REPORT ON EXAMINATION

OF THE

XL SELECT INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2010 of the

XL SELECT INSURANCE COMPANY

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.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
(302) 674-7300 Dover • (302) 739-5280 fax • (302) 577-5280 Wilmington

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

OF THE

XL SELECT INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

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

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 28th day of June, 2012

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
(302) 674-7300 Dover • (302) 739-5280 fax • (302) 577-5280 Wilmington

TABLE OF CONTENTS

April 23, 2011

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. 11-014, an Association examination has been made of the affairs, financial condition and management of the

XL SELECT INSURANCE COMPANY

hereinafter referred to as "Company" or "XL Select" 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 by the Oklahoma Department of Insurance. 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

Uncollected premiums in course of collection
The Company failed to record a total Pool amount of $2,857,495 as a 90 day over due balance for the XL Specie operating business unit at December 31, 2005. The Company's 2% allocation was $57,150. The Company also should have non-admitted a total pooled amount of $1,702,841 as an over-due balance in the XL Programs operating business unit due to the fact that balances are difficult to age as there has been historically a lack of policy level detail received from the Program Manager. The Company's 2% allocation was $34,057.

The Company has complied.

Reinsurance recoverable
During the course of the examination, the Company notified the examiners of the over-cession of losses from XL Reinsurance America Inc. to XL Re Ltd, of $90,257,803 in reserves that was associated with the 2003 accident year. The over-cession pertained to a 75% Quota Share Agreement in effect between XL Re Ltd and XL Reinsurance America Inc. on behalf of itself and its Pool members. The total Pool amount for the reinsurance recoverable was $82,229,016. The Company's 2% allocation was $1,644,580.

The Company has complied.

Accrued retrospective premiums
The Company failed to calculate the comparison of the accrued retrospective premiums receivable balance to applicable offsets. In order to comply with SSAP 66, paragraph 9, the examiners assumed that there were no offsets and non-admitted 10% of the reported balance of $6,671,231 for a total Pool amount of $667,123. The Company's 2% allocation was $13,342.

The Company has complied.

Deductible recoverable
During the course of the examination, it was noted that the Company had reported balances in Genius of $2,496,493 and in GAIN of $195,463 which were over 90 days past due. In accordance with SSAP 65, paragraph 37, deductible recoverables over 90 days old shall be non-admitted. After application of cash received that was not processed against these balances, the total non-admitted for the Pool is $2,574,510. The Company's 2% allocation was $51,490.

The Company has complied.

Losses and loss adjustment expenses
The Company notified the examiners of the over-cession of losses from XL Reinsurance America Inc. to XL Re Ltd. of $90,257,803 in reserves that was associated with the 2003 accident year. The over-cession pertained to a 75% Quota Share Agreement in effect between XL Re Ltd and XL Reinsurance America Inc. on behalf of itself and its Pool members. The Company's reported loss and loss adjustment reserve established at December 31, 2005 was deficient by $3,449,736.

The Company has complied.

Commission payable
The Company did not accrue a liability for the 45% profit sharing commission payable to Heartland Crop for the Crop Hail and Multiple Peril Crop Insurance business written during 2005. The estimated liability on a pooled basis was $11,180,443, subject to an 85% Crop Hail Quota Share Retrocession and to the 75% Quota Share Agreement with XL Re Ltd. The total adjustment for the Pool was $419,267. The Company's 2% allocation is $8,385. A second adjustment in commission payable resulted from XL Reinsurance America Inc.'s failure to provide valid support for ceded profit commission in the total pooled amount of $3,287,498. The Company's 2% allocation for this second adjustment is $65,750.

The Company has complied.

Unearned premium
Based on examiner's review during the sample testing of various lines of business, the Company incorrectly calculated the unearned premium reserves for the XL Professional operating business unit "run-off" policies. The total Pool adjustment was $10,444,331 which is subject to the 75% Quota Share Agreement. The Company's 2% share of the net amount is $52,222.

The Company has complied.

Provision for reinsurance
The examiner's review and recalculation of the provision for reinsurance on a pooled basis resulted in an addition to the provision of $62,422,826. This recalculation included provisions for overdue authorized reinsurance and unsecured unauthorized balances. The Company's 2% allocation is $1,248,457.

The Company has complied.

Aggregate write-ins for liabilities - Accounts payable
An accrual for services rendered by KPMG during 2005 to conduct an audit of claims processing and procedures had not been established at December 31, 2005. The total paid for these services in March 2006 was $1,071,748. The Company's 2% allocation is $21,435.

The Company has complied.

Losses and loss adjustment expenses
A review of XL Group Internal Audit Department reports noted a finding relating to a re-allocation of ceded IBNR. This finding described a company practice of re-allocating the portion of ceded IBNR attributable to insolvent reinsurers, to solvent reinsurers, thereby taking credit for IBNR

recoverable due from insolvent reinsurers. The re-allocated IBNR for the Pool totaled $21,879,055. The Company's 2% allocation is $437,581. In addition, the loss reserves carried by the Pool members at December 31, 2005 reflected a subsequent year development deficiency of $32,325,000 as of December 31, 2006, per the New York Department of Insurance's actuary. The Company's 2% allocation is $646,500.

The Company has complied.

SUBSEQUENT EVENTS

There were no significant events subsequent to the examination date.

COMPANY HISTORY

The Company was incorporated on October 18, 1965 under the name Vanguard Underwriters Insurance Company and was a wholly-owned subsidiary of Republic Insurance Company, which was a wholly-owned subsidiary of Republic Financial Services, Inc., a holding company. On December 9, 1982, all of the outstanding stock of Republic Financial Services, Inc. was acquired by Winterthur U.S. Holdings, Inc., a Delaware corporation, and a wholly-owned subsidiary of Winterthur Swiss Insurance Company. On January 1, 1998, Vanguard Underwriters Insurance Company’s name was changed to Winterthur International America Underwriters Insurance Company (WIAU).

On July 1, 2001, X.L. America, Inc. (X.L. America), a Delaware corporation, purchased all of the outstanding shares of WIAU and also purchased all of the outstanding shares of XL Insurance America, Inc. (formerly known as Winterthur International America Insurance Company) (XLIA). Thereafter, X.L. America contributed all of the capital stock of WIAU to XLIA, thereby making WIAU a direct subsidiary of XLIA. Effective January 1, 2002, the Company changed its name from WIAU to XL Select Insurance Company (XL Select).

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, 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. As a result of the contribution of XLIA to Greenwich, XL Select became an indirect wholly-owned subsidiary of Greenwich, which is a direct wholly-owned subsidiary of XLRA.

During the current examination period the company re-domiciled from Oklahoma to Delaware effective March 4, 2008.

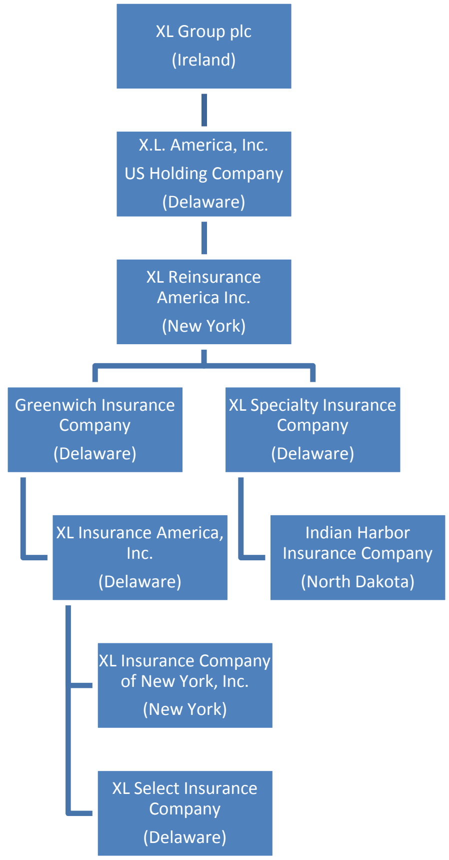
CORPORATE RECORDS

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 of Directors 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 of Directors, 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:

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

Officers

The Company's bylaws state that the officers of the Company shall be chosen by the Board and shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary and a Treasurer. One person may hold two positions with the exception of President and Secretary.

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

Name	Title
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 XL Select and its insurance company affiliates (together the Pool members) are as follows:

NAIC #	Company	Pool Percentage As of Dec 31, 2010
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 QS 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 its state of Delaware, Louisiana, Oklahoma and Texas. It is eligible or approved to write surplus lines in all other states, except; California, Connecticut, Maine, New Mexico, Florida and Texas.

Plan of Operation

XL Select writes primarily liability lines of business. XL Select’s business is currently produced by the XL Casualty underwriting unit of XLIA under a shared services agreement and a small part of the business will be produced by the Property underwriting unit in 2011. The coverages offered by XL Casualty are available in primary, lead or follow positions, quota-share or layer, and are offered as single country coverages or as part of a global program structure. Specific lines include primary general liability, products liability, lead umbrella and excess umbrella.

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, as of December 31, 2010:

Year	Net Admitted Assets	Liabilities	Surplus as Regards Policyholders	Gross Premiums Written	Net Premiums Earned	Net Income/(Loss)
2010	$ 135,452,719	$ 77,742,937	$ 57,709,782	$ 22,561,484	$ 23,180,826	$ 2,093,859
2009	$ 135,057,144	$ 81,569,723	$ 53,487,421	$ 23,238,815	$ 25,310,269	$ 883,010
2008	$ 131,501,633	$ 78,715,244	$ 52,786,389	$ 38,183,540	$ 29,628,941	$ 2,963,220
2007*	$ 118,256,376	$ 71,447,633	$ 46,808,743	$ 35,224,048	$ 15,736,616	$ 4,171,027
2006*	$ 113,401,927	$ 67,757,331	$ 45,644,596	$ 43,707,162	$ 16,652,817	$ 4,859,384
2005	$ 121,202,228	$ 79,732,841	$ 41,469,387	$ 49,453,952	$ 15,646,866	$ 690,533

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

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

- 11.8 % increase in Net Admitted Assets
- 2.5 % decrease in Liabilities
- 39.2 % increase in Surplus
- 54.4% decrease in Gross Premiums Written
- 48.2% increase in Net Premiums Earned
- 203.2 % increase in Net Income

The increases during the exam period in Net Admitted Assets and Surplus as Regards Policyholders of 11.8% and 39.2% respectively, and the slight 2.5% decrease in liabilities 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 Premiums Written listed above is 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 has focused on those lines that are more profitable. As a result, the gross premiums written by the Pool 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 expenses unpaid reserves as of December 31, 2010 were $61,365,432. During 2011, unfavorable development of $505,000 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

The Company did not have any assumed reinsurance as part of its 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 member, 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

Property	
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	
1st Layer (Worldwide excluding US)	$100,000,000 excess of $75,000,000
2nd Layer US (all perils)	$150,000,000 excess of $150,000,000
3rd 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 (46.5% Placed)	$50,000,000 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 Physical Damage (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 Written on a Facultative basis	$130,000,000 excess of $20,000,000 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	The treaty provides catastrophe protection for

Share	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:	
1st Layer	58.0% of $15,000,000 excess of $10,000,000
2nd Layer	100% of $25,000,000 excess of $25,000,000
3rd Layer	82.0% of $25,000,000 excess of $50,000,000

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 No. 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
Reconciliation of Surplus for the Period since the Last Examination
Analysis of Financial Statement Changes resulting from Examination

ASSETS
DECEMBER 31, 2010

	Assets	Non-Admitted Assets	Admitted Assets	Notes
Bonds	$ 105,867,454	$ 0	$ 105,867,454	1
Cash, cash equivalents and short-term investments	7,137,119	0	7,137,119	
Subtotals, cash and invested assets	$ 113,004,573	$ 0	$ 113,004,573	
Investment income due and accrued	811,201	0	811,201	
Uncollected premiums and agents' balances	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	0	3,109,184	
Accrued retrospective premiums	413,017	5,127	407,890	
Funds held by or deposited with reinsured companies	7,563,339	0	7,563,339	
Other amounts receivable under reinsurance contracts	23,951	0	23,951	
Current federal income tax recoverable	115,087	0	115,087	
Net deferred tax asset	4,280,547	940,073	3,340,474	
Guaranty funds receivable or on deposit	16,585	0	16,585	
Receivables from parent, subsidiaries and affiliates	1,766,527	314,117	1,452,410	
Aggregate write-ins for other than invested assets	2,349,131	42,537	2,306,594	
Totals	$ 138,284,495	$ 2,831,776	$ 135,452,719	

LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2010

Losses	$	53,214,038
Reinsurance payable on paid losses and LAE		231,869
Loss adjustment expenses		8,151,394
Commissions payable, contingent commissions and other similar charges		(43,640)
Other expenses		1,665,665
Taxes, licenses and fees		212,662
Unearned premiums		11,349,768
Advance premiums		442,891
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		811,978
Total Liabilities	$	77,742,937
Aggregate write-ins for special surplus funds	$	948,714
Common capital stock		4,100,000
Gross paid in and contributed surplus		23,600,000
Unassigned funds (surplus)		29,061,068
Surplus as regards policyholders	$	57,709,782
Totals	$	135,452,719

STATEMENT OF INCOME
DECEMBER 31, 2010

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	$ 4,143,550
Net realized capital losses	(220,340)
Net investment gain	$ 3,923,210
Net loss from agents' or premium balances charged off	$ (93,747)
Aggregate write-ins for miscellaneous income	(51,949)
Total other income	$ (145,696)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$ 2,770,945
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$ 2,770,945
Federal and foreign income taxes incurred	677,086
Net Income	$ 2,093,859

Capital and Surplus Account	
Capital and surplus, December 31, 2009	$ 53,487,421
Gains and (losses) in surplus	
Net income (loss)	$ 2,093,859
Change in net unrealized capital gains or (losses) less capital gains tax of ($19,248)	35,748
Change in net deferred income tax	(1,400,131)
Change in non-admitted assets	1,914,761
Change in provision for reinsurance	1,207,060
Aggregate write-ins for gains and losses in surplus	371,064
Change in surplus as regards policyholders for the year	$ 4,222,361
Capital and surplus, December 31, 2010	$ 57,709,782

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-in for special surplus funds	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Funds (Surplus)	Surplus as Regards Policyholders
12/31/2005 (1)		$ 4,100,000	$ 23,600,000	$ 13,769,387	$ 41,469,387
Operations 2006 (2)				4,175,209	4,175,209
Operations 2007 (2)				1,164,147	1,164,147
Operations 2008 (2)				5,977,646	5,977,646
Operations 2009 (2)				123,382	123,382
Aggregate write-ins for gains and losses in surplus (3)	$ 577,650				577,650
Operations 2010 (2)				3,851,297	3,851,297
Aggregate write-ins for gains and losses in surplus (3)	$ 371,064				371,064
December 31, 2010	$ 948,714	$ 4,100,000	$ 23,600,000	$ 29,061,068	$ 57,709,782

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. The Company recorded its SSAP 10R Deferred Tax Adjustment.

As of December 31, 2010, the Company had 820,000 issued and outstanding shares of common stock with a par value of $5.00 per share, for common capital stock totaling $4,100,000. All of the common stock of the Company is issued to XLIA.

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

Note 1 - Bonds	$105,867,454

The categories of bonds at December 31, 2010 include U.S. Government Bonds, $44,363,865 or 42%, U.S. Special Revenue & Special Assessment Obligations- non guaranteed, $16,260,008 or 15.3% and Industrial and Miscellaneous $45,243,581 or 42.7%. All of the Companies securities are rated as Class 1 by the NAIC Securities Valuation Office (SVO), except for $2,849,256, 2.6% and $1,363,163, 1.3%, rated as class 2 and class 3, respectively.

Note 2	
Losses	$53,214,038
Loss adjustment expenses	$8,151,394

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:

Losses

Reported Losses (Case)		
Direct	$	7,167,695
Reinsurance Assumed		18,493,475
Reinsurance Ceded		(7,167,695)
Net Reported Losses	$	18,493,475
Incurred but not reported (IBNR)		
Direct	$	23,652,272
Reinsurance Assumed		35,072,299
Reinsurance Ceded		(24,004,008)
Net IBNR	$	34,720,563
Net Losses Unpaid	$	53,214,038
Loss Adjustment Expenses	$	8,151,394

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 Prior Examination	12/31/2010 Current Examination	Increase (Decrease)
Assets	$ 121,046,189	$ 135,452,719	$ 14,406,530
Liabilities	$ 84,018,326	$ 77,742,937	$ (6,275,389)
Aggregate Write-ins for special surplus funds	$ -	$ 948,714	$ 948,714
Common capital stock	4,100,000	4,100,000	-
Gross paid in and contributed capital	23,600,000	23,600,000	-
Unassigned funds (surplus)	9,327,863	29,061,068	19,733,205
Total surplus as regards policyholders	$ 37,027,863	$ 57,709,782	$ 20,681,919
Totals Liabilities and Surplus	$ 121,046,189	$ 135,452,719	$ 14,406,530

Respectfully submitted,

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