REPORT ON EXAMINATION

OF THE

ALTERRA EXCESS & SURPLUS 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

ALTERRA EXCESS & SURPLUS INSURANCE COMPANY

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

Attest By:

Date: 19 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 19th day of June, 2012.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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(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

ALTERRA EXCESS & SURPLUS 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 19th day of June, 2012

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April 30, 2012

SALUTATION

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

Commissioners:

In compliance with instructions and pursuant to Certificate of Authority No. 11.028, issued July 26, 2011 by the Delaware Department of Insurance, an examination has been made of the affairs, financial condition and management of the

ALTERRA EXCESS & SURPLUS INSURANCE COMPANY

hereinafter referred to as "Company" or "AESIC", incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the principal administrative offices of the Company located at 9020 Stony Point Parkway, Suite 325, Richmond, VA. The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2005. This examination covered the period from 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.

This examination was conducted 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 examiners perform an examination to evaluate the financial condition and identify prospective risks of the Company. In doing so, the examiners reviewed corporate governance, identified inherent risks of the Company, and evaluated the controls and procedures used to mitigate the identified 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 applicable annual statement instructions.

During the course of the examination, consideration was given to the work performed by the Company's external accounting firm, KPMG LLP (KPMG). Certain work papers prepared by the external accounting firm were incorporated into the examiners work papers if deemed appropriate and in accordance with the NAIC Handbook.

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

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings noted in this examination report.

SUBSEQUENT EVENTS

On July 10, 2011, AESIC, and Alterra Specialty Insurance Services Limited ("Alterra Services", formerly Max Specialty Insurance Services, Ltd.), and Alterra Capital Services USA, LLC entered into a Renewal Rights and Asset Purchase Agreement (the "Renewal Rights Agreement") with Selective Insurance Company of America ("Selective") to sell the commercial excess and specialty lines business written under contract binding authority by AESIC contracted general agents for $4,889,674. In connection with the Renewal Rights Agreement, AESIC subsequently entered into a 100% quota share reinsurance agreement effective August 1, 2011 with Selective to reinsure all policies issued, rewritten or renewed on or after the effective date by Selective for this business.

COMPANY HISTORY

The Company is a multiple line insurance carrier underwriting commercial property and casualty products on an excess and surplus lines basis in 49 U.S. States and the District of Columbia (the Company is an excess & surplus lines eligible carrier in all states except Delaware, where the Company is domiciled). The Company uses wholesale brokerage and managing general agencies, or contract binding, distribution channels to offer property and casualty coverages for commercial and specialty personal lines risk classes. The brokerage products include property catastrophe, property non-catastrophe, middle market property, inland marine and casualty insurance. The contract binding products include property, casualty, inland marine, umbrella and excess liability insurance. All products are underwritten on an individual risk basis. The Company began underwriting business under its current management in June 2007.

The Company was acquired by Max USA Holdings Ltd. (now Alterra USA Holdings Limited "Alterra USA") on April 2, 2007 from The Jefferson Insurance Company ("Jefferson") and Jefferson's parent, Allianz of America, Inc. ("Allianz"). The change of control was approved by the Delaware Insurance Department on March 23, 2007. Immediately following the closing of the acquisition, the Company changed its name to Max Specialty Insurance Company (formerly Monticello Insurance Company) and was purchased by Alterra USA. In addition to non-affiliated third party reinsurance, the Company entered into a Whole Account Quota Share Agreement with an affiliate, Max Bermuda Ltd (now Alterra Bermuda Limited), which cedes 80% of the Company's net retained liability for all business written on or after April 2, 2007.

Under its former owner, Allianz, the Company was party to an intercompany reinsurance agreement with its former affiliate, Jefferson. Effective February 1, 2007, the Company entered into a Commutation and Settlement Agreement with Jefferson which provided for the commutation of the intercompany pooling agreement and depooling of the two companies' assets and liabilities. In addition, the Company entered into a Quota Share Reinsurance Agreement with Allianz Global Risks US Insurance Company (Allianz Global), whereby the Company cedes 100% of policy liabilities for all business written on or prior to February 1, 2007 not covered by any third party reinsurance. The Company entered into an Assumption Agreement with Allianz Global that covers any liabilities related to all events occurring on or prior to April 2, 2007 (date of sale of the Company to Alterra USA). Immediately prior to the aforementioned sale of the Company to Alterra USA, a special dividend was made to Allianz which left the Company with $20 million in cash and investments and associated policyholders' surplus. All activity, including loss reserves related to the run-off business prior to sale, was fully reinsured as previously mentioned.

The Company acquired all outstanding shares of Alterra America Insurance Company ("AAIC") (then known as Commercial Guaranty Casualty Insurance Company) on June 2, 2008, as approved by both the Delaware and Indiana Departments of Insurance. AAIC is licensed in 50 states and began underwriting commercial marine business in 2009. The transaction was accounted for as a statutory purchase, consistent with SSAP 68 paragraphs 3, 6 and 7; and with SSAP 97 paragraphs 10, 11 and 13(a). The cost of the AAIC acquisition was $32 million, resulting in goodwill of $12 million.

On May 12, 2010, Alterra Capital Holdings Limited ("Alterra Capital" formerly Max Capital Group Ltd.) completed its acquisition of Harbor Point Limited, a privately held Bermuda-based reinsurance group through an amalgamation. On December 21, 2010 the Company paid a dividend of the outstanding investment in AAIC, including book value and unamortized goodwill, to Alterra USA. Alterra USA subsequently contributed all outstanding stock of the Company to AAIC through a capital contribution on December 21, 2010.

During the period covered by this examination, gross paid-in and contributed surplus increased $101,355,583 from $9,700,000 in 2005 to $111,055,583 in 2010. The increase for the period is illustrated in the following schedule:

Ending Balance as of December 31, 2005	$ 9,700,000
Capital Contribution from parent- 2007	130,000,000
Dividend – AAIC Stock - 2010	(28,644,417)
Ending Balance as of December 31, 2010	$ 111,055,583

CORPORATE RECORDS

The minutes of the Board of Directors and Shareholders were reviewed for the period under examination. The recorded minutes documented activities and transactions of the Company.

There are six board committees of Alterra Capital which provide additional oversight of Alterra Capital and the activities of the enterprise as a whole, to the Company as follows: Audit and Risk Management Committee; Compensation Committee; Executive Committee; Finance and Investment Committee; Nominating and Corporate Governance Committee; and the Underwriting/Risk Management Committee. The Audit and Risk Management Committee of Alterra Capital has been designated by AESIC as the designated Audit Committee.

The bylaws were amended in connection with the acquisition of the Company by Alterra USA in 2007. Following the acquisition of the Company and during the period under examination the bylaws were amended to change the name of the Company.

The articles of incorporation were amended on April 3, 2007 in connection with the acquisition of the Company by Alterra USA to reflect a name change from Monticello Insurance Company to Max Specialty Insurance Company. The articles of incorporation were further restated on May 13, 2010 to change the name from Max Specialty Insurance Company to Alterra Specialty Insurance Company. The Amended and Restated Certificate of Incorporation was duly adopted by the Board of Directors and sole stockholder of the Corporation solely to reflect the change of the Corporation’s name from Alterra Specialty Insurance Company to Alterra Excess & Surplus Insurance Company on September 27, 2010.

Copies of the Form B Holding Company Registration Statements filed with the Delaware Department of Insurance during the period under examination were reviewed. Per the review, the Company has complied with the provisions of 18 Del. Admin. Code 1801.

MANAGEMENT AND CONTROL

Pursuant to General Corporation laws of the state of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or under the direction of a Board of Directors, which shall be determined by the shareholder.

As stated in the bylaws, the Board of Directors determines the place, time and date of annual stockholders meetings. During the period under review, the Board of Directors held annual meetings after the annual shareholders' meetings, as well as special meetings by written consent. A majority of the directors then in office, but not less than one-third of the number of directors fixed by the Board of Directors, constitutes a quorum for purposes of any meeting of the Board of Directors.

The number of directors is determined by the Board. On December 21, 2010, the Board resolved to increase the number of directors to five directors and appointed Douglas M. Worman to fill the vacancy

Directors duly elected and serving at December 31, 2010 and their business affiliations are as follows:

Name	Business Affiliation
Stephen J. Vaccaro, Jr. (Board Chairman)	President & Chief Executive Officer
William Kronenberg III	Outside Director
James A. MacNaughton	Outside Director

Douglas M. Worman	President & CEO, Alterra USA EVP, Alterra Capital
Peter A. Minton	EVP & COO Alterra Capital Holdings, Ltd.

Pursuant to the Amended and Restated Bylaws adopted on September 27, 2010, the officers shall be a Chairman of the Board, Chief Executive Officer, President, Treasurer, Secretary and other officers as the Board of Directors may from time to time deem advisable.

The officers of the corporation shall be elected annually. The senior officers elected to serve at December 31, 2010 were as follows:

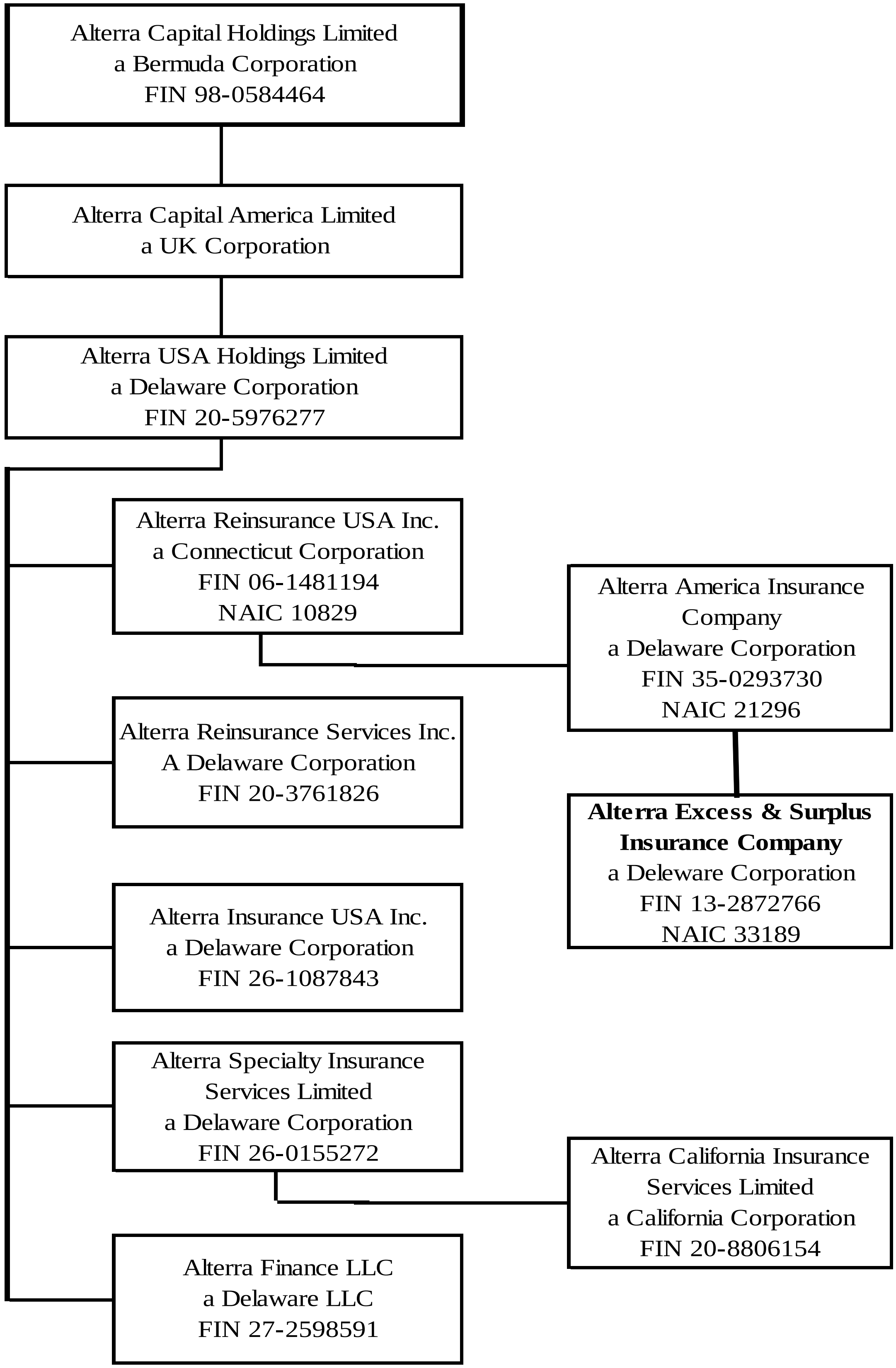
Name	Title
Stephen J. Vaccaro, Jr.	Chief Executive Officer and President
Bryan W. Sanders	Executive Vice President
Douglas M. Worman	Executive Vice President - Insurance
Stephen M. Loderick	Senior VP, Chief Financial Officer, Treasurer and Secretary
Sheila Nugent-Carter	Assistant Secretary
Bernard Asirifi	Assistant Secretary

The Company's Code of Conduct and Conflict of Interest statements were reviewed for the period under examination. No conflicts of interest were noted during this review.

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined under 18 Del.C. §5001(4), "Insurance Holding Company System Registration". The Company is a direct wholly owned subsidiary of AAIC, a Delaware domiciled Insurance Company, which is a direct wholly owned subsidiary of Alterra Reinsurance USA Inc. ("Alterra Re USA"), a Connecticut domiciled Reinsurance Company. Alterra Re USA is a direct wholly owned subsidiary of

Alterra USA, a Delaware Corporation, which in turn is a direct wholly owned subsidiary of Alterra Capital America Limited, a UK Corporation. The ultimate controlling entity is Alterra Capital Holdings Limited ("Alterra Capital"), a publicly-traded company located in Hamilton, Bermuda. The following depicts an abbreviated organizational chart of the Company's relationship within the holding company system at December 31, 2010:


Alterra Capital Holdings Limited
a Bermuda Corporation
FIN 98-0584464
Alterra Capital America Limited
a UK Corporation
Alterra USA Holdings Limited
a Delaware Corporation
FIN 20-5976277
Alterra Reinsurance USA Inc.
a Connecticut Corporation
FIN 06-1481194
NAIC 10829
Alterra America Insurance Company
a Delaware Corporation
FIN 35-0293730
NAIC 21296
Alterra Reinsurance Services Inc.
A Delaware Corporation
FIN 20-3761826
Alterra Excess & Surplus Insurance Company
a Deleware Corporation
FIN 13-2872766
NAIC 33189
Alterra Insurance USA Inc.
a Delaware Corporation
FIN 26-1087843
Alterra Specialty Insurance Services Limited
a Delaware Corporation
FIN 26-0155272
Alterra California Insurance Services Limited
a California Corporation
FIN 20-8806154
Alterra Finance LLC
a Delaware LLC
FIN 27-2598591

AFFILIATED AGREEMENTS

As of December 31, 2010, the Company had the following agreements in effect with its parents and affiliates:

- The Company is party to the Consolidated Federal Income Tax Liability Agreement with Alterra USA, effective September 9, 2011, for the taxable year ended December 31, 2010. The members are part of an affiliated group as defined by Section 1504 (a) of the Internal Revenue Code of 1986 as amended. Allocation is based upon separate return calculations with current credit for net losses subject to the availability of previously taxable income.
- An Intercompany Services Agreement effective June 1, 2007, with Alterra Services, whereby Alterra Services can act as an underwriting and business manager for certain business for the Company. Alterra Services provides all services necessary or appropriate in connection with the management and operation of the Company.
- An Underwriting Agreement effective December 1, 2007, with Alterra Managers USA Ltd., ("Alterra Managers" formerly Max Managers USA Ltd.), whereby Alterra Managers provides certain underwriting services for the Company including, establishing and periodically evaluating underwriting guidelines, reviewing submissions, binding and issuing insurance and reinsurance policies, and other related underwriting services.

FIDELITY BONDS AND OTHER INSURANCE

Alterra Capital, the Company's ultimate parent, has obtained fidelity coverage through a Financial Institution Bond (Form 25). The primary bond provides fidelity protection with a single loss liability limit of $5,000,000 and an aggregate amount of $10,000,000, with a single loss deductible amount of $100,000 against loss resulting from dishonest or fraudulent acts of the directors, officers and employees. The Bond covers Alterra Capital and its subsidiaries.

The limits of coverage in the current bond meet the amount of fidelity bond insurance suggested by the NAIC Handbook.

Other Insurance Coverage

The Company is included as an insured on all other insurance policies issued in the name of the Company's US group, Alterra USA, and its subsidiaries and their subsidiaries. Alterra USA maintains three programs of insurance, including (1) Property; (2) Casualty; and (3) Combined Specialty Liability. The limits of liability, as of the examination date, were deemed sufficient. Alterra USA's insuring agreements included property damage, business interruption, general liability, auto liability, workers' compensation, employer's liability, professional liability (errors and omissions), and employment practices liability.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees; therefore it is not obligated for any pension or post employment benefits and compensation absences. The Company's parent holding company, Alterra USA, sponsors a defined contribution savings plan in which the Company's share of the expense for 2010 was $455,670.

TERRITORY AND PLAN OF OPERATION

AESIC is administratively based in Richmond, VA and is domiciled in Delaware. The Company operates as a surplus lines writer in 49 states and the District of Columbia. There are two basic distribution channels: regional and national wholesale brokers, and large national retailers for larger premium accounts; and managing general agents ("MGAs") with contract binding authority for smaller premium accounts. The Company has three distinct divisions:

- Brokerage – underwrites property catastrophe, property non-catastrophe, middle-market property, casualty, umbrella excess liability, and professional liability.
- Contract Binding – offers property, casualty, small inland marine, umbrella excess liability, and specialty personal lines.
- Marine – underwrites inland marine, ocean marine, and hull-marine liability coverage through a network of national wholesale brokers, large national retailers, and marine specialists.

GROWTH OF THE COMPANY

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

Year	Admitted Assets	Surplus as Regards Policyholders	Net Premium Written	Net Income
2010	$ 203,371,933	$ 89,975,684	$ 43,655,967	$ (3,760,992)
2009	213,741,058	118,209,453	23,636,421	(8,053,080)
2008	193,131,106	127,556,702	15,128,521	(11,192,918)
2007	159,423,261	141,994,095	2,726,447	(6,422,588)
2006	45,878,249	38,139,580	-	(470,710)
2005	45,708,246	38,686,611	37,319	1,275,909

The Company has experienced increased admitted assets and surplus during the period under examination due to Company receiving $130 million dollar capital infusion on April 2, 2007 immediately following the acquisition of the Company by Alterra USA. Over the five-year examination period, admitted assets increased by 345% and surplus as regards policyholders increased 133%. Premium growth was the result of the Company aggressively seeking new business after not writing any business the year before it was acquired by its current ultimate parent, Alterra Capital.

LOSS EXPERIENCE

Reserves as of December 31, 2009 were $11,723,678. As of December 31, 2010, $3,742,000 had been paid related to insured events of prior years. Reserves remaining for prior years are now $8,111,000 as a result of re-estimation of unpaid claims and claim adjustment expenses principally on Homeowners/Farmowners, Special Liability, Other Liability-Occurrence, Other Liability-Claims Made and Special Property lines of insurance. Therefore, there has been approximately $130,000 unfavorable prior-year development since December 31, 2009 to December 31, 2010. The increase (decrease) is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims.

REINSURANCE

ASSUMED

The Company assumes ninety percent of the business written by its parent, AAIC, per a quota share agreement.

CEDED

Property

The Company shares a corporate property catastrophe reinsurance program with Alterra Capital. This treaty renews yearly at February 1, with all peril limits in place of $220M excess of $60M, consisting of four layers and a $30M excess $280M wind only top layer. The first layer, $40M excess $60M, is placed at 94.5%, with the remaining three all peril layers and top wind only layer placed at 100%. There are property per risk treaty programs in place on both the Brokerage Property and Contract Binding Authority Property business units. The Brokerage

Property division benefits from a loss occurring basis $5M excess $5M excess of loss (XOL) treaty placed at 100% with an aggregate limit of $20M per term. Inuring to its benefit is a $5M limit surplus share treaty with a minimum retention of $5M, a maximum per risk cession of $2.5M and maximum occurrence limit of $15M. Also inuring to the benefit of the first XOL is a loss occurring $15M excess of $10M XOL treaty placed at 100%, with an aggregate of $30M. The Contract Binding Authority Property division has $1M surplus share treaty with a $500K minimum retention ($250K for Specialty Personal Lines) and an occurrence limit of $14.75M placed at 50%. Sitting above the Contract Binding Authority Surplus Share Treaty is a risk attaching $1M excess of $1M XOL treaty with a $5M aggregate limit placed at 100%.

Marine

The Company has two Marine divisions with per risk treaty protection- Inland Marine and Ocean Marine. Inland Marine has a $10M quota share treaty placed at 25% with a $120M occurrence limit. In addition to the quota share, they also utilize a four layer, $49M excess of $1M XOL treaty attaching on a loss occurring basis. The first layer $4M excess $1M excludes hurricane risk, has a $16M aggregate limit, and is 95% placed. The top layer, $20M excess of $30M, is 75% placed and has a $40M aggregate limit. The middle two layers are placed at 100% and each have a $30M aggregate limit. This excess of loss structure provides both per risk and clash coverage. The Ocean Marine division has $10M quota share treaty 50% placed with occurrence limit applying per risk. The division also has a 100% placed four layer $4.5M excess of $500K XOL treaty structure on a risk attaching basis. For Cargo risks in excess of $10M, they have a risk attaching $15M excess of $10M XOL reporter treaty placed at 100%. Both of these divisions cede in excess of their respective per risk programs to the Corporate Catastrophe program.

Casualty

There are two Specialty divisions that write casualty risks; the Brokerage Casualty division and Contract Binding Authority division. For policies with limits in excess of $2M, they share a variable cession quota share treaty with a limit of $6M. Brokerage Casualty also has the ability to cede policies with limits less than $2M to this 100% placed treaty. The Contract Binding Authority division has a two layer XOL treaty for limits less than $2M. These risk attaching XOL treaties are described as a first layer $500K excess of $500K, 100% placed; and a second layer $1M excess of $1M also 100% placed.

Alterra Managers

There are separate treaties for business produced by Alterra Managers, which provide certain underwriting services for the Company. There is a three section quota share treaty for general liability business. Section A is 61% placed on $15M occurrence limit, with a $150M aggregate limit. Section B is 42.5% placed on $15M occurrence limit with a $100M aggregate limit. Section C is 28% placed on $5M occurrence limit with a aggregate of $30M. There is a separate $5M, 80% cession quota share treaty for the professional liability business, 82.5% placed with an aggregate limit equal to 225% of gross net written premium.

Professional Liability

The Professional Liability business is reinsured by a $1M quota share, 10% placed, and a 70% placed risk attaching $4M excess of $1M XOL treaty. The XOL treaty carries a $12M aggregate limit per term.

Quota Share Agreement

The Company cedes 80% of the net retained liability, net of other reinsurance including the above mentioned reinsurance, to an unauthorized affiliate, Alterra Bermuda Limited. The maximum policy limit is $25M (which is $20M for each ultimate net risk, one occurrence). The ultimate net loss includes 100% of losses in excess of policy limits and 100% of extra contractual obligations. The reinsurer is required to provide collateral to fund reserves as required by regulatory authorities.

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 independent certified public accounting firm, KPMG, audited the Company's records for the years under examination. Audit reports and applicable work papers were made available for the examiners' use.

The accounts and records review 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 primary systems used in the operations of the Company were also evaluated. The consulting firm of INS Services, Inc. performed an Exhibit C review of the Company's IT operations.

AAIC and AESIC have two primary Data Centers. One is with Peak 10 in Richmond, VA; one is within the internal business office of Alterra Capital in Hamilton, Bermuda. Enterprise Risk Management System (ERMS), an internally developed system, is the core policy administration, claims and accounting system utilized by the companies. The Companies also utilize another internally developed system, E2, which feeds the ERMS system, for policy management and producer management. The general ledger is maintained on the Great Plains software package.

During the course of the examination, the Company's books and records were reviewed and compared to reported items and values in the annual statements. Except as noted in the Notes to Financial Statements, no material discrepancies were noted during this review.

STATUTORY DEPOSITS

Listed below are the Company's statutory deposits.

State	Type of Deposit	Book/Adjusted Carrying Value	Fair Value
Arkansas	Bond	$130,537	$136,516
Delaware	Bond	2,724,518	2,848,369
Florida	Bond	2,122,391	2,164,072
Louisiana	Bond	112,609	126,635
Massachusetts	Bond	100,418	102,105
Michigan	Bond	86,239	101,110
New Hampshire	Bond	1,114,102	1,140,003
New Jersey	Bond	203,839	213,174
New Mexico	Bond	307,451	312,488
New York	Bond	2,507,925	2,575,875
Oklahoma	Bond	106,678	126,852
Totals		$9,516,707	$9,847,199

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2010:

Assets
Liabilities, Surplus and Other Funds
Statement of Income
Capital and Surplus Account
Analysis of Financial Statement Changes resulting from Examination

ASSETS
DECEMBER 31, 2010

	Ledger Assets	Assets Not Admitted	Net Admitted Assets	NOTES
Bonds	$109,449,998	$0	$109,449,998	
Cash and short-term investments	11,091,131	0	11,091,131	
Investment income due and accrued	1,019,692	0	1,019,692	
Uncollected premiums and agents' balances in the course of collection	37,868,796	767,276	37,101,520	
Deferred premiums	29,680	0	29,680	
Amounts recoverable from reinsurers	34,163,759	0	34,163,759	
Net deferred tax asset	10,177,540	10,177,540	0	
Receivables from parent, subsidiaries and affiliates	10,368,774	0	10,368,774	
Aggregate write-ins for other than invested assets	268,608	121,229	147,379	
Totals	$214,437,978	$11,066,045	$203,371,933	

LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2010

			Notes
Losses	$	23,284,065	1
Reinsurance payable on paid losses and loss adjustment expenses		2,526,392	
Loss adjustment expenses		2,088,485	1
Commissions payable, contingent commissions and other charges		1,764,360	
Other expenses		491,093	
Current federal and foreign income taxes		326,200	
Unearned premiums		20,812,017	
Ceded reinsurance premiums payable (net of ceding commissions)		44,338,154	
Remittances and items not allocated		1,421,099	
Provision for reinsurance		421,075	
Payable to parent, subsidiaries and affiliates		15,923,309	
Total liabilities	$	113,396,249	
Common capital stock	$	4,100,000	
Gross paid in and contributed surplus		111,055,583	2
Unassigned funds (surplus)		(25,179,899)	2
Surplus as regards policyholders	$	89,975,684	
Totals	$	203,371,933	

SUMMARY OF OPERATIONS
DECEMBER 31, 2010

Premiums earned	$ 35,253,543
Losses incurred	19,816,610
Loss adjustment expenses incurred	2,643,897
Other underwriting expenses incurred	19,683,376
Total underwriting deductions	$ 42,143,883
Net underwriting gain (loss)	$ (6,890,341)
Net investment income earned	4,424,585
Net realized capital gains (losses)	(2,561,857)
Net investment gain (loss)	1,862,728
Aggregate write-ins for miscellaneous income	1,592,820
Total other income	3,455,548
Net income before all other federal and foreign income taxes	(3,434,793)
Federal and foreign income taxes incurred	326,200
Net income	$ (3,760,993)

RECONCILIATION OF CAPITAL AND SURPLUS FROM DECEMBER 31, 2005 to DECEMBER 31, 2010

Surplus as regards policyholders; December 31 ,2005	$ 36,550,611
Net income	(27,764,289)
Change in net unrealized capital gains or (losses)	8
Change in net deferred income tax	9,144,384
Change in nonadmitted assets	(10,166,365)
Change in provision for reinsurance	(421,075)
Surplus adjustments paid in	101,355,583
Dividends to stockholders	(18,723,173)
Change in surplus as regards policyholders for the years	53,425,073
Surplus as regards policyholders; December 31 ,2010	$ 89,975,684

ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS DECEMBER 31, 2010

Description	Per Examination	Per Company	Surplus Increase (Decrease)
Assets:			
Liabilities, Surplus and Other Funds			
Gross paid in and contributed surplus	$ 111,055,583	$ 117,255,583	$ (6,200,000)
Unassigned funds (surplus)	(25,179,899)	(31,379,899)	6,200,000
Summary of Operations			
Capital and Surplus Account			
Net Change in Surplus per Examination			$ -
Surplus per Company			$ 89,975,684

NOTES TO THE FINANCIAL STATEMENTS

(Note 1)	**Losses**	**$ 23,284,065**
	Loss Adjustment Expenses	**$ 2,088,485**

The above captioned amounts are the same as that reported by the Company in its 2010 Annual Statement.

The Department's consulting actuary, INS Consultants Inc. (INS), was retained and performed an independent analysis of the Company's gross and net loss and loss adjustment expense (LAE) reserves as of December 31, 2010.

INS selected the following lines of business for independent analysis of the loss and allocated loss adjustment expense reserves, Property excluding hurricanes, Casualty and Alterra USA. These three lines of business comprised 87% of the net Incurred but Not Reported (IBNR) for AESIC. INS estimated the unallocated loss adjustment expense reserve on the basis of all lines of business combined.

The INS analysis employed standard reserving methodologies and techniques. Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the evaluation date is dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liability will be the same as the reserve levels at the evaluation date.

INS noted that although the requests for additional information were satisfied, the actuarial report prepared by the Company's Actuary should have contained more documentation to satisfy the NAIC requirement.

According to the NAIC *Instructions on Statements of Actuarial Opinion on P&C Loss Reserves* as of December 31, 2010, "The Actuarial Report should contain both narrative and technical components... The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must show the analysis from the basic data, e.g., loss triangles, to the conclusions."

INS recommends that future appointed actuary reports contain sufficient documentation for another actuary practicing in the field to evaluate the work, and if benchmark loss development factors are used in the reports, then the factors themselves, a description of the benchmark loss development factors, the benchmark data triangles, and the derivation of the benchmark loss development factors should be included in the reports.

Apart from the correspondence on the benchmark factors, INS requested and received a number of additional exhibits and figures to complete the documentation of the E&Y analysis, as well as additional narrative. These narratives and documentation should also have been included in the report, especially the derivation of the retention factors calculated as part of a gross-to-net adjustment applied to the loss development factors.

It is recommended that future reports by the appointed actuary be complete in documenting the procedures used, both in narrative and supporting exhibits, per guidance noted in the NAIC *Instructions on Statements of Actuarial Opinion on P&C Loss Reserves.*

(Note 2)	**Gross paid in and contributed surplus**	**($ 6,200,000)**
	Unassigned funds (Surplus)	**$ 6,200,000**

In reviewing the 2008 Audited Financial Statements for AESIC, it was noted that the Company's external auditors made a reclassification between unassigned surplus and paid-in and contributed surplus. The CPA carried this balance as a reconciling item from 2008 through 2010, but the Company had not addressed the correcting entry in its annual statements for this same period. Management stated that the original entry made at the time the Company was acquired in 2008, was incorrectly recorded. Gross paid in capital was overstated by $6.2 million and the Unassigned Surplus was understated by the same amount. The Company made an adjusting entry to correct this error in its 2011 annual statement. This error had no effect on overall policyholder surplus, however, a reclassification was made in the examination report to properly reflect the values of both gross paid in and contributed surplus and unassigned surplus as of the examination date.

It is recommended that the Company prepare its annual statements in accordance with the *NAIC Annual Statement Instructions for Property/Casualty Companies* as required pursuant to 18 Del. C. §526.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The 2005 examination report increased losses by $2,136,000. Subsequent to the prior exam, the Company underwent a change in ownership and management that occurred in 2007. Under its former owner, Allianz, the Company was party to an intercompany reinsurance agreement with its former affiliate, Jefferson. Effective February 1, 2007, the Company entered into a Commutation and Settlement Agreement with Jefferson which provided for the commutation of the intercompany pooling agreement and de-pooling of the two companies' assets and liabilities. In addition, the Company entered into a Quota Share Reinsurance Agreement with Allianz Global Risks US Insurance Company (Allianz Global), whereby the Company cedes 100% of policy liabilities for all business written on or prior to February 1, 2007 not covered by any third party reinsurance. The Company entered into an Assumption Agreement with Allianz Global that covers any liabilities related to all events occurring on or prior to April 2, 2007 (date of sale of the Company to Alterra USA). As such, there were no necessary actions needed to comply with the 2005 examination report issued by the Department.

SUMMARY OF RECOMMENDATIONS

Examination findings and recommendations as of December 31, 2010 consisted of the following:

- INS noted that although the requests for additional information were satisfied, the actuarial report prepared by the Company's Actuary should have contained more documentation to satisfy the NAIC requirement.

  It is recommended that future reports by the appointed actuary be complete in documenting the procedures used, both in narrative and supporting exhibits, per guidance noted in the NAIC *Instructions on Statements of Actuarial Opinion on P&C Loss Reserves.*

- Gross paid in capital was overstated by $6.2 million and the Unassigned Surplus was understated by the same amount. The Company made an adjusting entry to correct this error in its 2011 annual statement. This error had no effect on overall policyholder surplus, however, a reclassification was made in the examination report to properly reflect the values of both gross paid in and contributed surplus and unassigned surplus as of the examination date.
  .
  It is recommended that the Company prepare its annual statements in accordance with the NAIC *Annual Statement Instructions for Property/Casualty Companies* as required pursuant to 18 Del. C. §526.

CONCLUSION

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

Description	December 31, 2010	December 31, 2005	Increase
Assets	$203,371,933	$45,708,246	$157,663,687
Liabilities	$113,396,249	$ 9,157,635	$104,238,614
Capital and Surplus	$ 89,975,684	$36,550,611	$ 53,425,073

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,

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