STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

INDIAN HARBOR INSURANCE COMPANY
STAMFORD, CONNECTICUT

AS OF
DECEMBER 31, 2010

STATE OF NORTH DAKOTA

DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

Indian Harbor Insurance Company

Stamford, Connecticut

as of December 31, 2010, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this 22nd day of June, 2012.

Adam Hamm
Insurance Commissioner

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Stamford, Connecticut
May 15, 2012

Honorable Adam Hamm
Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505-0320

Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records, and financial condition of

Indian Harbor Insurance Company

Stamford, Connecticut

hereinafter referred to as "the Company." The examination was conducted at the Company's main administrative office located at Seaview House, 70 Seaview Avenue, Stamford, Connecticut. The Company was last examined as of December 31, 2005, by the North Dakota Insurance Department. The report of examination is herein respectfully submitted.

SCOPE OF EXAMINATION

This examination was a risk-focused financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2006, to and including December 31, 2010, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Our examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, we planned and performed 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. An examination also includes assessing the accounting 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Work papers provided by the Company's independent auditor, PriceWaterhouseCoopers, L.L.P., were reviewed and, where deemed appropriate, certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

The exam was conducted concurrently with the States of New York and Delaware as part of a coordinated exam of the seven companies in the XL American Group Reinsurance Pool with New York being the lead state. See the reinsurance section below for a listing of the companies in the pool and the respective pooling percentages.

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of the nineteen exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2003 to December 31, 2005. We determined that the Company had satisfactorily addressed all of these items.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

There were no significant events subsequent to the examination date.

HISTORY

General

The Company was incorporated on June 23, 1992, under the laws of the State of North Dakota. The primary purpose for the Company's formation was to engage in the business of property and casualty insurance. The Company is a wholly-owned subsidiary of XL Specialty Insurance Company ("XLS") and a wholly-owned indirect subsidiary of XL Reinsurance America Inc. ("XLRA"). As of December 31, 2011, XLRA was a wholly-owned indirect subsidiary of X.L. America, Inc. ("X.L. America") which, in turn, was an indirect wholly-owned subsidiary of XL Group plc ("XL Group"), an Ireland domiciled New York Stock Exchange publicly traded company. X.L. America is the ultimate United States parent of the Company and its insurer and non-insurer affiliates, all of which are members of the XL Group Holding Company System. On June 18, 1999, XLIT Ltd., formerly known as XL Capital Ltd, transacted a stock merger with NAC Re Corporation, the Company's then upstream parent.

Capital Stock

The Company's Articles of Incorporation authorize the Company to issue 50,000 shares of common capital stock with a par value of $100 per share. At December 31, 2002, the Company had issued all 50,000 shares to XLRA. Subsequently, on June 30, 2003, XLRA contributed all the outstanding shares of the Company to XLS.

Dividends to Stockholders

During the period under examination, there were no dividends declared or paid.

Board of Directors

The Bylaws provide that the number of directors shall be established by the Company's Board of Directors but shall not be less than seven. Directors shall be elected at the Annual Meeting of the stockholders and each director shall serve until his successor is elected and qualified.

Directors serving at December 31, 2010, were as follows:

Name and Address	Business Affiliations
Seraina Maag Brooklyn, NY	President and Chief Executive Officer
John M. DiBiasi Scottsdale, AZ	Senior Vice President
Michael J. Garceau Whitehouse Station, NJ	Senior Vice President
James M. Norris Avon, CT	Senior Vice President
Robert M. Shine Morristown, NJ	Senior Vice President
Paul I. Tuhy Lake Hopatacong, NJ	Senior Vice President Claims
John P. Welch Trumbull, CT	Senior Vice President
Todd D. Zimmerman Chester Springs, PA	Senior Vice President

Officers

The Bylaws provide that the elected officers of the Company shall be a Chairman of the Board, a President, one or more Vice Presidents, a Treasurer, and a Secretary. Officers serving at December 31, 2010, were as follows:

Officer	Title
Seraina Maag	Chairman, President and Chief Executive Officer
Christopher F. Buse	Senior Vice President
Richard T. Corbett, Jr.	Senior Vice President
Gabriel G. Carino, III	Treasurer
John M. DiBiasi	Senior Vice President
David B. Duclos	Senior Vice President
Michael J. Garceau	Senior Vice President
Joseph C. Henry	Senior Vice President
David S. Hewitt	Senior Vice President
Gary S. Kaplan	Senior Vice President
William J. Mills	Senior Vice President
James M. Norris	Senior Vice President
Toni A. Perkins	Secretary
Robert M. Shine	Senior Vice President
John H. Sullivan	Senior Vice President
Paul I. Tuhy	Senior Vice President
Keith J. Wagner	Senior Vice President
John P. Welch	Senior Vice President
Andrew R. Will	Vice President and Controller

Conflict of Interest

The Company has established procedures for the disclosure of possible conflicts of interest. Once a year, all directors, officers, and all employees are asked to complete and sign a conflict of interest questionnaire. The signed questionnaires are reviewed by the Compliance Officer and the General Counsel. The conflict of interest statements for 2010 were reviewed and no undisclosed conflicts of interest were observed during the examination.

Corporate Records

The Company's Board of Directors authorized revisions to the Company's Articles of Incorporation on December 23, 2009, to allow the Company to reinsure risks of every kind or description and to insure property or risks of every kind or description located outside of the United States, its territories and possessions.

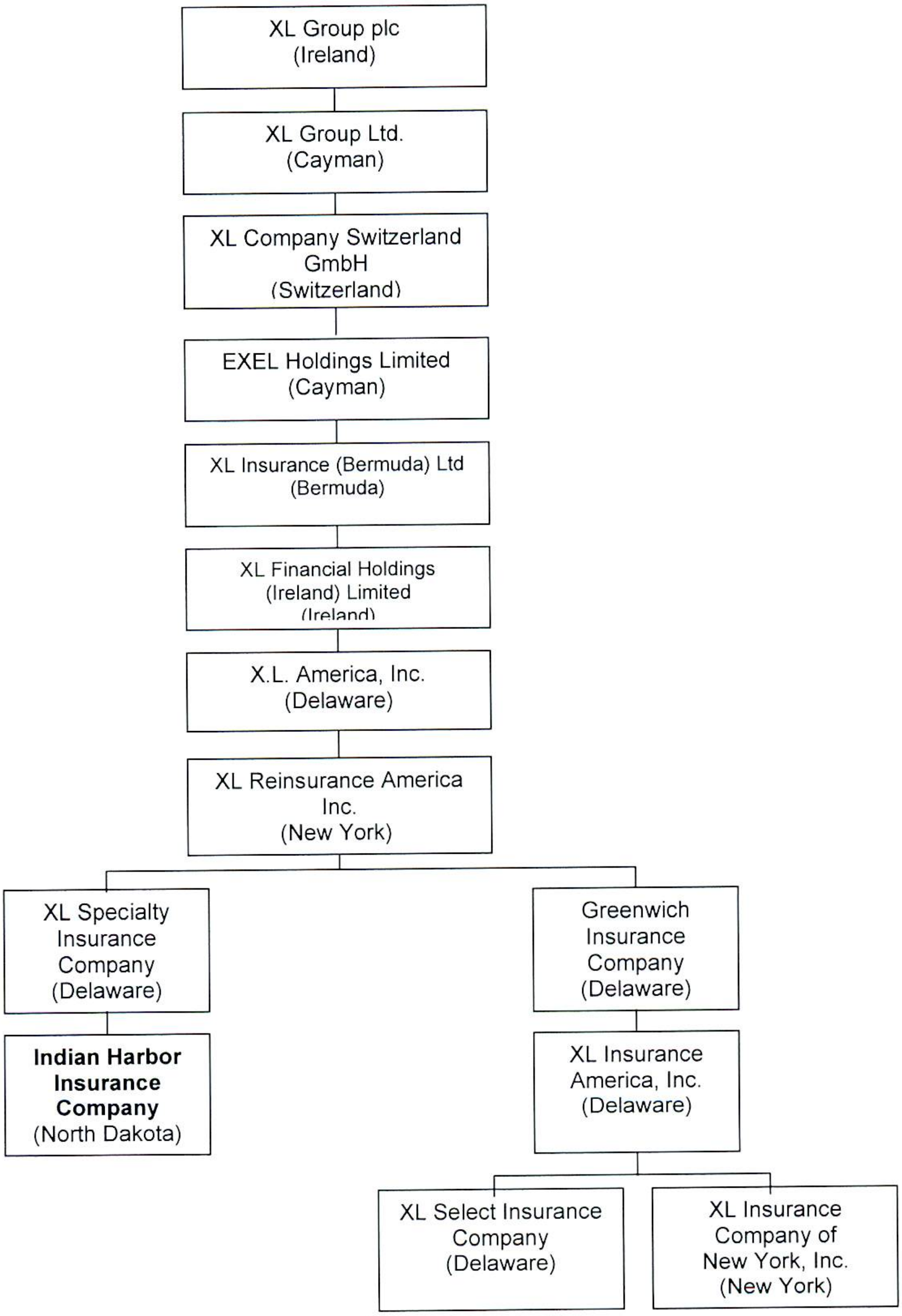
Board of Directors and Stockholders

The minutes of the Board of Directors and stockholders for the period under examination were read. The minutes of the various meetings indicate that meetings were well attended and held in accordance with the Bylaws. The deliberations of the bodies were adequately documented. The Board of Directors approved the prior Report on Examination.

AFFILIATED COMPANIES

General

The Company is wholly owned by XLS, a Delaware domestic insurance company. The holding company structure as of December 31, 2010, is depicted in the following chart:



Intercompany Agreements

Third Amended and Restated General Services Agreement

The Company entered into a General Services Agreement effective January 1, 2003, and as subsequently amended, with X.L. Global Services, Inc. ("XLGS"), X.L. America and various affiliates that calls for XLGS to provide information and technology services, planning, expense management and budget support, project management and application development support, reinsurance services, actuarial services, human resources services and other services. The services are to be charged on a cost basis. A report covering all the items and incurred charges and/or credits will be furnished quarterly with the final payment being remitted within 30 days upon receipt of the quarterly report.

Fourth Amended General Services Agreement

Effective January 1, 2003, and as subsequently amended, the Company entered into a General Services Agreement with X.L. America, XLRA, and various affiliates. A summary of the agreement follows:

- X.L. America shall perform certain management services including but not limited to the payment of expenses for advertising, boards, bureaus and associations, surveys and underwriting expenses, professional fees, total employee compensation, travel and related expenses, rent and rent items, equipments, printing and stationery, postage, telephone and telegraph, legal and auditing, license fees and taxes, actuarial and accounting, administrative and managerial, data processing, claims, regulatory compliance and miscellaneous items. Also, the subsidiaries that pay or perform services which benefit other subsidiaries are allowed to charge the entities benefiting from those payments or services for the proportionate share of the costs associated with the payment or service provided. Such services are to be provided on a cost basis.

- A report covering all the items and incurred charges and/or credits will be furnished quarterly with the final payment being remitted within 30 days upon receipt of such quarterly report. In no event shall the cost charged be greater than the subsidiaries would expend in providing such services for themselves.

Charges are determined based on allocations of overhead amounts incurred from X.L. America and XLGS. These amounts are then allocated to XLRA for reinsurance-related expenses and the XL Specialty Insurance Company ("XLS") for insurance-related expenses. The insurance-related expenses are then allocated to each legal entity according to the provisions of the XL Reinsurance Intercompany Pooling Agreement.

Sixth Amended Tax Sharing and Payment Agreement

The Company, along with other members of the X.L. America Group, files a consolidated federal income tax return pursuant to the terms of a tax allocation agreement, effective September 1, 2000, and as subsequently amended. 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.

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 Syndicates 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.

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 investments laws in North Dakota and in accordance to the overall investment policy established by the Company under the direction of the Board. 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 percent (or 6 basis points) of total assets under management.

Intercompany reinsurance arrangements are discussed under the Reinsurance section below.

FIDELITY BOND AND OTHER INSURANCE

The Company is a covered entity under a Financial Institution Bond in the name of XL Capital, Ltd., the former name of the ultimate parent of the Company. The policy provides a single loss limit of $15,000,000 with a $1,000,000 retention. The coverage meets the minimum amount of fidelity bond coverage recommended by the National Association of Insurance Commissioners for the Company and the other named insureds. Other insurance coverage covering the Company appeared adequate.

PENSION AND INSURANCE PLANS

The Company has no direct employees. Qualified full-time employees of X.L. America and its subsidiaries are provided with life insurance, accidental death and dismemberment, short and long-term disability, dental and vision benefits, and comprehensive medical expense benefits.

X.L. America (sponsor and plan administrator) offers a 401(k) employee savings plan that allows employees to contribute up to 50 percent of pre-tax eligible compensation (salary plus bonus) up to IRS limitations. The sponsor will contribute up to 140 percent matching on up to the first 5 percent of employee contributions. The sponsor may also make additional discretionary contributions depending on profitability. The matching benefits are vested ratably over four years. Forfeitures are used to defray the plan expenses and then plan contributions.

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2010:

Location	Type of Asset	Statement Value	Market Value
Arkansas	US Treasury Note	$ 100,510	$ 106,461
Arkansas	US Treasury Bond	27,551	33,797
Louisiana	Certificate of Deposit	100,000	100,000
Massachusetts	US Treasury Note	701,716	729,911
New Hampshire	US Treasury Note	504,792	525,585
New Mexico	US Treasury Bond	242,450	297,414
New York	US Treasury Note	3,042,967	3,350,850
North Dakota	US Treasury Notes	3,018,283	3,169,029
South Carolina	US Treasury Bond	170,816	209,541

The statement value of securities held in a custodial account and vested in the Commissioner of Insurance of the State of North Dakota for the benefit of all policyholders totaled $3,018,283.

INSURANCE PRODUCTS AND RELATED PRACTICES

At December 31, 2010, the Company was licensed only in the State of North Dakota and was an authorized surplus lines company in 47 states, the District of Columbia and Puerto Rico writing primarily environmental liability and professional liability coverages.

The Company produces its business through brokers and agents, appointed and licensed as required by the jurisdictions in which it operates as well as from major national brokerage firms and regional and independent producers. At year-end 2010, the Company had no producers that qualified as an MGA under the provisions of N.D.C.C. § 26.1-26.3-01(3) by producing premium volume in excess of five percent of the Company's prior year surplus and performing both underwriting and claims settlement for the Company.

During the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was general in nature and substantially less in scope than a full scope market conduct examination. This review was directed at business practices in the following major areas: advertising, underwriting procedures and claims. No exceptions were noted.

GROWTH OF COMPANY

The following represents the Company's direct written premium activity as it relates to surplus over the period of our examination:

Premiums Written

	2010	2009	2008	2007	2006
Direct	$334,511,421	$357,484,178	$403,611,085	$444,854,752	$537,950,654
Assumed	21,565,578	23,555,821	35,888,822	15,707,478	16,907,835
Ceded	334,511,421	357,484,178	403,611,085	444,833,903	537,958,822
Total Premiums	$21,565,578	$23,555,821	$35,888,822	$15,728,327	$16,899,667
Surplus	62,230,607	56,185,489	55,087,104	41,794,988	40,710,661
Premium-to-Surplus Ratio	35%	42%	65%	38%	42%

The Company cedes 100 percent of its written premium to the XL America Group Reinsurance Pool ("XL Pool"). The XL Pool then cedes 50 percent of the post January 1, 2008, accident date-related business and 75 percent of all accident date-related results from July 1, 1999, to December 31, 2007, to XL Insurance (Bermuda) Ltd ("XLIB"). The remaining amount of the pooled business is redistributed among the Pool Members based on percentages retable to their surplus. The Company is currently a two percent participant.

LOSS EXPERIENCE

The following represents the five-year history of the Company's loss reserves:

	2010	2009	2008	2007	2006
Loss reserves	$53,214,046	$50,914,770	$45,029,021	$41,321,162	$39,500,515
LAE reserves	8,151,397	7,545,288	6,825,468	5,388,111	4,670,142
Total Reserves	$61,365,443	$58,460,058	$51,854,489	$46,709,273	$44,170,657
Losses and LAE Incurred	$16,440,559	$20,106,926	$17,886,433	$11,148,115	$11,543,471

Gross unpaid losses and loss adjustment expenses as of December 31, 2010, were $202,935,143. These losses along with losses from the other companies in the pool are ceded to XLRA under the intercompany pooling agreement. After placement of specific unaffiliated reinsurance and the 50 percent quota share with XLIB, the remaining balances are retroceded to each pool participant based on its pooling percentage.

REINSURANCE

Ceded - Affiliate

Effective July 1, 1999, the Company entered into the XL America Group Reinsurance Pooling Agreement (the "Pooling Agreement") with XLRA and three other affiliated companies. The

Pooling Agreement was amended on January 1, 2002, to be on a gross basis and amended again effective December 31, 2002, to reflect the addition of two more affiliated companies: XL Insurance America, Inc. and XL Select Insurance Company. Under the current Pooling Agreement, the Company cedes 100 percent of its gross premiums, claims, insurance expenses and other related underwriting activity to XLRA, the Pool leader. Prior to January 1, 2008, XLRA ceded 75 percent of the Pool business, net of specific reinsurance, to its affiliate, XL Re Ltd. Effective January 1, 2008, the agreement was amended to a 50 percent quota share with XLIB. The remaining 50 percent of the business is redistributed among the Pool members ratable to their surplus.

The members of the Pool are all U.S. based insurers and their pool participation percentages at December 31, 2010, are as follows:

NAIC Code	Company	State of Domicile	Pool Participation at 12/31/10
20583	XL Reinsurance America Inc.	NY	65%
22322	Greenwich Insurance Company	DE	12%
24554	XL Insurance America, Inc.	DE	10%
37885	XL Specialty Insurance Company	DE	6%
40193	XL Insurance Company of New York, Inc.	NY	3%
36940	Indian Harbor Insurance Company	ND	2%
19607	XL Select Insurance Company	DE	2%

There were no changes in the pooling percentages during the examination period. The Pooling Agreement may be terminated at any time with 90 days prior written notice or otherwise by mutual agreement. The Agreement also contains an insolvency clause as required by N.D.C.C. § 26.1-02-21.

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 Risk & Regulatory Consulting (formerly known as 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.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the examiners and were used to the extent deemed appropriate for this examination.

FINANCIAL STATEMENTS

The financial statements of the Company and supporting reconciliations are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus, and Other Funds, December 31, 2010

Underwriting and Investment Exhibit, Year 2010

Reconciliation of Capital and Surplus, December 31, 2005, through December 31, 2010

Analysis of Examination Changes, Year Ended December 31, 2010

Indian Harbor Insurance Company
Statement of Assets
as of December 31, 2010

Admitted	Ledger Assets	Assets Not Admitted	Net Assets
Bonds	$179,051,262		$179,051,262
Cash and short-term investments	45,558,030		45,558,030
Investment income due and accrued	1,574,304		1,574,304
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	4,831,353	$ 1,529,922	3,301,431
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,109,184		3,109,184
Accrued retrospective premiums	413,017	5,127	407,890
Other amounts receivable under reinsurance	23,951		23,951
Current federal income tax recoverable	195,813		195,813
Net deferred tax asset	4,271,165	952,568	3,318,597
Guaranty funds receivable	16,585		16,585
Receivable from parent, subsidiaries and affiliates	1,766,527	314,117	1,452,410
Aggregate write-ins for other than invested assets	6,140,225	42,537	6,097,688
Totals	$246,951,416	$ 2,844,271	$244,107,145

Indian Harbor Insurance Company
Statement of Liabilities, Surplus and Other Funds
as of December 31, 2010

Losses		$ 53,214,046
Reinsurance payable on paid loss and loss adjustment expenses		231,869
Loss adjustment expenses		8,151,397
Commissions payable		(43,640)
Other expenses		1,665,665
Taxes, licenses and fees		212,661
Unearned premiums		11,349,767
Advance premiums		442,891
Funds held by company under reinsurance treaties		103,795,973
Remittances and items not allocated		(4,136,579)
Provision for reinsurance		1,876,133
Payable to parent, subsidiaries, and affiliates		3,966,758
Aggregate write-ins for liabilities		1,149,597
Total liabilities		$181,876,538
Aggregate write-ins for special surplus funds	$ 935,523	
Common capital stock	5,000,000	
Gross paid in and contributed surplus	36,000,000	
Unassigned surplus	20,295,084	
Surplus as regards policyholders		62,230,607
Total		$244,107,145

Indian Harbor Insurance Company
Underwriting and Investment Exhibit
for the Year Ended December 31, 2010

Underwriting Income		
Premiums earned		$23,180,826
Deductions:		
Losses incurred	$13,644,551	
Loss adjustment expenses incurred	2,796,008	
Other underwriting expenses incurred	7,765,945	
Aggregate write-ins for underwriting deductions	(19,109)	
Total underwriting deductions		24,187,395
Net underwriting loss		$(1,006,569)
Investment Income		
Net investment income earned	$6,660,339	
Net realized capital losses	(298,158)	
Net investment gain		6,362,181
Other Income		
Net gain from agents' or premium balances charged off	$ (93,747)	
Aggregate write-ins for miscellaneous income	(29,767)	
Total other income		(123,514)
Net income before federal income taxes		$5,232,099
Federal income taxes incurred		1,404,559
Net income		$3,827,540

Indian Harbor Insurance Company
Reconciliation of Capital and Surplus Account
January 1, 2006, Through December 31, 2010

	2006	2007	2008	2009	2010
Surplus as regards policyholders, December 31, prior year	$36,937,858	$40,710,661	$41,794,988	$55,087,104	$56,185,489
Net income	3,313,803	4,683,395	5,311,103	752,400	3,827,540
Change in net unrealized capital gains or (losses)	16,939	(27)	(437)	(137,929)	107,866
Change in net unrealized foreign exchange capital gain	623,515	0	0	0	0
Change in net deferred income tax	200,404	1,073,433	403,032	741,024	(2,372,288)
Change in non-admitted assets	(581,744)	(3,836,997)	1,408,092	176,531	2,917,067
Change in provision for reinsurance	207,687	(814,773)	1,129,739	(1,260,943)	1,207,060
Cumulative effect of change in accounting principles	0	0	0	249,652	0
Surplus paid in	0	0	5,000,000	0	0
Aggregate write-ins	(7,801)	(20,704)	40,587	577,650	357,873
Change in surplus for the year	3,772,803	1,084,327	13,292,116	1,098,385	6,045,118
Surplus as regards policyholders, December 31, current year	$40,710,661	$41,794,988	$55,087,104	$56,185,489	$62,230,607

Indian Harbor Insurance Company
Analysis of Examination Changes
Year Ended December 31, 2010

	Annual Statement	Per Examination	Surplus Change Increase	Surplus Change Decrease
Assets:				
Liabilities:				
Total Examination Adjustments			$0	$0
Capital and Surplus Per Annual Statement		$62,230,607		
Capital and Surplus Per Examination		62,230,607		
Decrease Per Examination		$ 0		

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

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

Losses	Reported Losses (Case)	
	Direct	$202,935,143
	Reinsurance Assumed	18,493,478
	Reinsurance Ceded	(202,935,143)
	Net Reported Losses	$ 18,493,478
	Incurred But Not Reported (IBNR)	
	Direct	$519,380,287
	Reinsurance Assumed	34,772,759
	Reinsurance Ceded	(519,432,478)
	Net IBNR	$ 34,720,568
	Net Losses Unpaid	$ 53,214,046
	Loss Adjustment Expenses	$ 8,151,397

The examination team retained the firm of Milliman, Inc. ("Milliman" or "Consulting Actuary") to review the Company's stated reserves. 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.

During the examination, the Company notified the exam team of the over-cession of losses from XLRA to XL Re Ltd. of a total of $90,257,803 in reserves, which were associated with the 2003 accident year. The over-cession pertained to a 75 percent Quota Share Agreement in effect between XL Re Ltd. and XLRA on behalf of itself and its Pool members. The Company corrected the over-cession during 2006 by making the following Pool adjustment:

	Debit	Credit
Reinsurance Recoverables	$ 82,229,016	
Case Reserves	39,108,674	
Surplus	90,257,803	
IBNR Reserves		$211,595,493

The allocation to the Company based on its two percent pool participation was to increase loss and LAE reserves by $3,449,736 and increase reinsurance recoverables by $1,644,580.

Our review of the XL Group Internal Audit Department reports noted a finding relating to reallocation of ceded IBNR. This finding described a Company practice of reallocating the portion of ceded IBNR attributable to insolvent reinsurers, to solvent reinsurers, thereby taking credit in Schedule F for IBNR recoverables due from insolvent reinsurers. The Company's share of the pooled amount is immaterial; however, its recognition of reinsurance recoverable assets or recoverable of liabilities due from insolvent reinsurers is contrary to the requirements of SSAP No. 62, paragraphs 17-20 and does not meet the test for admitted assets as defined in SSAP No. 4. In 2006, XL Group wrote off IBNR balances due from insolvent reinsurers and discontinued its reallocation practice according to management. The write-off included the reallocated balances carried at December 31, 2005, as well as current balances reported in the first six months of 2006.

Provision for Reinsurance

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 participation percentage. The amount allocated to the Company at December 31, 2010 was $ 1,876,133.

CONCLUSION

The financial condition of the Company, as of December 31, 2010, as determined by this examination is summarized as follows:

Admitted Assets		$244,107,145
Total Liabilities	$ 181,876,538	
Surplus as Regards Policyholders	62,230,607	
Liabilities, Surplus, and Other Funds		$244,107,145

Since the last examination conducted as of December 31, 2005, the Company's admitted assets have increased $48,246,380, its total liabilities have increased $19,900,018, and its surplus as regards policyholders has increased $28,346,362.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

Respectfully submitted,

Edward J. Moody

Edward J. Moody, CFE
Supervising Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations.