business and affairs of the Company shall be managed by or under the direction of the Board, which shall be determined by the shareholder. During the period under review, the Board met at least quarterly. Under the terms of the bylaws of the Company, as adopted by the Board, a majority of the entire Board shall constitute a quorum for the transaction of business. The number of directors fixed by the charter or by the bylaws may, by the vote of a majority of the entire Board, be not less than one (1) and no more than twenty-one (21). As of the examination date the Company had eight (8) directors. Directors are elected at the annual meeting of the stockholder and each director serves until his successor shall have been elected and qualified or until he shall die or resign, or shall have been removed.

The minutes of the meetings of the stockholder and the Board which were held during the period of examination were reviewed. Attendance at meetings, election of directors and officers, approval of dividends, and approval of investment transactions were also noted.

Directors serving at December 31, 2010 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
John Michael DiBiasi	Senior Vice President
Michael Joseph Garceau	Senior Vice President
James Michael Norris	Senior Vice President
Seraina Maag	President & Chief Executive Officer
Robert Michael Shine	Senior Vice President
Paul Ivan Tuhy	Senior Vice President Claims
Bernard Russell Horovitz	Senior Vice President
Todd David Zimmerman	Senior Vice President

Officers

Under the terms of the bylaws of the Company, adopted as of December 12, 2005, the officers of the Company shall be a President, a Secretary, and a Treasurer. The Board, in

its discretion, may also choose a Chairman of the Board (who must be a director) and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. The same person may hold any number of offices, unless prohibited by law or the Certificate of Incorporation.

The officers of the Company shall hold office until their successors have been elected and qualified, or until their resignation or removal from office.

The following officers had been elected by the Board and were serving at December 31, 2010.

<u>Name</u>	<u>Title</u>
Seraina Maag	President and Chief Executive Officer
Gabriel George Carino III	Vice President and Treasurer
Toni Ann Perkins	Vice President and Secretary
Andrew Robert Will	Vice President and Controller
John Michael DiBiasi	Senior Vice President
David Brian Duclos	Senior Vice President
Michael Joseph Garceau	Senior Vice President
Joseph Christopher Henry	Senior Vice President
David Sherwood Hewett	Senior Vice President
Bernard Russell Horovitz	Senior Vice President
Gary Steven Kaplan	Senior Vice President
William Joseph Mills	Senior Vice President
James Michael Norris	Senior Vice President
Robert Michael Shine	Senior Vice President
John Harold Sullivan	Senior Vice President
Paul Ivan Tuhy	Senior Vice President
Keith James Wagner	Senior Vice President

AGREEMENTS

Affiliated Agreements

The Company is a participant of the XL America Group Reinsurance Pooling Agreement. The pool percentages for XLIA and its insurance company affiliates (together “the Pool members”) are as follows:

<u>NAIC #</u>	<u>Company</u>	<u>Pool Percentage</u> <u>As of Dec 31, 2010</u>
20583	XL Reinsurance America Inc. (NY)	65%
22322	Greenwich Insurance Company (DE)	12%
24554	XL Insurance America, Inc. (DE)	10%
19607	XL Select Insurance Company (DE)	2%
40193	XL Insurance Company of NY, Inc. (NY)	3%
37885	XL Specialty Insurance Company (DE)	6%
36940	Indian Harbor Insurance Company (ND)	2%

All ceded reinsurance balances related to external reinsurance contracts are recorded in the statutory financial statements of XLRA, and all reinsurers which are parties to such contracts are included in XLRA's Schedule F. Any Schedule F penalty determined within XLRA's Schedule F is shared by the Pool members in accordance with their Pooling Agreement participation percentages.

The Company also participates in a Quota Share Reinsurance Agreement ("QS Agreement") with an affiliated Bermuda reinsurance Company, XL Insurance (Bermuda) Limited ("XLIB"), which is a subsidiary of XL Group plc, the ultimate parent of the Company. The QS Agreement was amended (Third Amended and Restated QS Agreement) effective January 1, 2008 whereby, after placement of specific unaffiliated reinsurance, the quota share percentage was changed from 75% to 50%. Under the terms of the Third Amended and Restated QS Agreement, as well as the terms of the XL America Group Reinsurance Pooling Agreement, all of the member companies cede 100% of their gross premiums, losses and related underwriting expenses to the Pool Leader. After placement of specific unaffiliated reinsurance, the Pool Leader reinsures 50% of the remaining post January 1, 2008 accident date-related pool results, and 75% of all accident date-related pool results from July 1, 1999 to December 31, 2007 under the terms of the Third Amended and Restated QS Agreement. The ceding commission earned by the Pool Leader under the Third Amended and Restated QS Agreement is 31% of premiums ceded. Effective October 1, 2009 an agreement to transfer by substitution and novation all past, present and future obligations

under the QS Agreement between XLRA and XL Re Ltd (“XLRE”) to XLIB was executed.

Internal Allocation Agreement

Effective January 1, 2010, XLRA as Pool Leader, on behalf of the Pool members, XL Insurance Company Limited, XL Insurance Switzerland Ltd., XL Re Ltd., XL Insurance (Bermuda) Ltd., XL London Market Ltd. on behalf of the Underwriting Members of Lloyds Syndicate Nos. 588, 861, 990 and 1209, XL Re Latin America Ltd., XL Insurance Mexico, XL Resseguros Brazil, XL Re Europe Limited, collectively known as the “Allocating Companies”, agreed to an internal reinsurance allocation. The Allocating Companies intend to purchase on behalf of themselves and their insurer affiliates and subsidiaries, various forms of reinsurance and retrocessional coverage. This agreement shall allocate the respective reinsurance premium costs and reinsurance contract recoveries. The shared reinsurance and retrocessional contracts will be allocated in an equitable manner reflecting the relative exposures of each of the Allocating Companies.

Expense Sharing Agreement

The Pool members entered into an expense sharing agreement effective July 1, 2001, and most recently amended January 1, 2009, with X.L. America and X.L. Global Services, Inc., and certain affiliated companies. The agreement calls for X.L. Global Services, Inc. to provide information and technology services, planning, expense management and budget support, project management and application development support, reinsurance services, actuarial services, human resource services and other services. The services are charged on a cost basis. A report covering all the items and incurred charges and/or credits is furnished quarterly with the final payment being remitted within thirty days upon receipt of the quarterly report.

Tax Sharing and Payment Agreement

Effective September 1, 2001 and, most recently amended October 1, 2008, X.L. America maintains a tax sharing agreement with its subsidiaries (including the Company), whereby the members of the group agree to pay an amount equal to the federal income tax liability which such member would have incurred if such member had filed a separate federal income tax return. For each estimated tax period of any year, the estimated federal income tax liability of each member shall be determined and shall be paid within 10 days of receipt of notice. The final amount required to be paid for any taxable year shall be paid on or before the date on which the consolidated return of the group is required to be filed determined without regard to any extension of time to file.

Investment Management Agreement

Effective January 1, 2005, the Company appointed XL Investment Management Limited (XLIML), a Bermuda Company, to provide investment management, financial advisory and administrative services as required. XLIML shall act in accordance with investment laws in Delaware and in accordance to the overall investment policy established by the Company under the direction of the Board of Directors. XLIML shall have the authority to negotiate, contract and terminate investment fund managers for each portfolio, in accordance with the overall investment policy guidelines. Fees for this service are .06% (or 6 basis points) of total assets under management.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2010, the Company is licensed to write business in all 50 states, as well as the District of Columbia, Guam and Puerto Rico.

Plan of Operation

In 2010, XLIA's major product lines were casualty and property, written by XL Casualty and XL Property business units on a primary or excess basis.

For 2010, the Company's premium by Operating Business Unit ("OBU") was as shown in the table below:

Operating Business Unit	Direct Written Premium (pre-intercompany pooling, rounded)	
XL Aerospace	\$	3,500,000
XL Environmental		6,100,000
XL Programs		600,000
US Primary Risk Management		800,000
Middle Market USA		17,900,000
Casualty Primary		31,100,000
Casualty Excess		63,700,000
Property		165,900,000
Total	\$	<u>289,600,000</u>

XL Programs partner with insurance program administrators to offer specialized insurance coverage to distinct market segments. This business unit provides specialty, property & casualty and warranty coverage to various industries, including habitation real estate, auto and construction. The business units specialize in crafting customized coverage for programs with distinctive, and often complex, products. XL Programs is based in Exton, Pennsylvania.

XL Environmental provides integrated environmental risk management solutions incorporating insurance, consulting and claims management to environmental and non-environmental businesses and industries worldwide. They offer insurance solutions for the following industries: chemical facilities, construction, environmental facilities, environmental services, industrial and commercial facilities, public entities, water and wastewater facilities, real

estate and transportation. XL Environmental is headquartered in Exton, Pennsylvania, with regional employees located throughout the United States.

XL Casualty and XL Property business units offer the world's large managed-risk national and multinational corporations global risk management property/casualty solutions. Coverages offered by XL Casualty and XL Property are available in lead or follow positions, quota-share or layer, and are offered as single country coverages or as global program structures.

XL US Primary Risk Management offers risk transfer and risk management programs for major corporations and institutions operating in the United States. The business unit provides a wide range of solutions to customers with needs for primary programs requiring workers' compensation, general liability and automobile liability. The target customers are small and middle market businesses. The US Primary Risk Management operation is headquartered in New York City.

XL Aerospace holds a leadership position as insurance specialist in the space and aviation classes of business. Their underwriting operations write policies through regional brokers and independent agents. The Aerospace operation is headquartered in New York City.

Upper Middle Market ("UMM") segment objective is to offer an array of standard product lines, including general liability, automobile liability, workers compensation and umbrella on both multi-line and mono-line basis. UMM with a target focus on the higher end of the segment where complexity of risk underwriting and specialization of product play well to the XL brand. The Middle Market operation is headquartered in Exton, PA.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and covers the five (5) years from its last examination as of December 31, 2005, through this examination, December 31, 2010:

<u>Year</u>	<u>Net Admitted</u>		<u>Surplus as</u>	<u>Gross Premium</u>	<u>Net Premiums</u>	<u>Net</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Regards</u>	<u>Written</u>	<u>Earned</u>	<u>Income/(Loss)</u>
			<u>Policyholders</u>			
2010	\$ 674,094,240	\$ 428,797,875	\$ 245,296,365	\$ 411,762,971	\$ 115,904,131	\$ 10,513,964
2009	\$ 662,977,833	\$ 428,893,389	\$ 234,084,444	\$ 433,178,510	\$ 126,551,342	\$ 1,321,161
2008	\$ 647,687,352	\$ 399,339,858	\$ 248,347,494	\$ 536,811,186	\$ 148,144,707	\$ 4,365,779
2007*	\$ 542,736,297	\$ 331,163,360	\$ 211,572,937	\$ 422,142,585	\$ 78,683,147	\$ 17,997,345
2006*	\$ 542,656,747	\$ 339,929,183	\$ 202,727,564	\$ 455,551,001	\$ 83,264,084	\$ 23,174,927
2005	\$ 562,024,541	\$ 389,634,049	\$ 172,390,492	\$ 451,432,328	\$ 78,234,331	\$ 3,363,359

* The Company filed Amended Annual Statements for 2006 and 2007.

The changes from 2005 to 2010 in the examination period are as follows:

- 19.9 % increase in Net Admitted Assets
- 10.1 % increase in Liabilities
- 42.3 % increase in Surplus
- 8.8% decrease in Gross Premiums Written
- 48.1% increase in Net Premiums Earned
- 212.6 % increase in Net Income / (Loss)

The increases during the exam period in Net Admitted Assets, Liabilities and Surplus as Regards Policyholders of 19.9%, 10.1% and 42.3% respectively, are considered reasonable based on the long-term tail lines of the business being written by the Company and the increase in Net Income over the period.

The Gross Written Premiums listed above are comprised of direct business, plus reinsurance assumed from affiliates under the Pooling Agreement, plus reinsurance assumed from non-affiliates. During the period covered by this examination some of the products being sold by the Company were experiencing a "soft market" where obtaining sufficient rates was difficult due to increased competition in the market. The Company has tried to minimize its exposure to these

less profitable lines and focus on those lines that are more profitable. As a result, the gross premiums written by the Pool have decreased during the period covered by this examination.

Underwriting income and underwriting losses are noted during this period complimented by its net investment income which fluctuated over the period due to market conditions. All years resulted in a positive net income.

For the pooled business, net of external reinsurance, the percentage ceded to XLIB was changed from 75% to 50%, effective January 1, 2008. Thus, the business retained and shared amongst the Pool members increased. This resulted in the significant increase in the net premiums earned beginning in 2008.

LOSS EXPERIENCE

Net loss and loss expenses unpaid reserves as of December 31, 2010 were \$306,827,215. During 2011, unfavorable development of \$2,523,000 was incurred for loss and loss adjustment expense attributable to insured events of prior years. Strengthening of reserves occurred within direct operations due to workers' compensation guaranteed cost business, excess and surplus casualty business, chemical related to general liability claims, credit business and reinsurance due to the Deepwater Horizon event in 2010. These amounts were partially offset by releases within direct operations, including space accounts, marine hurricane and catastrophe losses, standard professional liability and within reinsurance operations.

REINSURANCE

Assumed

Assumed reinsurance accounted for 8 percent of our Company's gross written premiums ("GWP") at December 31, 2010, excluding business assumed from the Inter-Company Reinsurance Pooling Agreement.

Inter-Company Reinsurance Pooling Agreement

The Company participates, as pool participant, in an inter-company pooling agreement with various affiliated companies as disclosed within the related party agreement section.

Any Schedule F penalty is shared by the Pool members in accordance with their pool participation percentages. Each of the Pool members has an option of establishing a Funds Withheld Balance, which may be maintained until cancellation of the agreement.

Ceded

The Company has structured its ceded reinsurance program into two segments: Insurance and Reinsurance. Exclusive of the businesses ceded under the terms of the XLIB Third Amended and Restated QS Agreement, the majority of the business is ceded to authorized reinsurers.

The Company's ceded reinsurance program for its property business consists primarily of excess of loss, treaty and facultative coverage on both per risk and occurrence basis. The insurance segment has specific reinsurance programs for specific classes of business (ex. Professional and Environmental). Material coverage for Global Marine and Offshore Energy, Aerospace, Workers Compensation and significant programs are outlined below. Additionally, the insurance segment and reinsurance segment provide coverage for all property and casualty business with specific territorial exclusions, noted below.

Insurance Segment

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property</u>	
Property Per Risk Excess of Loss 2 Layers	\$270,000,000 excess of \$30,000,000
Property Per Risk Excess of Loss Facility	\$300,000,000 excess of \$300,000,000
Property - Catastrophe	
1 st Layer (Worldwide excluding US)	\$100,000,000 excess of \$75,000,000
2 nd Layer US (all perils)	\$150,000,000 excess of \$150,000,000
3 rd Layer US (all perils)	\$175,000,000 excess of \$300,000,000

XL IPC Middle Market_1st Layer (US) \$15,000,000 excess of \$15,000,000

Casualty

General Liability Quota Share I – Claims Made/Occ. Notified (65.5% Placed) It covers losses up to \$50,000,000
 General Liability Quota Share II - Occurrence Quota Share (64.5% Placed) It covers losses up to \$50,000,000
 General Liability Quota Share III – Excess Cession (45.5% Placed) It covers losses in excess of \$50,000,000

Specialty Lines with Material Coverage:

Global Marine and Offshore Energy
 Global Marine-Equine Excess of Loss \$2,500,000 excess of \$2,500,000 not to exceed \$2,500,000
 Cargo & Marine Liability Excess of Loss \$5,000,000 excess of \$5,000,000 not to exceed \$5,000,000 in the aggregate
 These are the underlying layers excluding Energy and IGP
 Marine Hull, Ports, Construction & Marine War Excess of Loss \$5,000,000 excess of \$5,000,000
 Worldwide Global Marine Excluding Energy “Gulf of Mexico (GOM) Wind Physical Damage” Excess of Loss-7 Layers \$202,500,000 excess of \$10,000,000
 Worldwide Global Marine - Gulf Of Mexico (GOM) Wind Energy (50% Placed) \$20,000,000 excess of \$30,000,000
 Global Marine: Fine Arts and Specie- Excess of Loss Core Program \$15,000,000 excess of \$10,000,000
 Global Marine- Species- Excess of Loss \$10,000,000 excess of \$10,000,000
 Loss due to Terrorism acts
 Global Marine – Species- Excess of Loss \$130,000,000 excess of \$20,000,000
 Written on a Facultative basis It covers losses due to terrorism acts.
 Inland Marine 50% Quota Share Subject to a limit of \$20,000,000

Aerospace

General Aviation-Hull Risks XOL \$13,000,000 excess of \$2,000,000
 General Aviation- Liability Risk XOL Section A \$140,000,000 excess of \$10,000,000
 Section B \$300,000,000 excess of \$20,000,000
 General Aviation Per Occurrence XOL 1st Layer-80% Placed \$4,000,000 excess of \$4,000,000 excess of \$1,000,000 AAD
 2nd Layer \$4,000,000 excess of \$8,000,000
 Global Aviation Program 6 Layers \$190,000,000 excess of \$10,000,000
 Aviation-Third Party War 2 Layers \$30,000,000 excess of \$10,000,000
 Aviation – Airline Products- Variable Quota Share Not to exceed \$200,000,000

Aviation-Space 40% Quota Share

Workers Compensation

Workers Compensation Industrial Aid XOL

\$19 million excess of \$1 million covers losses as a result of riding as a passenger in an aircraft.

Workers Compensation Catastrophe Quota Share

The treaty provides catastrophe protection for all workers compensation lines written by the Insurance Segment, and consists of two layers:
 1) 50% of \$20 million excess of \$20 million and;
 2) 80% of \$85 million excess of \$40 million.

Programs

The Company has various program specific reinsurance programs. The largest is the Multi-Peril Crop Insurance (MPCI) and the Crop Hail Government sponsored program. It covers business produced/written/managed by Heartland Crop Insurance and reinsured through the Federal Crop Insurance Corporation. In addition to the 62.5% Quota Share, additional protection is provided through three layers of stop loss coverage for MPCI and two layers of stop loss coverage for Crop Hail.

Reinsurance Segment

The XL Re group has a “Core” Catastrophe program under which XLRA and its Toronto Branch are covered. This coverage insures to the benefit of the insurance segment catastrophic program. A description of this coverage is as follows:

Type of Treaty

Cession

Property Catastrophe Coverage Excess of Loss – Peak Coverage

\$82,500,000 excess of \$200,000,000
 This coverage has 6 layers and has several participation percentages.

Property Catastrophe Coverage Excess of Loss- Non-Peak Coverage

\$50,000,000 excess of \$60,000,000

Property Excess of Loss Replicate Catastrophe Coverage- US Wind

100% of \$68,250,000 excess of various attachment points.

Replicate Catastrophe- Europe Wind

100% of \$47,895,000 excess of various attachment points

Property Facultative Excess of Loss:	58.0% of \$15,000,000 excess of \$10,000,000
1 st Layer	97.5% of \$25,000,000 excess of \$25,000,000
2 nd Layer	82.0% of \$25,000,000 excess of \$50,000,000
3 rd Layer	

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions.

Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements.

ACCOUNTS AND RECORDS

The accounts and records review included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structures, and the processing structure. The Company's information technology control environment was tested as part of the examination by RSM McGladrey Inc. The accounts and records review also included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

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.

- Assets
- Liabilities, Surplus and Other Funds
- Statement of Income
- Capital and Surplus Account
- Reconciliation of Surplus for the Period since the Last Examination
- Analysis of Financial Statement Changes resulting from Examination

ASSETS
DECEMBER 31, 2010

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 412,489,744		\$ 412,489,744	1
Common Stocks	134,777,799		134,777,799	
Cash, cash equivalents and short-term investments	52,778,624		52,778,624	
Subtotals, cash and invested assets	<u>\$ 600,046,167</u>		<u>\$ 600,046,167</u>	
Investment income due and accrued	2,772,145		2,772,145	
Uncollected premiums and agents' balances	24,156,767	\$ 7,649,610	16,507,157	
Deferred premiums	15,545,919		15,545,919	
Accrued retrospective premiums	2,065,086	25,633	2,039,453	
Funds held with reinsured companies	(12,402)		(12,402)	
Other amounts receivable under reinsurance contracts	119,756		119,756	
Current federal income tax recoverable	1,094,758		1,094,758	
Net deferred tax asset	22,334,416	5,231,060	17,103,356	
Guaranty funds receivable	82,927		82,927	
Receivables from parent, subsidiaries and affiliates	8,832,634	1,570,585	7,262,049	
Aggregate write-ins for other than invested assets	11,745,638	212,683	11,532,955	
Totals	<u><u>\$ 688,783,811</u></u>	<u><u>\$ 14,689,571</u></u>	<u><u>\$ 674,094,240</u></u>	

**LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2010**

		Notes
Losses	\$ 266,070,220	2
Reinsurance payable on paid losses and loss adjustment expenses	1,159,345	
Loss adjustment expenses	40,756,995	2
Commissions payable, contingent commissions and other similar charges	(218,200)	
Other expenses	8,328,326	
Taxes, licenses and fees	1,063,307	
Unearned premiums	56,748,838	
Advance premiums	2,214,454	
Funds held by company under reinsurance treaties	39,666,864	
Remittances and items not allocated	(20,682,893)	
Provision for reinsurance	9,380,666	
Payable to parent, subsidiaries and affiliates	19,833,788	
Aggregate write-ins for liabilities	4,476,165	
<i>Total Liabilities</i>	\$ 428,797,875	
Aggregate write-ins for special surplus funds	\$ 4,728,249	
Common capital stock	5,000,000	
Gross paid in and contributed surplus	180,599,425	
Unassigned funds (surplus)	54,968,691	
<i>Surplus as regards policyholders</i>	\$ 245,296,365	
<i>Totals</i>	\$ 674,094,240	

**STATEMENT OF INCOME
FOR THE YEAR ENDING DECEMBER 31, 2010**

Premiums earned	\$ 115,904,131
DEDUCTIONS:	
Losses incurred	\$ 68,222,757
Loss adjustment expenses incurred	13,980,038
Other underwriting expenses incurred	38,829,726
Aggregate write-ins for underwriting deductions	(95,544)
Total underwriting deductions	<u>\$ 120,936,977</u>
Net underwriting loss	<u>\$ (5,032,846)</u>
INVESTMENT INCOME	
Net investment income earned	\$ 14,955,650
Net realized capital losses	(1,749,171)
Net investment gain	<u>\$ 13,206,479</u>
OTHER INCOME	
Net loss from agents' or premium balances charged off	\$ (468,737)
Aggregate write-ins for miscellaneous income	4,778,985
Total other income	<u>\$ 4,310,248</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 12,483,881
Dividends to Policyholders	
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 12,483,881
Federal and foreign income taxes incurred	1,969,917
Net Income	<u><u>\$ 10,513,964</u></u>
Capital and Surplus Account	
Capital and surplus, December 31, 2009	\$ 234,084,444
Net income (loss)	10,513,964
Change in net unrealized capital gains or (losses) less capital gains tax of (\$ 877,177)	12,025,361
Change in net deferred income tax	(9,532,333)
Change in non-admitted assets	13,327,888
Change in provision for reinsurance	6,035,300
Dividends to stockholders	(23,000,000)
Aggregate write-ins for gains and losses in surplus	1,841,741
Change in surplus as regards policyholders for the year	<u>\$ 11,211,921</u>
Capital and surplus, December 31, 2010	<u><u>\$ 245,296,365</u></u>

RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION

The following reconciliation of capital and surplus for the period as of December 31, 2005 to December 31, 2010, was extracted from the Company's filed Annual Statements.

	Aggregate Write-ins for Special Surplus Funds	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Surplus as Regards Policyholders
December 31, 2005 (1)		\$ 5,000,000	\$ 180,599,425	\$ (13,208,933)	\$ 172,390,492
Operations 2006 (2)				30,337,072	30,337,072
Operations 2007 (2)				8,845,373	8,845,373
Operations 2008 (2)				36,774,557	36,774,557
Operations 2009 (2)				4,850,442	4,850,442
Dividends to shareholders (3)				(22,000,000)	(22,000,000)
Aggregate write-ins for gains and losses in surplus (4)	\$ 2,886,508				2,886,508
Operations 2010 (2)				32,370,180	32,370,180
Dividends to shareholders (3)				(23,000,000)	(23,000,000)
Aggregate write-ins for gains and losses in surplus (4)	1,841,741				1,841,741
December 31, 2010	<u>\$ 4,728,249</u>	<u>\$ 5,000,000</u>	<u>\$ 180,599,425</u>	<u>\$ 54,968,691</u>	<u>\$ 245,296,365</u>

1. The prior examination unassigned surplus and surplus as regards policyholders are not reflective of prior examination adjustments. The prior examination adjustments are included in operations subsequent to the prior examination.
2. Operations is defined as net income (loss), change in net unrealized capital gains or (losses), change in unrealized foreign exchange capital gain (loss), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, and cumulative effect of changes in accounting principles.
3. Dividends have been properly authorized by the Board and the Department of Insurance if required.
4. The Company recorded its SSAP 10R Deferred Tax Adjustment.

As of December 31, 2010, the Company had 80,000 issued and outstanding shares of common stock with a par value of \$62.50 per share, for common capital stock totaling \$5,000,000. All of the common stock of the Company is issued to GIC.

ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS

There were no changes to the Company's financial statements as a result of this examination.

NOTES TO THE FINANCIAL STATEMENTS

<u>Note 1 - Bonds</u>	<u>\$412,489,744</u>
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The categories of bonds at December 31, 2010 include U.S. Government Bonds, \$104,253,417 or 25.3%, US States and territories, guaranteed, \$533,944 or .1%, U.S. Special Revenue & Special Assessment Obligations- non guaranteed, \$99,028,025 or 24% and Industrial and Miscellaneous \$208,674,358 or 50.6%. All of the Companies securities are rated as Class 1 except for \$15,628,500 or 3.7% and \$12,003,539 or 2.9%, rated as 2 and 3 by the NAIC Securities Valuation Office (SVO), respectively.

<u>Note 2</u>	
<u>Losses</u>	<u>\$266,070,220</u>
<u>Loss adjustment expenses</u>	<u>\$40,756,995</u>

The above-captioned amounts, which are the same as those reported by the Company in its Annual Statement, have been accepted for purposes of this report. The balance reported by the Company was comprised of the following:

<u>Losses</u>	
<u>Reported Losses (Case)</u>	
Direct	\$183,819,605
Reinsurance Assumed	97,555,371
Reinsurance Ceded	<u>(188,907,584)</u>
Net Reported Losses	<u>\$92,467,392</u>

<u>Incurred but not reported (IBNR)</u>	
Direct	\$417,048,826
Reinsurance Assumed	194,558,759
Reinsurance Ceded	<u>(438,004,757)</u>
Net IBNR	\$173,602,828
<u>Net Losses Unpaid</u>	<u>\$266,070,220</u>
<u>Loss Adjustment Expenses</u>	<u>\$40,756,995</u>

The examination retained the firm of Milliman, Inc. (“Milliman” or “Consulting Actuary”) to review the Company’s stated reserves. The Consulting Actuary was provided with the Company’s statement of actuarial opinion and an actuarial report as supporting documentation of the actuarial opinion with loss and loss adjustment expense reserves evaluated as of December 31, 2010. In addition, Milliman was provided with other reports, schedules, exhibits and relevant information as requested.

The Consulting Actuary’s review of loss and allocated loss adjustment expenses (ALAE) reserves consisted of separately analyzing the Company’s property and casualty books of business on a gross and net basis. In addition, for unallocated loss adjustment expenses (ULAE), the Consulting Actuary reviewed the methodology employed by the Company’s actuaries. Milliman accepted the methodology and factor selections utilized by the Company’s actuaries and ultimately found the Company’s reserves to be reasonable. In conjunction with the actuarial review, the examination team validated loss data used by the Company without material exception.

SUMMARY OF RECOMMENDATIONS

No significant recommendations were determined as a result of the examination.

CONCLUSION

The following schedule shows the changes from the previous examination and the financial condition of the Company, as of December 31, 2010:

Description	12/31/2005 <u>Prior Examination</u>	12/31/2010 <u>Current Examination</u>	Increase <u>(Decrease)</u>
Assets	<u>\$ 569,467,146</u>	<u>\$ 674,094,240</u>	<u>\$ 104,627,094</u>
Liabilities	<u>\$ 419,283,780</u>	<u>\$ 428,797,875</u>	<u>\$ 9,514,095</u>
Aggregate write-ins for special surplus funds	\$ -	\$ 4,728,249	\$ 4,728,249
Common capital stock	5,000,000	5,000,000	-
Gross paid in and contributed capital	180,599,425	180,599,425	-
Unassigned funds (surplus)	<u>(35,416,059)</u>	<u>54,968,691</u>	<u>90,384,750</u>
Total surplus as regards policyholders	<u>\$ 150,183,366</u>	<u>\$ 245,296,365</u>	<u>\$ 95,112,999</u>
Totals Liabilities and Surplus	<u>\$ 569,467,146</u>	<u>\$ 674,094,240</u>	<u>\$ 104,627,094</u>

Respectfully submitted,



 Joseph A. Rome, CFE
 Examiner-In-Charge
 State of Delaware
 Northeastern Zone, NAIC