REPORT ON EXAMINATION

OF THE

CHARTIS 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

CHARTIS SELECT INSURANCE COMPANY

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

Attest By: ______________________

Date: 26 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 20th day of June, 2012.

Insurance Commissioner of the State of Delaware

____

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

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CHARTIS SELECT INSURANCE COMPANY

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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 26th day of June, 2012

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May 4, 2012

SALUTATION

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

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 11-002, dated July 27, 2011, an examination has been made of the affairs, financial condition and management of the

CHARTIS SELECT INSURANCE COMPANY

hereinafter referred to as "Company" or "CSIC", incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware. The examination was conducted at the offices of the Company located at 180 Maiden Lane, New York, New York. The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was as of December 31, 2008. This examination covered the period of January 1, 2009, through December 31, 2010, and encompassed 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.

The Company was examined concurrently with the other member companies in the Chartis Surplus Lines Pool (Surplus Lines Pool); Lexington Insurance Company ("Lexington"), DE, Chartis Specialty Insurance Company ("Chartis Specialty"), IL, and Landmark Insurance Company ("Landmark"), CA. The examination of the Surplus Lines Pool was also conducted concurrently with the examination of the Chartis U.S. Admitted Pool (Admitted Pool) companies. To the extent that key processes, related risks and mitigating controls were common to all Chartis U.S., Inc. (Chartis U.S.) legal entities, the work performed by the Admitted Pool examination to determine residual risk and perform any necessary substantive testing was relied on as much as possible. Specifically, work performed related to investments, reinsurance, financial reporting, taxes, related parties, corporate governance, assessment of the audit function and the review of fraud was relied upon in this examination of the Surplus Lines Pool Companies.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook). 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.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues revealed 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 have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

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

In addition to the items noted in this report, the following topics were reviewed without material exception and are included in the work papers of this examination:

Fidelity bond and Other Insurance
Pension, Stock Ownership and Insurance Plans
Statutory Deposits

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings noted and no material adjustments were made to the financial statements in this report.

SUBSEQUENT EVENTS

Subsequent to December 31, 2010, and up to this examination report date, the Company took the following actions which were considered material to either operations or results of operations:

- On February 25, 2011**,** the Company entered into a Capital Maintenance Agreement (2011 CMA) with its ultimate parent, American International Group, Inc. (AIC). The 2011 CMA provides that in the event that the Company's Total Adjusted Capital (TAC) falls below 425% of the Company's Authorized Control Level (ACL**)** Risk Based Capital (RBC), as estimated by the Company at the end of the first and third fiscal quarters, subject to any adjustments or modifications required by the Company's domiciliary regulator or its independent auditors, AIG would, within a specified time period prior to close of the following fiscal quarter, contribute cash, cash equivalents, securities, or other acceptable instruments that qualify as admitted assets to the Company so that the Company's TAC is projected to be equal to 425% of its ACL RBC as of the second and fourth fiscal quarters. The current CMA supersedes and replaces a CMA that related to the Company's December 31, 2009 surplus position.

- Effective February 17, 2012, the Surplus Lines Pool members, including the Company, together with the members of the Chartis Admitted Pool and the AIU Insurance Company (collectively, the Fleet) entered into a Capital Maintenance Agreement with AIG and Chartis Inc. (AIG CMA). The AIG CMA provides that in the events that the Fleet's Total Adjusted Capital (TAC) falls below the specified minimum percentage (SMP) of 350% of the Fleet's Authorized Control Level (ACL) Risk Based Capital (RBC), as estimated by Chartis Inc. on a semi-annual basis subject to any adjustments or modifications required by the Company's domiciliary regulator or its independent auditors, AIG will, within a specified time period prior to the close of the following fiscal quarter, contribute cash, cash equivalents, securities or other acceptable instruments that qualify as admitted assets to the Fleet so that the Fleet's TAC is projected to be equal to or greater than the SMP of the upcoming year-end. Additionally, each of Chartis and each Fleet member agreed, subject to approval by their board of directors and, if necessary, their domestic regulator, as applicable, to pay dividends that will be paid to AIG up to an amount equal to the lesser of (i) the amount necessary to reduce the Fleet's ACL RBC to an amount not materially greater than the SMP or (ii) the maximum ordinary dividends permitted by any applicable domiciliary regulator.

- Effective February 17, 2012, the Fleet entered into a Capital Maintenance Agreement (Chartis CMA) with Chartis Inc., Chartis U.S., Inc. and Chartis International, LLC (the Chartis entities). The Chartis CMA provides that in the event that the Fleet's TAC exceeds the SMP (as determined pursuant to the terms of the AIG CMA) while at the same time any Fleet member, as an individual legal entity, has a TAC below 300% of such Company's ACL RBC (the Individual Entity Minimum Percentage) (as determined by Chartis pursuant to the methodology set forth in the AIG CMA that is used to determine the SMP), the Chartis Entities and each Fleet member agree to make contributions, pay dividends or cause other transactions to occur that would result in each Fleet member's TAC being above the Individual Entity Minimum Percentage. No Fleet member is required to pay any dividend which would trigger the extraordinary dividend provisions of its domiciliary state or that is otherwise prohibited by such state.

- Effective January 1, 2012, Landmark was merged with and into National Union Fire Insurance Company of Pittsburgh, Pa. (NUFIC) and the Company was merged with and into Lexington. In conjunction with these mergers, the Company and Landmark were deleted as members of the Surplus Lines Pool. The Amended and Restated Inter-Company Pooling Agreement was amended on December 30, 2011 to effect, as of January 1, 2012, the removal of Landmark and the Company as parties to the agreement.
- Effective March 31, 2012, Lexington and Chartis Specialty shares owned by Chartis Property and Casualty Company and Insurance Company of Pennsylvania were distributed to Chartis U.S. and subsequently contributed to NUFIC. As a result of this transactions, NUFIC now owns 100% of Lexington and Chartis Specialty.
- During 2011 and 2010, the Company identified additional corrections related to its remediation efforts that resulted in after-tax statutory income adjustments of $920,457 and $(32,167,373) respectively. In accordance with SSAP No. 3, *Accounting Changes and Corrections of Errors*, the corrections of errors have been reported in the 2011 and 2010 Annual Statements as adjustments to unassigned funds.

COMPANY HISTORY

The Company was incorporated on May 19, 1993 under the laws of the State of Delaware and began business on June 30, 1993. The Company was formed to provide large blocks of high-level excess general liability, directors' and officers' liability (D&O) and professional liability (E&O) capacity to Fortune 1000 and other companies requiring protection against exposures inherent in their business operations.

The Company was a joint venture between AIG and General Reinsurance Corporation (DE), (Gen Re), with AIG purchasing Gen Re's portion of the common stock on January 29, 1998. Currently the Company is a wholly owned subsidiary of NUFIC, a wholly owned indirect subsidiary of AIG.

In 2007, the Company changed its name from Star Excess Liability Insurance Company, Ltd., to AIG Excess Liability Insurance Company, Ltd.

In 2009, the Company changed its name from AIG Excess Liability Insurance Company, Ltd., to Chartis Select Insurance Company.

Common Capital Stock

The Certificate of Incorporation, provides that the authorized capital stock of the Company shall be 5,000 shares of $1,000 par value common stock. At December 31, 2010, all shares were issued and outstanding, resulting in total capital stock of $5,000,000.

During the examination period, the Company's gross paid in and contributed surplus increased by $5,374,727 from $245,907,450 in 2008, to $251,282,177 in 2010. All contributions made during the period were reconciled without exception.

Dividends

The Company paid $552,526 and $0 in ordinary stockholder dividends in 2009 and 2010, respectively.

CORPORATE RECORDS

The recorded minutes of the shareholders, Board of Directors (Board), and certain internal committees 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. No exceptions were noted during the review of the Company minutes.

MANAGEMENT AND CONTROL

The Company's amended Certificate of Incorporation provides that all corporate powers of the Company be managed by a Board of Directors (Board). The Company's bylaws stipulate that the Board shall consist of seven (7) persons. The term of office for all Directors shall be one (1) year and each Director shall hold office until his term has expired, his successor has been elected and qualified, until his death, removal, or resignation.

In accordance with Company's bylaws, the annual meeting of the Stockholder shall be held at such time and place as the Board shall designate. The Board may, in its sole discretion, determine that the meeting may be held solely by means of remote communication. The Stockholder or Board may call special meetings for any purpose or purposes when required by the General Corporate Law to do so. Minutes of meetings held by Stockholders during the examination period were reviewed and no exceptions were noted.

At December 31, 2010, the seven (7) members of the Board together with their principal business affiliation were as follows:

Name	Principal Occupation
John Quinlan Doyle	Executive Vice President, Chartis, Inc. and President and Chief Executive Officer, Chartis U.S., Inc.
David Neil Fields	Senior Vice President, Chief Reinsurance Officer and Chief Underwriting Officer, Chartis U.S., Inc.
David Lawrence Herzog	Executive Vice President and Chief Financial Officer, American International Group, Inc. (AIG)
Monika Maria Machon	Senior Vice President and Chief Investment Officer, American International Group, Inc.
Kristian Philip Moor	President and Chief Executive Officer, Chartis Inc.
Robert Scott Higgins Schimek	Executive Vice President and Chief Financial Officer, Chartis Inc.
Mark Timothy Willis	Executive Vice President, Chartis, U.S., Inc.

In accordance with the Company's bylaws, the Board may designate committees by resolution that set forth the powers and authority of the committee. The bylaws, Article II, Section 6, state that, "The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation". There were no operating committees appointed by the Board during the period under review.

In accordance with the Company's bylaws, the officers of the corporation shall consist of a President, a Secretary, a Treasurer and if deemed necessary, expedient or desirable by the Board of Directors, a Chairperson, a Vice Chairperson, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more other Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers with such titles as the resolution of the Board of Directors choosing them shall designate. Only the Chairperson or Vice Chairperson is required to be a Director. At December 31, 2010, the Company's principal officers and their respective titles were as follows:

Name	Office
Kristian Philip Moor	Chairman
Peter James Eastwood	President and Chief Executive Officer
Sean Thomas Leonard	Senior Vice President and Chief Financial Officer
Denis Martin Butkovic	Secretary
Russell Mark Johnston	Executive Vice President and Chief Operating Officer
Frank Hienmen Douglas, Jr.	Executive Vice President and Chief Actuary
David Neil Fields	Executive Vice President
Jeremy David-Edgecliffe Johnson	Executive Vice President
Robert Scott Higgins Schimek	Executive Vice President

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".

As of December 31, 2010 the Company is owned by NUFIC (100%). NUFIC, along with approximately fifty-seven (57) additional insurance and non-insurance entities were directly or indirectly owned by Chartis U.S. and comprised the Chartis U.S. domestic property and casualty insurance group. The Chartis U.S. and Chartis International group of companies, along with the Chartis Global Services, Inc. and Chartis Global Claims Services, Inc. were in turn owned by Chartis Inc., a Delaware holding company.

The ultimate controlling entity of the system is AIG. AIG, a Delaware corporation, is a holding company which, through its subsidiaries, is engaged in a broad range of insurance, insurance-related, financial, and other non-insurance activities in the United States and abroad. AIG's primary activities include both general insurance and life insurance and retirement services. Other significant activities include financial services and asset management. As of December 31, 2010, AIG possessed assets totaling $683 billion, shareholder equity of $85 billion, and earned net income of $10 billion on total reported revenues of $77 billion.

The following depicts a partial organizational structure of AIG as of December 31, 2010 (specifically focused on U.S. insurance affiliates and all ownership is 100% unless otherwise noted):

- American International Group, Inc.
  - AIG Life Holdings (International) LLC
    - Various Entities
  - SunAmerica Financial Group, Inc.
    - Various Entities
  - AIG Capital Corporation
    - Various Entities
  - AIG Global Services, Inc.
    - Various Entities
  - AIG Financial Products Corp.
    - Various Entities
  - United Guaranty Corporation
    - Various Entities
  - AIUH, LLC

Chartis Inc.
- Chartis International, LLC
  - Various Entities
- Chartis Global Services, Inc.
- Chartis Global Claims Services, Inc.
- Chartis Claims, Inc.
- Chartis U.S., Inc.
  - National Union Fire Insurance Company of Pittsburg, Pa
    - Chartis Specialty Insurance Company (70%)
    - Lexington Insurance Company (70%)
    - Spruce Peak Realty, LLC (1%)
    - **Chartis Select Insurance Company (100%)**
      - Chartis Excess Limited
    - National Union Fire Insurance Company of Vermont
    - MtMansfield Company, Inc.
      - Spruce Peak Realty, LLC (99%)
  - American Home Assurance Company
    - Chartis Non-Life Holding Company (Japan), Inc.
      - The Fuji Fire & Marine Insurance Company, Limited (38.62%)
        - American Fuji Fire & Marine Insurance Company
        - Fuji Life Insurance Company Ltd.
        - Fuji International Insurance Company Limited
  - New Hampshire Insurance Company
    - Chartis Casualty Company
    - Granite State Insurance Company
    - Illinois National Insurance Co.
    - Morefar Marketing, Inc.
  - Commerce and Industry Insurance Company
    - AIG Polska Towarzystwo Ubezipiecen S.A.
  - The Insurance Company of the State of Pennsylvania
    - Chartis Specialty Insurance Company (20%)
    - Lexington Insurance Company (20%)
    - Landmark Insurance Company (100%)
  - Chartis Property Casualty Company
    - Chartis Specialty Insurance Company (10%)
    - Lexington Insurance Company (10%)
  - Chartis Insurance Company of Canada
  - Quartz Holdings LLC
    - Fieldstone Securitization I LLC
    - Graphite Management LLC
      - Lavastone Capital LLC
      - Slate Capital LLC
      - Alabaster Capital LLC
  - Chartis Aerospace Insurance Services, Inc.
  - Chartis WarrantyGuard, Inc.
  - Chartis Warranty Services, Inc.

Risk Specialists Companies, Inc.
  Risk Specialists Companies, Inc.
    Risk Specialists Companies Insurance Agency, Inc.
      Design Professionals Association Risk Purchasing Group, Inc.
    Medical Excess Insurance Services, Inc.
      Medical Excess LLC (70%)

AFFILIATED AGREEMENTS

The following agreements were in effect between the Company and its affiliates at December 31, 2010.

Amended AIG Service and Expense Agreement

Effective February 1, 1974, amended December 30, 1998 to include Lexington Insurance Company and Landmark Insurance Company, and subsequently amended January 1, 2002 to include Chartis Select, and further amended at subsequent times, the companies entered into a Service and Expense Agreement with AIG. AIG and its subsidiaries and affiliates have agreed to provide at cost, services and facilities as required to be named parties to the Agreement. Services include: law, investment, EDP, internal audit, actuarial, claims, underwriting, accounting, tax, and employee benefits.

Administrative Services Agreement

As amended and effective December 1, 2009, the Company and other affiliates (Participating Companies) entered into an agreement with Chartis Technology and Operations Management Corporation (CTOM), a Philippines company and an affiliate within the AIG group. Under the terms of this agreement, CTOM will perform such services as requested by the Participating Companies, including but not limited to, administrative services or activities (including data entry from imaged documents, call center operations, indexing, and a number of other basic policy and claim related activities), and certain accounting services such as accounts payable processing, invoice matching, bank account reconciliations and suspense account reconciliations. The performance of all such services shall at all times be subject to the direction and control of the Participating Companies. The Participating Companies are to provide such performance standards, guidelines and procedures as necessary for CTOM to comply with the standards in the agreement. Within 30 days after the end of each month CTOM is to provide a written statement of charges due from the preceding month, and all amounts due are to be paid in US dollars within 45 days following receipt of the statement of charges. Charges are defined as the cost for delivery of the services plus any taxes and other governmental mandated charges or fees or requirements. The term of the agreement shall be for a 3 year period, with subsequent automatic 1 year renewals each year. The agreement may be terminated by either party with 90 days written notice prior to the renewal date once the initial 3 year period is completed, but may also be terminated immediately for cause.

Investment Management Agreement

Effective July 29, 1998, the Company entered into an agreement with an affiliate, PineBridge Investments LLC (f/k/a AIG Global Investment, Corp.) The agreement provides for PineBridge Investments LLC to act as the investment manager for the Company, subject to the direction of the Company's Board of Directors. As compensation, the Company pays a set fee per amount under management, which fees are billed quarterly in advance, plus a prorated share of the AIG Services related fees. The agreement may be terminated by either party without notice.

In conjunction with a sale of AIG's third party asset management business, effective March 26, 2010, PineBridge Investments LLC entered into an agreement with AIG Asset Management (U.S.), LLC (AMG) to assign to AMG all of its right, title and interest in and obligations under the above agreement, excluding any obligations and liabilities relating to the management of investments/portfolios to be retained by PineBridge Investments companies which will be managed under newly executed agreements. Attendant with this assignment, an Investment Management Contract was entered into, also effective March 26, 2010, between the Company and AMG. This agreement was executed to reflect the change in management over the Company's portfolio while not changing any of the terms of the original agreement.

Tax Allocation Agreement

As amended effective January 1, 2010, the Company is a party to a Tax Sharing Agreement with Chartis Inc., its upstream parent, and is considered to be a part of a tax Subgroup that was formed with Chartis Inc. as the Subgroup Parent. Chartis Inc. in turn, has entered into a separate tax sharing agreement with AIG, the upstream parent company. These agreements provide that AIG will not charge Chartis Inc. a greater portion of the consolidated tax liability than would have been paid by the tax Subgroup if it had filed a separate federal income tax return, and Chartis Inc. in turn, will not charge the Company a greater portion of the consolidated tax liability than would have been paid by the Company if it had filed a separate federal income tax return. Additionally, the Company's tax sharing agreement contains the following significant requirements:

- The Company is to settle inter-company income taxes with Chartis Inc. as if the Company was filing its own separate tax return, and any net liability will be settled with Chartis Inc. in accordance with estimated tax payment requirements, with final payments/refunds to be paid within 30 days after Chartis Inc. settles with AIG.
- Any tax realized by the Company from triggering a deferred inter-company gain of a qualifying transaction will be paid by Chartis Inc.
- Chartis, Inc. assumes the Company's tax reserves through a deemed capital contribution

transaction, where the tax reserves mean any liability recorded in accordance with FASB Interpretation No. 48 (aka FIN 48).

Intercompany Pooling Agreement

During 2009, an Amended Pooling Agreement between Lexington, Chartis Select, Chartis Specialty and Landmark was submitted to the Delaware, Illinois, and California Departments for approval.

Under the Amended Pooling Agreement, Chartis Specialty was added to the existing Surplus Lines Pool and cedes 100% of its existing policyholder assets and liabilities to Lexington. In turn, Chartis Specialty assumes a 10% share of the Lexington Pool and Lexington's participation was reduced from 80% to 70%. Landmark's and Chartis Select's participation percentage were not affected.

The Amended Pooling Agreement changed the Lexington Pool participants' percentages as follows:

70% - Lexington
18% - Chartis Select
10% - Chartis Specialty
2% - Landmark

The Amended Pooling Agreement, with an effective date of January 1, 2010, was approved by the Delaware Department of Insurance.

Capital Maintenance Agreement

On February 2, 2010, the Company entered into a Capital Maintenance Agreement (2010 CMA) with its Ultimate Parent, AIG. The 2010 CMA provides that in the event that the Company's Total Adjusted Capital falls below 200% of the Company's Authorized Control Level Risk Based Capital (RBC), as shown in the Company's 2009 Annual Statement, together with any adjustments or modifications required by the Company's domiciliary regulator, AIG would, within thirty days of written notice thereof, provide a capital contribution to the Company in an amount that equals the difference between the Company's Total Adjusted Capital and 200% of the Company's Authorized Control Level RBC. In lieu of making any such capital contribution, with the approval of the Company’s domiciliary regulator, AIG may provide a letter of credit naming the Company as beneficiary. The 2010 CMA superseded and replaced a similar agreement that related to the Company’s December 31, 2008 surplus position.

EXTERNAL AGREEMENTS

In addition to the above inter-company agreements, the Company had the following external agreements in effect as of the previous examination and remained in effect at December 31, 2010:

- Custodial agreement with Mellon Bank N. A. amended July 27, 2007
- Various Program Administrator (PA) Agreements
- Various Broker Agreements
- Various Third Party Administrator (TPA) Agreements
- Other Vendor Contracts

TERRITORY AND PLAN OF OPERATION

At December 31, 2010, the Company was only licensed in one state, Delaware. The Company is an eligible excess and surplus lines insurer in 40 other states and the District of Columbia, with its largest volume in New York, Illinois, California, and Texas, respectively.

The Company is a member of the Chartis U.S., Inc. Surplus Lines Pool, As a surplus lines insurer, Chartis Select provides flexibility in capacity, rate, and form that allow it to meet customer needs with insurance products for unique risks. The majority of the Company’s business written is other liability-claims made, fire products and other liability-occurrence. However, the Company writes substantially all lines of property and casualty insurance with an emphasis on U.S. Commercial Business. In addition to writing substantially all classes of insurance, including large commercial or industrial property insurance, excess liability, medical malpractice, inland marine, environmental and excess and umbrella coverages, the Company offers many specialized forms of insurance such as equipment breakdown, directors and officers liability, difference in conditions, and various types of errors and omissions coverages.

The Company accepts business mainly from insurance brokers, enabling selection of specialized markets and retention of underwriting control. Any licensed insurance broker is able to submit business to the Company, but such broker usually has no authority to commit the Company to accept the risk. In addition, the Company utilizes the services of certain program administrators and third party administrators for policy issuance and administration, underwriting, and claims adjustment services.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and covers the two (2) year period from its last examination as of December 31, 2008, through this examination, December31, 2010:

Year	Net Premium Written	Admitted Assets	Surplus as Regards Policyholders	Net Income (Loss)
2010	$1,015,187,871	$5,214,722,965	$1,832,657,471	$ 70,885,492
2009	$ 693,653,016	$4,199,224,722	$1,726,293,058	$175,543,289
2008	$ 899,835,924	$4,042,682,173	$1,437,914,888	$133,691,496

The changes over the examination period are as follows:

- A 12.82% increase in Net Written Premiums
- A 28.99% increase in Net Admitted Assets
- A 27.45% increase in Surplus as Regards Policyholders
- A 46.98% decrease in Net Income

The decrease in net income from 2009 to 2010 was due in part to the increase in “Incurred Losses”, and “Other Underwriting Expenses”.

LOSS EXPERIENCE

Net loss and loss adjustment expense reserves unpaid at December 31, 2009, restated for the impact of changes to the New Pooling Agreement effective January 1, 2010, were $1.964 billion. Reserves remaining for prior years are $1.905 billion as of December 31, 2010, as a result of the re-examination of unpaid losses and loss adjustment expenses principally by increases on Asbestos and certain Excess Casualty classes, which were offset by favorable emergence on other classes of business such as Property, Healthcare and Miscellaneous E&O. Therefore, there has been a $4.2 million unfavorable development for 2010. The decrease is generally the result of ongoing analysis of recent loss development trends.

REINSURANCE

General

The Company reported the following distribution of net premiums written for 2010:

Direct	$ 12,191,270
Reinsurance assumed from affiliates	1,577,737,536
Reinsurance assumed from non-affiliates	0
Total gross (direct and assumed)	$1,589,928,806
Reinsurance ceded to affiliates	$ 397,777,119
Reinsurance ceded to non-affiliates	176,963,816
Total ceded	$ 574,740,935
Net premiums written	$1,015,187,871

The Company retained 63.9% of its gross business in 2010.

Assumed

For calendar year 2010, assumed premiums by cedent are as follows:

	Premiums	Percent of Total

Lexington Insurance Company (DE)*	$1,365,473,000	86.55%
Chartis Excess Limited (IE)*	212,264,000	13.45%
Total	$1,577,737,000	100.00%

*Denotes Affiliate

Ceded

The Company's Reinsurance is coordinated and controlled by Chartis Inc. The Company's management located in Boston is responsible for selection of the working and excess treaty reinsurance coverages for the Surplus Lines Pool. When purchased, facultative reinsurance is placed on an individual basis by the applicable underwriter. The Global Reinsurance Division in New York, is responsible for placing Catastrophe reinsurance. All reinsurance treaty contracts are setup in the eTreaty reference system for coding parameters and treaty documentation including contract wording, reinsurer signings, risk transfer, and other information is stored centrally in the iReContract Treaty document management system.

Significant Reinsurance Program Details:

The Company had one significant program change, effective January 1, 2010. As described in the "Affiliated Agreemetns" section of this Report, the Surplus Lines Pooling Agreement was amended effective January 1, 2010 to add Chartis Specialty as a 10% participant. The participation percentages of the Company and Landmark did not change. Lexington's participation was reduced from 80% to 70%.

The following reinsurance programs are presented on a 100% pooling basis. The Company's share is based on its 18% participation percentage. The Surplus Lines Pool places a major treaty program across all lines of business, which is placed through domestic and foreign reinsurers. The program consists of working and excess layers that cover all property business. In addition, Chartis Select is a named participant (with all other AIG domestic insurance subsidiaries) under AIG's "external" property catastrophe program. This excess protection covers all AIG property exposures. The summary details of this program are highlighted in the Chartis Commercial Pool report.

Pro rata treaties are placed on Commercial and Personal Lines Property, Primary Casualty, Excess Casualty, Program, Marine and Healthcare business. Property Catastrophe Excess of Loss (XOL) Treaties protect the Surplus Lines Pool's net retention. Per Risk XOL treaties are placed on Commercial Property, Program Property and Recreational Marine business. Facultative reinsurance is also purchased in varying amounts on the above mentioned classes.

The major Excess of Loss, Catastrophe and Quota Share Treaties are summarized below:

Excess of Loss Reinsurance

1st Property per Risk XOL $25 million in excess $25 million (80% Ceded)
2nd Property per Risk XOL $50 million in excess $50 million (95% Ceded)
3rd Property per Risk XOL $150 million in excess $100 million (100% Ceded)
Health/Higher Ed. Property XOL $250 million in excess $250 million (91% Ceded)
1st Max Loss Property XOL $500 million in excess $500 million (95% Ceded)
2nd Max Loss Property XOL $500 million in excess $1.00 billion (100% Ceded)
1st – 3rd Program Property per Risk XOL $35 million in excess $5 million (100% Ceded)
CAT Excess Liab. Casualty XOL $78.055 million in excess $50 million (100% Ceded)

Property Catastrophe XOL Reinsurance

The Company has a 12 layered property catastrophe coverage, beginning with the 1st layer's coverage being 60% of $250 million in excess of $1.00 billion and ends with the 12th layer coverage being 60% of $250 million in excess of $3.500 billion.

Property Catastrophe XOL (2nd Event) Reinsurance

The Company also has a 13 layered property catastrophe coverage, beginning with the 1st layer's coverage being 40% of $250 million in excess of $1.00 billion to the 12th layer coverage being 40% of $250 million in excess of $3.500 billion and ends with the 13th layer being 100% of $750 million in excess of $3.750 billion.

Quota Share Reinsurance (QS)

Property QS, Company participation 81% reinsurer participation 19%
Personal Lines Property QS, Company participation 87% reinsurer participation 13%

Program Primary Casualty QS, Co. participation 85.5% reinsurer participation 14.5%
Program Professional Liability QS, Co. participation 85.5% reinsurer participation 14.5%
CAT Excess Liab. Casualty QS, Co. participation 85.37% reinsurer participation 14.63%

In addition, the Company is a named participant (with all other Chartis domestic insurance subsidiaries) under Chartis' "external" property catastrophe program. This excess protection covers all Chartis property exposures.

The Schedule F data contained in the Company's annual statements filed for the years within the examination period were found to accurately reflect its reinsurance transactions. The above material reinsurance agreements were reviewed and evaluated for compliance with SSAP 62 of the NAIC *Accounting Practices and Procedures Manual* and appeared to include the required contractual clauses.

The Company uses reinsurance intermediaries responsible for handling treaties and monitoring the reinsured. The reinsurance intermediary agreements were found to be in compliance with 18 Del. C. §1603 and §1604.

ACCOUNTS AND RECORDS

The Company maintains its records on a combination of client server, host, and network applications which utilize various reporting systems to record and report financial information. A significant change in systems was noted relative to the implementation of a new general ledger system (SAP) in 2010.

The accounts and records reviewed 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, PricewaterhouseCoopers, LLP (PwC), audited the Company's records for the years ended 2009 and 2010. 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.

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. No material discrepancies were noted during this review.

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

CHARTIS SELECT INSURANCE COMPANY

ASSETS

DECEMBER 31, 2010

	Assets	Non-Admitted Assets	Net-Admitted Assets	NOTES
Bonds	$ 4,050,166,410	$ 0	$ 4,050,166,410	1
Common stocks	458,604,053	0	458,604,053	
Cash and short-term investments	80,455,499	0	80,455,499	
Other invested assets	216,602,937	0	216,602,937	
Investment income due and accrued	51,774,598	0	51,774,598	
Premiums and considerations:				
Uncollected premiums and agents balances	81,227,771	10,283,094	70,944,677	
Deferred premium	27,861,567	147	27,861,420	
Accrued retrospective premiums	5,834,168	139,941	5,694,227	
Reinsurance:				
Amounts recoverable from reinsurers	52,410,520	0	52,410,520	
Funds held by or deposited with reinsured companies	182,686		182,686	
Current federal and foreign income tax recoverable and interest thereon	24,657,556	1,777,743	22,879,813	
Net deferred tax asset	144,627,117	52,634,133	91,992,984	
Electronic data processing equipment and software	248,675	248,675	-	
Furniture and equipment	1,430	1,430	-	
Receivable from parent, subidiaries and affiliates	1,214,498	0	1,214,498	
Aggregate write-ins for other than invested assets	83,938,643	-	83,938,643	
Total Assets	**$ 5,279,808,128**	**$ 65,085,163**	**$ 5,214,722,965**	

CHARTIS SELECT INSURANCE COMPANY

LIABILITES, SURPLUS AND OTHER FUNDS

DECEMBER 31, 2010

		NOTES
Losses	$ 2,115,200,327	2
Reinsurance payable on paid losses and LAE	2,590,003	
Loss adjustment expenses	415,950,310	2
Commissions payable, contingent commissions and similar charges	356,020	
Other expenses	440,839	
Taxes, licenses and fees due and accrued	5,237,486	
Unearned premiums	638,265,720	
Ceded reinsurance premiums payable	36,924,297	
Funds held by company under reinsurance treaties	9,395,817	
Amounts withheld or retained by company for account of others	23,359	
Remittances and items not allocated	4,247,157	
Provision for reinsurance	7,650,739	
Payable to parent, subsidiaries and affiliates	82,792,004	
Derivatives	2,762,459	
Payable for securties	228,334	
Aggregate write-ins for liabilties	60,000,623	
Total Liabilities	$ 3,382,065,494	
Special surplus funds	$ 35,204,251	
Common capital stock	5,000,000	
Gross paid in and contributed surplus	251,282,177	
Unassigned funds (surplus)	1,541,171,043	
Surplus as regards policyholders	1,832,657,471	
Total liabilities, surplus and other funds	**$ 5,214,722,965**	

CHARTIS SELECT INSURANCE COMPANY

SUMMARY OF OPERATIONS

DECEMBER 31, 2010

Underwritting Income

Premiums earned	$ 852,777,404
Deductions	
Losses incurred	612,853,981
Loss adjustment expenses incurred	120,865,381
Other underwriting expenses incurred	184,277,431
Total underwriting deductions	$ 917,996,793
Net underwriting gain or (loss)	$ (65,219,389)

Investment Income

Net investment income earned	$ 152,579,124
Net realized capital gains or (losses)	1,928,640
Net investment gain or (loss)	$ 154,507,764

Other Income

Net gain or (loss) from agents' or premium balances charged off	3,198,820
Aggregate write-ins for miscellaneous income	11,346,540
Total other income (loss)	14,545,360
Net income after dividends to policyholders, but before federal income taxes	$ 103,833,735
Federal income taxes incurred	32,948,243
Net income	**$ 70,885,492**

CHARTIS SELECT INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
FROM DECEMBER 31, 2008 to DECEMBER 31, 2010

Capital and Surplus Account

Capital and Surplus, December 31, 2008	$	1,437,914,888
Net Income	$	246,428,781
Change in net unrealized capital gains		117,816,357
Change in net unrealized foreign exchange capital gain		(1,188,056)
Change in net deferred income tax		24,741,316
Change in non-admitted assets and related items		(12,535,027)
Change in provision for reinsurance		2,593,041
Surplus Paid In		5,374,727
Dividends to stockholder		(552,526)
Aggregate Write-Ins for Changes in Surplus		12,063,970
Change in surplus as regards policyholders for the year	$	394,742,583
Capital and Surplus, December 31, 2010	**$**	**1,832,657,471**

ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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

NOTES TO THE FINANCIAL STATEMENTS

(Note 1) Bonds **$4,050,166,410**

100% of the Company's bonds are rated as Class 1 or Class 2 by the NAIC. Of the total bonds owned, 59% mature within 5 years and 87% within 10 years. The Company has minimal exposure to investments in residential and commercial mortgage backed securities. The Company's strategy has been to invest in high quality fixed-income investments while maintaining sufficient diversification to avoid inappropriate exposure to any one issuer and/or industry.

(Note 2)	**Losses**	**$2,115,200,327**
	Loss Adjustment Expenses	**$415,950,310**

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

The Consulting Actuarial Firm 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.

The INS reserve review involved projecting reported paid losses, incurred losses, legal expenses, and adjuster fees to an ultimate basis. These were done individually or in combination within reserve segments. (The largest reserve segments are as follows: Programs, Catastrophic Excess Liability, Casualty, Healthcare and Asbestos, Pollution and Mass Tort).

INS was provided with the Company's reserve review reports for each division along with additional work papers when requested. INS utilized the Company's reports as a model for the analysis and generally applied the methodologies used by the Company's actuarial staff.

The INS review of the Company's year-end 2010 loss and LAE reserves was performed for selected reserve segments. Generally, the reserve lines within these segments where the Company indicated IBNR reserve was over $140 million were reviewed, and INS either accepted the Company's results or INS developed an independent estimate of IBNR. The reserve lines within these segments where the Company indicated IBNR reserve was below $140 million were not reviewed, but were accepted by INS as stated.

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 found that the gross and net loss and loss adjustment expense reserves for the Company were reasonably stated.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations in the prior exam report issued by the Department.

SUMMARY OF RECOMMENDATIONS

There were no specific recommendations as a result of this examination.

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, 2008	Increase
Assets	$5,214,722,965	$4,042,682,173	$1,172,040,792
Liabilities	$3,382,065,494	$2,604,767,285	$ 777,298,209
Capital and Surplus	$1,832,657,471	$1,437,914,888	$ 394,742,583

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

Respectfully submitted,

Douglas E. Bey

Douglas E. Bey
Examiner In-Charge
State of Delaware