

**REPORT ON EXAMINATION**

**OF THE**

**ALEA NORTH AMERICA SPECIALTY INSURANCE COMPANY**

**AS OF**

**DECEMBER 31, 2005**

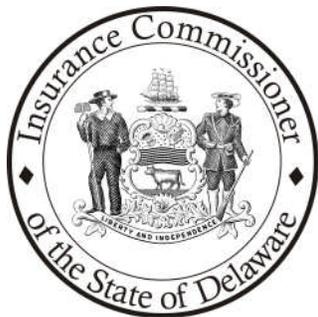
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2005 of the

**ALEA NORTH AMERICA SPECIALTY INSURANCE COMPANY  
(nka PRAETORIAN SPECIALTY INSURANCE COMPANY)**

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

ATTEST BY: Antoinette Handy

DATE: 25 APRIL 2007



*In Witness Whereof*, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 25TH DAY OF APRIL 2007.

Matthew Denn

*Insurance Commissioner*

**REPORT ON EXAMINATION**  
OF THE  
**ALEA NORTH AMERICA SPECIALTY INSURANCE COMPANY**  
**(nka PRAETORIAN SPECIALTY INSURANCE COMPANY)**  
AS OF  
**December 31, 2005**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been 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.



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MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 25TH Day of APRIL 2007.

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## **SALUTATION**

March 13, 2007

Honorable Mathew Denn  
Insurance Commissioner  
State of Delaware  
Rodney Building  
841 Silver Lake Building  
Dover, Delaware, 19901

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 06.033, dated October 26, 2006 an examination has been made of the affairs, financial condition and management of the

**ALEA NORTH AMERICA SPECIALTY INSURANCE COMPANY  
(Now known as Praetorian Specialty Insurance Company)**

hereinafter, referred to as “the Company” or “Alea”, incorporated under the laws of the State of Delaware. The examination was conducted at 55 Capital Boulevard 4<sup>th</sup> floor, Rocky Hill, Connecticut, the Company’s main Administrative Office. On September 29, 2006, the Company was sold to the Praetorian Insurance Company. Details pertaining to the sale of the Company have been included in this report. The report thereon is respectively submitted

**SCOPE OF EXAMINATION**

The last examination of Alea North America Specialty Insurance Company was conducted as of December 31, 2000. This examination covers the period January 1, 2001 through December 31, 2005, and consisted of a general survey of the Company's business policies and practices, management and any corporate matters incident thereto, a verification and evaluation of assets, and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Examiners Handbook, National Association of Insurance Commissioners (NAIC), Delaware Insurance Laws and Regulations, and generally accepted insurance examination standards.

In addition to items hereinafter incorporated as part of the written report, the following were examined and made part of the workpapers of this examination:

- Conflicts of Interests
- Fidelity Bond and Other Insurance
- Officers, Employees & Agents Welfare
- Corporate Records
- Legal Actions
- All Assets and Liabilities Not Mentioned In This Report

## **HISTORY**

Alea North America Specialty Insurance Company (hereinafter known as Alea or the Company) was incorporated on August 16, 1991, as BT Insurance Corporation, a subsidiary of Bankers Trust (Delaware) and commenced business on November 19, 1991. It was organized and chartered under the State of Delaware insurance laws and authorized as a multi-line property and casualty insurance company primarily engaged in the reinsurance of specific casualty business. On December 22, 1998, the Company was acquired by Alea Holdings US Company (formerly RR Holdings (US) Inc.) and its name was changed to Rhine Re Insurance Ltd. On August 31, 2000 the Company's name was changed to Alea North America Reinsurance Company. On December 20, 2001, the stock of the Company was contributed to Alea North America Insurance Company with the approval of both Delaware and New York Insurance Departments. On November 15, 2002 the Company's name was changed to Alea North America Specialty Insurance Company. A certificate reflecting this change was filed with and recorded by the Secretary of the State of Delaware effective January 13, 2003. On September 29, 2006 the Company was acquired by the Praetorian Insurance Company and the Company's name was changed to Praetorian Specialty Insurance Company. Details pertaining to this acquisition are described further in the "Subsequent Events" section of the report.

## **CAPITALIZATION**

The Company's amended Articles of Incorporation authorizes the Company to issue up to 1,000 shares of \$7,000 par value capital common stock. As of December 31, 2005, five-hundred (500) shares have been issued, and all are owned by Alea North America Insurance Company. The following table reflects the Company's capitalization activity since 1991:

## Alea North America Specialty Insurance Company

		Common	Gross Paid-in & Contributed
	Year	Capital Stock	Surplus
(1)	1991	\$ 500,000	\$ 9,500,000
(2)	1992		10,000,000
(3)	1998		(17,218,473)
(4)	1999		(119,019)
(5)	2000		20,000,000
(5)	2000	2,100,000	(2,100,000)
(6)	2001		107,396
(7)	2002		(2,539,214)
(8)	2003	900,000	(900,000)
(8)	2003		10,000,000
Totals		<u>\$ 3,500,000</u>	<u>\$ 26,730,690</u>

- (1) - Initial capitalization 500 shares purchased by Bankers Trust (Delaware) for \$10,000,000
- (2) - Cash Contribution from parent
- (3) - Part of \$23,750,000 extra-ordinary dividend to Bankers Trust (Delaware) prior to sale of the Company to Alea Holdings US Company (formerly known as RR Holdings (US) Inc.)
- (4) - Reduction of assets acquired by parent
- (5) - Cash contribution from parent. Increase in par value of common stock to \$5,200
- (6) - Transfer of "Remittances & Items not Allocated" liability amount
- (7) - Part of \$4,000,000 extra-ordinary dividend paid to the sole shareholder
- (8) - Additional \$10,000,000 cash contribution. Par value of common stock increased to \$7,000 per share.

### Dividends to Stockholders

On July 1, 2002, the Company paid a \$4,000,000 extra-ordinary dividend to its sole shareholder Alea North America Insurance Company. The dividend was approved by the Company's Board of Directors and submitted to and approved by the Delaware Insurance Department.

## **MANAGEMENT AND CONTROL**

### Board of Directors:

Pursuant to the amended Articles of Incorporation and by-laws, the Company's property, business, and affairs are to be managed by a Board of Directors. Each Director

Alea North America Specialty Insurance Company

is elected annually by the sole shareholder for a one year term or until a successor is elected. The bylaws of the Company indicate that the Board of Directors is to consist of one or more members, with the precise number to be fixed from time to time by resolution of the Board of Directors. As of December 31, 2005, the number of members is fixed at three (3). Those individuals serving on the Company's Board of Directors as of December 31, 2005 are:

<u>Name</u>	<u>Principal Business Affiliation</u>
Mark Leonard Ricciardelli	Director, Group President and Chief Executive Officer Alea Group Holdings (Bermuda) Ltd.
Kirk Howard Lusk	Group Chief Operating Officer and Chief Financial Officer Alea Group Holdings (Bermuda) Ltd.
Michael Richard Halsband	General Counsel Alea North America Company

Officers:

The Company's bylaws state that the Board of Directors are to elect a President and Secretary, and may, choose a Chairman of the Board and a Vice Chairman of the Board from among the Board membership. The Board may choose one or more Vice-Presidents, and Assistant Vice-Presidents, one or more Assistant Secretaries, a Treasurer, a Controller and one or more Assistant Treasurers and Assistant Controllers. Those individuals appointed as corporate officers and serving as such at December 31, 2005 were as follows:

<u>Name</u>	<u>Position</u>
Mark Leonard Ricciardelli	Board Chairman, President and Chief Executive Officer
James David Horne	Senior Vice President, Controllor and Treasurer
Laura Ann Santirocco	Senior Vice President, Secretary and Group General Counsel
Thomas Albert Weidman	Senior Vice President and Actuary
Michael Richard Halsband	Senior Vice President
Jonathan Mark Jones	Senior Vice President
Kirk Howard Lusk	Senior Vice President

Alea North America Specialty Insurance Company

Michael Peter Caruso	Vice President and Information Technology Director
Daniel Allan Gregor	Vice President and Assistant Treasurer
Patricia Ann Wheeler	Vice President and Human Resources Director
James Windsor Cahill, Jr.	Vice President
Suzanne Rathbun Fetter	Vice President – Claims
Paul John Gionfriddo	Vice President – Underwriting
Craig Michael Thomas	Vice President

Committees:

The Company's bylaws provide for the formation of Committees. Individuals serving on Committees are to be appointed by the Board of Directors from among its own membership. There were no active Committees in existence during the current period under review.

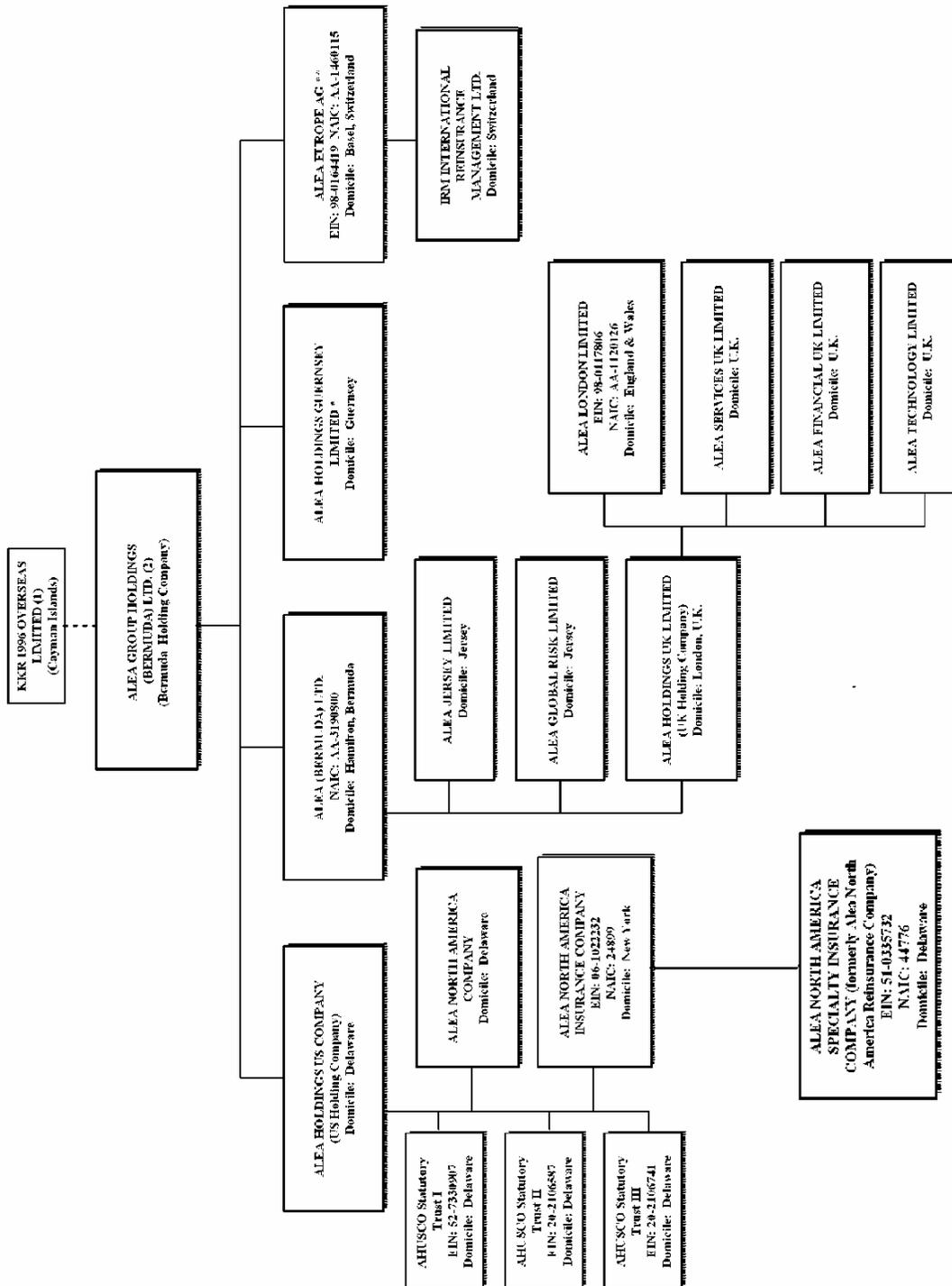
**HOLDING COMPANY SYSTEM**

The Company is wholly-owned by Alea North America Insurance Company, which is wholly owned by Alea Holdings US Company. Pursuant to Section 5002 of the Delaware Insurance Code, Alea Group Holdings (Bermuda) Ltd. (AGHB) is the ultimate controlling entity of this Company. At year-end 2005 AGHB reflects \$4,184,836,000 of assets and \$3,694,407,000 of liabilities in its financial statements.

KKR 1996 Overseas Ltd. (KKR) owns 40.72% of AGHB at yearend 2005. KKR is headquartered in the Cayman Islands. As reflected in the following organization chart, there is no individual or institution that has more than a 10% ownership interest in KKR.

The organizational chart reflects the current Alea Group Holding Company structure as of December 31, 2005 prior to the Company's acquisition by Insurance Corporation of Hannover in 2006:

# Alea North America Specialty Insurance Company



All voting securities are 100% owned unless otherwise indicated.

\* Shares are held in nominee names for the benefit of AGHB in accordance with local practice.

\*\* Alea Group Holdings AG was merged into Alea Europe AG effective June 29, 2005.

NOTE (1): The New York Insurance Department has concluded that Alea Group Holdings (Bermuda) Ltd. is controlled by KKR 1996 Overseas Limited (Cayman Islands). No individuals or institutions have more than 10% shareholdings in KKR 1996 Overseas Limited (Cayman Islands).

NOTE (2): Ownership: 40.72% by KKR entities and 59.28% by other investors (each less than 10%).

## Alea North America Specialty Insurance Company

All required holding company forms were filed with the Delaware Insurance Department during the period under review.

### **TERRITORY AND PLAN OF OPERATION**

The Company is currently licensed as a property and casualty insurer only in the State of Delaware. It is an eligible surplus lines insurer in an additional thirty-eight (38) states.

As of December 31, 2005, the Company and its immediate parent, Alea North America Insurance Company, are both running off old business. In September 2005 Standard and Poor's lowered its rating on the Alea Group to "BBB+" from "A-" and AM Best lowered its rating from "B++" from "A-". In addition both rating institutions assigned a negative outlook assignment to the Alea Group. As a result of these actions, both the Company and its immediate parent ceased underwriting new business in November 2005. Subsequent to year-end, AM Best further downgraded the Alea Group's rating to "B" (Fair) and Standard and Poor's reaffirmed its "BBB" with a stable outlook assignment. Both of these subsequent ratings were made immediately prior to the Alea Group's request to withdraw all ratings.

Prior to this and since January 2003, the Company operated as a surplus lines insurer. The Company used unaffiliated managing general agents and insurance brokers to market their products. Throughout this period the Company had seven (7) separate programs established, all of which have been terminated or were allowed to expire without renewal prior to year-end 2005.

Prior to January 2003, the Company operated as a reinsurer.

**MANAGEMENT AND SERVICE AGREEMENTS**

During the period under review, the Company was involved with several management and service agreements to assist in the management of its daily business affairs and operations.

Since December 1998, the Company has been a party to several Guarantee Agreements with Alea Group Holdings (Bermuda) Ltd. (AGHB), a member of the Alea Group. The most recent agreement commenced on March 5, 2002. Under the terms of each agreement AGHB unconditionally guarantees payment of all losses incurred from business underwritten or reinsured by the Company. All guarantees automatically terminated upon the change of control of the Company when it was sold to the Insurance Corporation of Hannover on September 29, 2006.

Since April 1999, the Company has been a party to a General Management Services Agreement with Alea North America Company (ANAC), a member of the Alea Group. Under the terms of the agreement ANAC provides the necessary personnel and services to the Company in order to properly conduct business. The Company reimburses ANAC periodically based on the fair market value for the volume & quality of services provided.

On January 1, 2001, the Company entered into a Tax Allocation Agreement with Alea Holdings US Company (AHUSC), a member of the Alea Group. Under the terms of the contract AHUSC and its subsidiaries file United States Federal income taxes on a consolidated basis. Estimated payments and other amounts due to or from AHUSC are allocated based on the ratio of each subsidiary's taxable income to the total taxable income on a consolidated basis.

On December 22, 2000, the Company entered into an investment management

Alea North America Specialty Insurance Company

agreement with an unaffiliated financial management firm. Under the terms of the agreement the financial management firm provides investment advisory services, investment recordkeeping services, and manages the daily business activities surrounding the Company's investment portfolio. All investment transactions require the approval of appropriate Company management. The financial management firm is compensated based on value of the assets being handled and can earn incentives for investment performances. Amendments to the agreement in July 2002 and January 2005 adjusted the percentages of compensation to the financial management firm for services provided.

On December 17, 2004, the Company and other members of the Alea Group entered into a Service Mark Licensing Agreement with AGHB. The agreement allowed Group members to use the "Alea" and other such service marks AGHB has exclusive right to.

On January 1, 2005, the service entities of the Alea Group entered into a service and cost allocation agreement. The agreement describes methods to allocate costs and services provided for each other and other members of the Alea Group. One of the service entities is ANAC. The Company has a General Management Services Agreement with ANAC that was described earlier in this sub-section. As such the Company, although not a direct party to the contract, is influenced and affected by this cost allocation agreement through the General Management Services Agreement with ANAC.

All required affiliated company agreements were submitted to and approved by the Commissioner of the Delaware Insurance Department.

The Company's participation and/or privileges in all of these agreements

## Alea North America Specialty Insurance Company

terminated on the date the Company was sold on September 29, 2006. On this same day the Company (as Praetorian Specialty Insurance Company) entered into a new Administrative Services Agreement with Alea North America Insurance Company (ANAIC). Under the terms of the agreement ANAIC will manage the business being run-off for the Company's new owner until it expires or is commuted. Events and transactions surrounding the Company's sale are discussed in the "Subsequent Events" section of this examination report.

### **RETENTION AND REINSURANCE**

The Company protects itself from risk over-exposure through the use of reinsurance. The following is a description of the Company's reinsurance activity for the current period under review.

#### **Assumed Reinsurance**

The Company no longer assumes any insurance risks. It stopped assuming business in the latter part of 2002 after ceasing operations as a reinsurer.

#### **Ceded Reinsurance**

The Company cedes insurance risks to reinsurers both within and outside the Alea Group. Cessions made to unaffiliated reinsurers are captive arrangements involving business produced under two specific programs. The following outlines the Company's cession arrangements with unaffiliated reinsurers:

##### **The Bristol Management Excess and Surplus Lines Program:**

- |                  |   |
|------------------|---|
| Insured Risks:   | General Liability Including Employee Benefits   |
| Coverage Period: | 5-15-04 through 5-14-05   |
| Cessions:        | 65% of the first \$1,000,000 of risk per occurrence to two different reinsurers as follows:   |
|                  | <ul style="list-style-type: none"><li>▪ To the primary reinsurer a quota share 55% of:<ul style="list-style-type: none"><li>▪ <u>General liability</u> – the first \$1,000,000 per occurrence limit except for "Damage to</li></ul></li></ul> |

Alea North America Specialty Insurance Company

Premises” per occurrence limit \$100,000 and  
“Medical” Expense” per occurrence limit  
\$5,000, aggregate limit \$2,000,000 per policy.

- Employee Benefits - the first \$1,000,000 per occurrence limit, aggregate per policy limit \$1,000,000.
- To the secondary reinsurer a quota 10% share of the first \$1,000,000 of risk per occurrence, aggregate per policy limit \$1,000,000 adjustable to 93% of gross written premium or a maximum of \$1,250,000.

Coverage Period: 5-15-05 through 5-14-06

Cessions: 70% of the first \$1,000,000 of risk per occurrence to two different reinsurers as follows:

- To the primary reinsurer a quota share 60% of:
  - General liability – the first \$1,000,000 per occurrence limit except for “Damage to Premises” per occurrence limit \$100,000 and “Medical” Expense” per occurrence limit \$5,000, aggregate limit \$2,000,000 per policy.
  - Employee Benefits - the first \$1,000,000 per occurrence limit, aggregate per policy limit \$1,000,000.
- To the secondary reinsurer a quota 10% share of the first \$1,000,000 of risk to aggregate per policy limit \$900,000 adjustable to 90% of gross written premium or a maximum of \$1,000,000.

The Sports and Fitness Health Club Program:

Insured Risks: General Liability Including Employee Benefits and Hired  
Non-owned Automobile Liability (Coverage A)  
Commercial Property, Crime, & Inland Marine (Coverage B)

Coverage Period: 7-15-04 through 3-31-06

Cessions: Coverage A - a quota share 50% of the first \$400,000 of risk per occurrence.

Coverage B – a quota share 50% of the first \$250,000 per occurrence

Aggregate per policy limit \$2,000,000 adjustable to 50% of gross written premium to a maximum of \$5,000,000.

Cessions made to affiliates involve a flexible quota share contract with Alea

## Alea North America Specialty Insurance Company

(Bermuda) Ltd that became effective July 1, 2003. Under the terms of the contract Alea (Bermuda) Ltd assumes a percentage of all remaining risk produced by the Company not otherwise ceded away to other reinsurers. The percentage amount is flexible, established and adjusted by amendment. At July 1, 2003, it was set at 70%. As of year-end 2005, the cession percentage remained at 70%. The contract and all its amendments have been submitted to and approved by the Commissioner of the Delaware Insurance Department.

On September 29, 2006, the flexible quota share agreement was adjusted to cede 100% of the business produced by the Company (prior to its acquisition by Insurance Corporation of Hannover) to Alea (Bermuda) Ltd after applying other applicable reinsurance. This was done in conjunction with the sale of the Company. The unaffiliated reinsurance arrangements in place were not terminated. The sale of the Company is described in further detail in the “Subsequent Events” section of this examination report.

### **GROWTH OF COMPANY**

The following information, obtained from the Company’s filed Annual Statements; reflect the Company’s growth since its last examination:

Year	Admitted Assets	Gross Written Premium	Net Written Premium	Net Income	Surplus as Regards Policyholders
2005	\$40,795,893	\$ 15,127,121	\$ 2,697,762	\$ 432,211	\$ 31,267,735
2004	37,794,775	10,830,750	2,080,452	166,965	31,190,351
2003	31,919,917	200,948	60,284	484,186	31,048,262
2002	20,966,421	*	*	450,817	20,604,818
2001	24,637,218	*	*	656,175	24,154,001
2000	24,022,440	*	*	444,570	23,390,430

\* - No direct written premium because the Company operated as a reinsurer

**ACCOUNTS AND RECORDS**

The administrative and service agreement (described in the “Management and Service Agreements” sub-section of this report) allows the Company to utilize the personnel and electronic data processing equipment of Alea North America Company to handle the recording of its daily business activities and to maintain its accounting records. Bank accounts are reconciled monthly, and reinsurance activity recorded quarterly. An overall general assessment of the information systems indicates the Company has adequate procedures and controls in place. The Company makes use of applicable NAIC accounting literature and guidelines to prepare its financial reports and to produce other necessary statutory documentation.

**FINANCIAL STATEMENTS**

The following statements and exhibits reflect the financial condition of the Company at December 31, 2005:

- Analysis of Assets
- Liabilities Surplus and Other Funds
- Underwriting and Investment Exhibit – Statement of Income
- Underwriting and Investment Exhibit – Capital and Surplus Account

**Analysis of Assets**

	Ledger Assets	Non-admitted Assets	Net Admitted Assets
Bonds	\$ 36,265,264	\$ -	\$ 36,265,264
Cash \$338,855; cash equivalents \$557,387 and short-term investments \$115,573	1,011,815	-	1,011,815
Receivables for securities	48,253	-	48,253
Subtotals; cash and invested assets	\$ 37,325,332	\$ -	\$ 37,325,332
Investment income due and accrued	\$ 503,068	\$ -	\$ 503,068
Uncollected premiums and agents' balances in the course of collection	460,371	386,639	73,732
Deferred premiums; agents' balances and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums)	23,677	-	23,677
Amounts recoverable from reinsurers	551,623	-	551,623
Current federal and foreign income tax recoverable and interest thereon	1,790	-	1,790
Net deferred tax asset	91,667	91,667	-
Receivables from parent; subsidiaries and affiliates	1,887,000	-	1,887,000
Cash advances to third party administrators	463,476	33,805	429,671
Total Assets	<u>\$ 41,308,004</u>	<u>\$ 512,111</u>	<u>\$ 40,795,893</u>

Alea North America Specialty Insurance Company

**Liabilities Surplus and Other Funds**

Losses	\$ 1,232,538	Note 1
Reinsurance payable on paid losses and loss adjustment expenses	21,089	
Loss adjustment expenses	491,689	Note 1
Contingent commissions and other similar charges	332,068	
Other expenses (excluding taxes; licenses and fees)	53,780	
Taxes; licenses and fees (excluding federal and foreign income taxes)	144,255	
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$3,948,132 and including warranty reserves of \$0)	776,671	
Ceded reinsurance premiums payable (net of ceding commissions)	240,593	
Funds held by company under reinsurance treaties	12,500	
Amounts withheld or retained by company for account of others	9,731	
Payable to parent; subsidiaries and affiliates	6,167,766	
Payable for securities	<u>45,478</u>	
Total liabilities	\$ 9,528,158	
Common capital stock	\$ 3,500,000	
Gross paid in and contributed surplus	26,730,690	
Unassigned funds (surplus)	<u>1,037,045</u>	
Surplus as regards policyholders	\$ 31,267,735	
Total Liabilities and Surplus	<u>\$ 40,795,893</u>	

**Underwriting and Investment Exhibit**

**Statement of Income**

Premiums earned	\$ 2,917,054
Losses incurred	1,640,735
Loss expenses incurred	734,533
Other underwriting expenses incurred	<u>987,332</u>
Total underwriting deductions	\$ 3,362,600
Net underwriting gain (loss)	\$ (445,546)
Net investment income earned	\$ 1,251,146
Net realized capital gains (losses) less capital gains tax of \$0	<u>(74,020)</u>
Net investment gain (loss)	\$ 1,177,126
Net gain (loss) from agents' or premium balances charged off (amount recovered \$4 amount charged off \$1,162)	<u>(1,158)</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ 730,422
Dividends to policyholders	<u>-</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ 730,422
Federal and foreign income taxes incurred	298,211
Net income	<u>\$ 432,211</u>

**Capital and Surplus Account**

Surplus as regards policyholders; December 31, 2004	\$ 31,190,351
Net income	\$ 432,211
Change in net deferred income tax	43,485
Change in nonadmitted assets	(398,312)
Change in surplus as regards policyholders for the year	<u>\$ 77,384</u>
Surplus as regards policyholders; December 31, 2005	<u>\$ 31,267,735</u>

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

This report proposes no examination adjustments.

**NOTES TO THE FINANCIAL STATEMENTS**

<b><u>Note 1 - Losses</u></b>	<b><u>\$ 1,232,538</u></b>
<b>Loss Adjustment Expenses</b>	<b><u>\$ 491,689</u></b>

These amounts represent the Company's estimate for unpaid losses and loss adjustment expenses as of year end 2005. The estimates are comprised of the following:

	<u>Losses</u>	<u>Loss Adjustment Expenses</u>
Case Reserves - Direct Business	\$ 992,721	\$ 325,330
Add: Reinsurance Assumed	-	-
Less: Reinsurance Ceded	<u>(828,715)</u>	<u>(254,911)</u>
Net Retained Case Reserves	\$ 164,006	\$ 70,419
Incurred but Not Reported - Direct Business	\$ 6,412,102	\$ 2,608,731
Add: Reinsurance Assumed	-	-
Less: Reinsurance Ceded	<u>(5,343,570)</u>	<u>(2,187,461)</u>
Net Retained Incurred but Not Reported Loss Reserves	\$ 1,068,532	\$ 421,270
Net Retained Loss Reserves	<u>\$ 1,232,538</u>	<u>\$ 491,689</u>

The Company's loss reserve estimate broken down by line of business is as follows:

	<u>Losses</u>	<u>Loss Adjustment Expenses</u>
Commercial Multiple Peril	\$ 44,102	\$ 12,265
Other Liability - Occurrence	1,053,280	456,772
Products Liability - Occurrence	24,192	9,994
Auto Physical Damage	<u>110,964</u>	<u>12,658</u>
	<u>\$ 1,232,538</u>	<u>\$ 491,689</u>

Alea North America Specialty Insurance Company

The estimates were determined to be reasonable based on the review of the independent actuarial opinions filed with the annual statements for each period under review and the analysis of reinsurance transactions that occurred during 2005.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The last examination report of this Company as of December 31, 2002 proposed no recommendations.

**RECOMMENDATIONS**

This examination proposes no recommendations.

**CONCLUSION**

As a result of this examination, the financial condition of Alea North America Specialty Insurance Company, as of December 31, 2005 was determined to be as follows:

Admitted Assets	\$ 40,795,893
Liabilities	9,528,158
Common capital stock	\$ 3,500,000
Gross paid in and contributed surplus	26,730,690
Unassigned funds	1,037,045
Surplus as Regards Policyholders	\$ 31,267,735
Total Liabilities and Surplus	\$ 40,795,893

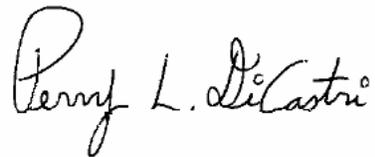
The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Alea North America Specialty Insurance Company

<u>Description</u>	<u>12/31/2005 Current Examination</u>	<u>12/31/2000 Prior Examination</u>	<u>Changes Increases (Decreases)</u>
Assets	\$ 40,795,893	\$ 24,022,440	\$ 16,773,453
Liabilities	\$ 9,528,158	\$ 632,010	\$ 8,896,148
Surplus as Regards Policyholders	\$ 31,267,735	\$ 23,390,430	\$ 7,877,305

In addition to the undersigned, Steven Guest, CFE, a Delaware Supervising Examiner participated in the examination.

Respectfully submitted,



---

Perry L. DiCastrì, CFE  
Examiner-in-Charge  
Delaware Department of Insurance

**SUBSEQUENT EVENTS**

On May 25, 2006, the Insurance Corporation of Hannover (which became Praetorian Insurance Company on July 1, 2006) entered into a stock purchase agreement with Alea North America Insurance Company to acquire all outstanding shares of the Company for an amount equal to the adjusted closing surplus of the Company as of the closing date of the sale plus \$4,000,000. The stock purchase agreement required the following events to occur in connection with the sale:

- The Company settle-up on all inter-company balances and on all arrangements the Company has with unaffiliated entities providing services to the Company (\$2,076,729 at the close).
- The Company terminates its participation in or involvement with all inter-company management and service agreements with members of the Alea Group.
- The Company terminates its participation in or involvement with all unaffiliated management and service agreements.
- The flexible reinsurance agreement be amended so that Alea (Bermuda) Ltd assumes 100% of the risk on all prior business the Company produced or reinsured prior to the date of sale and any renewals of such business. Also that a Trust Account be established and adequately funded (initially for \$7,546,953) by Alea (Bermuda) Ltd.
- The Company enter into a new administrative and services agreement with Alea North America Insurance Company to service the business the Company produced or renewed prior to the date of sale, and any renewals of such business, until that previous business is completely run off or commuted.
- The establishment of a fiduciary account to pay projected claims on the business the Company produced to the date of sale. The account is to be funded (initially for \$1,000,000) by Alea (Bermuda) Ltd.

The proposed sale of the Company was submitted to the Delaware Insurance Department on June 8, 2006, which approved it on September 27, 2006.

The Company was sold on September 29, 2006 for \$34,608,593. At the closing date and after the settlement of \$2,076,729 of inter-company balances, the Company's

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adjusted surplus as regard policyholders' was \$30,608,593.

Information analyzed from the Company's new owners indicates it will continue to operate as a surplus lines writer and will be the successor writer of a selected book of specialty business which is currently part of the writings of several insurance companies within the Clarendon Group of insurers. The 2006 Annual Statement indicates that little if any business has been produced by the Company since the acquisition.

In December 2006, the Praetorian Financial Group announced its intent to be acquired by QBE Holdings Inc. a Delaware corporation. The Praetorian Financial Group wholly owns Praetorian Insurance Company which wholly owns this Company. This event is not expected to have any significant effect upon the planned future pertaining to this Company's operations.