

REPORT ON EXAMINATION

OF THE

ALEA NORTH AMERICA INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

DATE OF REPORT

MARCH 14, 2008

EXAMINER

SHEIK H. MOHAMED

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

March 14, 2008

Mr. Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22542, dated September 1, 2006, and attached hereto, I have made an examination into the condition and affairs of Alea North America Insurance Company as of December 31, 2006, and submit the following report thereon.

Wherever the designations "the Company" or "Alea" appear herein without qualification, they should be understood to indicate Alea North America Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's home office located at 55 Capitol Boulevard, Rocky Hill, CT 06067.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the five year period from January 1, 2002 through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2006. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants ("CPA"). A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"):

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was formed under the name of Metropolitan Fire Reinsurance Company in 1932 as a result of the merger of the Fire Reassurance Company of New York and the Metropolitan Fire Insurance Company of New York. It became licensed on June 30, 1932, and commenced business on

November 3, 1932. The Company changed its name to Metropolitan Fire Assurance Company in 1946. On May 28, 1980, it adopted the title of American Independent Reinsurance Company. In September 1989, Great American Insurance Company acquired American Independent Reinsurance Company. In January 1992, an amended license was issued and the name of the Company was changed to Seven Hills Insurance Company. On July 2, 2001, Alea Holdings US Company (“Alea Holdings”) purchased Seven Hills Insurance Company from Great American Insurance Company. Effective August 2001, the Company amended its certificate of incorporation to change its name to Alea North America Insurance Company.

As of the examination date, the Company's parent company, Alea Holdings US Company, is 100% owned by Alea Group Holdings (Bermuda), Ltd. During 2002 and up to December 9, 2003, Alea Holdings US Company was 74.99% owned by Alea Group Holdings (Bermuda), Ltd. and 25.01% owned by Alea Group Holdings AG, a Swiss corporation. On December 9, 2003, Alea Group Holdings AG transferred its 25.01% ownership of Alea Holdings to Alea Group Holdings (Bermuda). Alea Holdings US Company and Alea Group Holdings (Bermuda), Ltd. are ultimately controlled by KKR 1996 Overseas Limited, a Cayman Island Limited Liability Company.

At December 31, 2006, capital paid in was \$8,425,518 consisting of 62,877 shares of common stock at \$134 par value per share. Gross paid in and contributed surplus was \$189,341,086. Gross paid in and contributed surplus increased by \$97,403,376 during the examination period, as follows:

<u>Year</u>	<u>Description</u>		<u>Amount</u>
2002	Beginning gross paid in and contributed surplus		\$ 91,937,710
2003	Surplus contribution	\$137,040,000	
2006	Surplus reduction	<u>(39,636,624)</u>	
	Total charges in surplus contributions		<u>97,403,376</u>
2006	Ending gross paid in and contributed surplus		<u>\$189,341,086</u>

The Company placed itself in run-off on November 7, 2005.

A. Management

At December 31, 2006, the board of directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Amy Lyn Balzarano Stanford, CT	Human Resources Manager, Alea North America Company
Michael Peter Caruso Easton, CT	Vice President & IT Director, Alea North America Company
Mark Bertrand Cloutier Paget, Bermuda	President & Chief Executive Officer, Alea (Bermuda) Ltd.
Suzanne Rathbun Fetter Chester, CT	Vice President - Claims, Alea North America Company
John Reed Hitchcock Southlake, TX	Senior Vice President, Alea North America Company
Jonathan Mark Jones Newtown, CT	Senior Vice President - Risk Management, Alea North America Company
Kirk Howard Lusk Avon, CT	Group Executive Vice President, Chief Operating Officer and Chief Financial Officer, Alea North America Company
Susanne Michele Mazzone Westerfield, CT	Vice President - Compliance, Alea North America Company
Craig Michael Thomas Glastonbury, CT	Senior Vice President & Treasurer, Alea North America Company
Thomas Albert Weidman West Hartford, CT	Senior Vice President and Group Chief Actuary, Alea North America Company

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than eighteen members. Further, Section 1201(a)(5)(B)(v) of the New York Insurance Law requires that the number of directors shall be not less than thirteen.

It is recommended that the Company maintain the proper minimum number of directors in accordance with its charter and by-laws and pursuant to Section 1201(a)(5)(B)(v) of the New York Insurance Law.

The examiner noted that the Company's board of directors did not have at least two directors who are residents of the State of New York as required by Section 1201(a)(5)(B)(vi) of the New York Insurance Law which states, in part;

“. . . that each director shall be at least eighteen years of age and that at all times a majority shall be citizens and residents of the United States, and that not less than two shall be residents of this state”.

It is recommended that the Company comply with Section 1201(a)(5)(B)(vi) of the New York Insurance Law by having at least two directors that are residents of the State of New York.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2006, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Mark Bertrand Cloutier	President and Chief Executive Officer
Laura Ann Santirocco	Senior Vice President, Secretary and General Counsel
Craig Michael Thomas	Senior Vice President and Treasurer
Thomas Albert Weidman	Senior Vice President and Actuary
Jonathan Mark Jones	Senior Vice President - Risk Management
Kirk Howard Lusk	Senior Vice President
Michael Peter Caruso	Vice President and IT Director
Suzanne Rathbun Fetter	Vice President - Claims

B. Territory and Plan of Operation

As of December 31, 2006, the Company was licensed to write business in all fifty states and the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass

<u>Paragraph</u>	<u>Line of Business</u>
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$4,400,000.

Prior to placing itself in run-off the majority of the Company's direct premium writings consisted primarily of the following lines of business: workers' compensation, commercial multi-peril and commercial auto liability. The direct book of business was produced exclusively through managing general agents.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a Percentage of United States Premium</u>
2002	\$ 25,756,269	\$ 66,937,370	38.48%
2003	\$ 68,901,406	\$241,276,928	28.56%
2004	\$160,835,940	\$413,545,528	38.89%
2005	\$148,827,064	\$373,732,539	39.82%
2006	\$ (2,252,960)	\$ (188,104)	

C. Reinsurance

Prior to entering into run-off the Company's assumed reinsurance program consisted mainly of casualty coverage assumed on a quota share and excess of loss basis pursuant to the terms of facultative and treaty agreements with both authorized and unauthorized cedants. Additionally, the Company

participated in various mandated pools. The Company utilizes reinsurance accounting as defined in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

In order to protect its run-off business the Company has structured its ceded reinsurance program to limit its maximum exposure to any one non workers' compensation risk to \$1,500,000.

The Company also participates in a flexible quota share reinsurance agreement with Alea Bermuda, Ltd. whereby the Company cedes 70% of its net business to Alea Bermuda, Ltd.

In addition to the reinsurance contracts previously described herein, the Company limits its aggregate exposure pursuant to the provisions of a stop loss reinsurance agreement with Max Re Ltd., an unauthorized reinsurer. This agreement provides coverage for aggregate losses for all property and casualty insurance and reinsurance risks covering the Company's net retained liability after accounting for all inuring reinsurance.

The Company is not a party to any retrospective reinsurance agreements. The Company has not been a party to any loss portfolio transfers during the examination period.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively.

Max Re Ltd. Trust Agreement

Effective January 1, 2001, Alea Group Holdings (Bermuda) Ltd. ("Alea Bermuda") and several of its insurance subsidiaries, including the Company (collectively referred to as "the Companies") entered into an aggregate excess cover reinsurance agreement ("Aggregate excess agreement") with Max Re Ltd ("Reinsurer"), an unaffiliated Bermuda domiciled reinsurance company, which provides reinsurance coverage above a stated loss ratio for agreement years 2001, 2002 and 2003. In connection with the aggregate excess agreement, a reinsurance trust agreement ("Trust agreement") was executed naming the beneficiary as Alea Bermuda "and each other insurance and reinsurance subsidiary of Alea Bermuda that may from time to time hereafter be designated by Alea Bermuda." At December 31, 2006, the Company reported an offset to its Provision for unauthorized reinsurance in the amount of \$84,604,000 for this trust agreement.

Part 126.2(a) of Department Regulation No. 114 defines “beneficiary” as:

(a) "Beneficiary" means the entity for whose sole benefit the trust has been established. The trust agreement shall contain a provision that includes within the term "Beneficiary" any successor of the beneficiary by operation of law, including, without limitation, any liquidator, rehabilitator, receiver, or conservator. When established in conjunction with a reinsurance agreement, the beneficiary is the licensed ceding insurer.

Further, Part 126.3(e) of Department Regulation 114 states:

“The trust agreement must be established for the sole use and benefit of the beneficiary.”

Based on the above provisions, the trust agreement was not in compliance with Department Regulation 114, as the Company is not named as the sole beneficiary of the trust account. It is noted, however, that effective September 28, 2007, the companies and the reinsurer entered into a Commutation and Mutual Release Agreement, whereby the parties commuted the outstanding obligations pursuant to the Aggregate Excess Agreement. Therefore, no action is required relative to the non-complying trust agreement.

In addition, the Company did not notify the Superintendent of its intention to enter into a reinsurance agreement with its affiliate, Alea Bermuda, Ltd. Section 1505(d)(2) of the New York Insurance Law which states, in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing. . .

(2) reinsurance treaties or agreements”

It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and notify the superintendent of its intention to enter into reinsurance agreements with other members of its holding company system.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

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. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

During the period covered by this examination, the company commuted various reinsurance agreements where it is was an assuming reinsurer. These commutations did not result in a material change in the Company's surplus

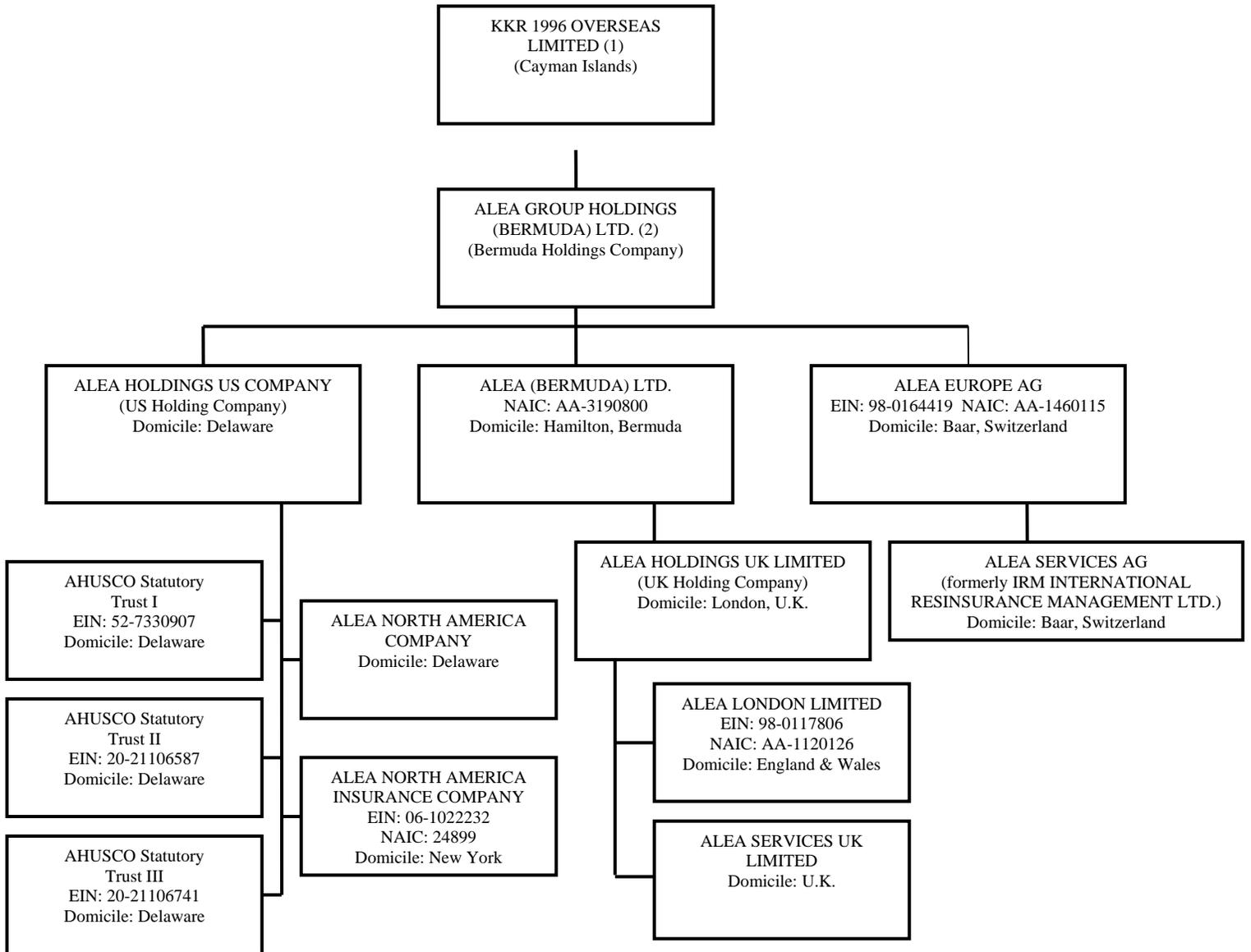
Subsequent to the examination on September 28, 2007, the Company entered into a commutation and mutual release agreement, whereby the parties commuted the outstanding obligations pursuant to an aggregate excess of loss reinsurance agreement. The reinsurer paid a total of \$203,600,000 to the participating companies to commute reinsurance obligations totaling \$225.7 million. The Company's share was \$77.3 million which commuted reinsurance obligations totaling \$84.8 million, resulting in a loss on commutation to the Company of \$7,554,312. The Company ceded a 70% quota share to ALEA Bermuda Ltd., which meant that 70% of the loss on commutation, or \$5,288,018, was ceded to ALEA Bermuda Ltd., resulting in a net loss to the Company of \$2,266,294.

D. Holding Company System

The Company is a member of the Alea Group Holdings (Bermuda) Limited. The Company is 100% owned by a wholly-owned subsidiary of Alea Holdings US Company, a Delaware corporation, which in turn is owned by Alea Group Holdings (Bermuda) Limited. The ultimate parent is KKR 1996 Overseas Limited.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2006:



At December 31, 2006, the Company was party to the following agreements with other members of its holding company system:

Underwriting Management and Administrative Services Agreement

Effective July 2, 2001, the Company entered into an underwriting management and administrative services agreement with Alea North America Company (“ANAC”). Pursuant to the terms of the agreement, ANAC agreed to provide various underwriting, management and administrative services to the Company.

This agreement was approved by the Department pursuant to the provisions of Section 1505 of the New York Insurance Law.

Tax Allocation Agreement

Effective December 31, 2001, the Company entered into a tax allocation agreement with Alea Holdings US Company, and its affiliates, Alea North America Reinsurance Company and Alea North America Company. Effective May 25, 2006, Alea North America Specialty Insurance Company (formerly known as Alea North America Reinsurance Company) ceased to be a subsidiary in the Alea group of companies and as such, Alea North America Specialty Insurance Company’s participation in the tax allocation agreement terminated. The tax allocation agreement was amended to reflect this change. This agreement was approved by the Department pursuant to the provisions of Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2006, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	88%
Premiums in course of collection to surplus as regards policyholders	9%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$294,348,916	67.33%
Other underwriting expenses incurred	211,061,209	48.28
Net underwriting loss	<u>(68,255,297)</u>	<u>(15.61)</u>
Premiums earned	<u>\$437,154,828</u>	<u>100.00%</u>

F. Accounts and Records

1. CPA Contracts

The CPA engagement letter dated February 27, 2007 does not meet the following requirements of Part 89.2 of Department Regulation 118:

Section 89.2 of Regulation 118 states, in part, that:

". . . such contract must specify that:

- a) on or before May 31st, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by section 307(b) (1) of the Insurance Law together with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year an evaluation of the insurer's and any such subsidiary's accounting procedure and internal control systems as are necessary to the furnishing of an opinion;
- b) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the superintendent within 15 calendar days following such determination; and
- c) the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communication in accordance with the provisions of Part 243 of this Title (Regulation 152). More specifically, such workpapers and communications must be retained by the CPA for the period specified in sections 243.2(b) (7) and (c) of this Title. . ."

It is recommended that the Company ensure that all future contracts with its independent certified public accountants contain the required provisions pursuant to Department Regulation 118.

2. Directors and Officers Indemnification Policy

Upon review of the Company's directors and officers indemnification policy, it was noted that the Company is not in compliance with Parts 72.1 (c) and 72.4 of Department Regulation 110.

Part 72.1(c) states:

“retention amounts and co-insurance are both required, in accordance with this Part, for D & O indemnification policies issued to corporations formed under the Insurance Law. . . .”

Part 72.4 states:

“that for corporations with assets of greater than \$20,000,000 an individual retention of \$5,000 and an aggregate retention of \$50,000, as well as a coinsurance percentage of 0.50% is to be included in any Directors and Officers policy”.

It is recommended that the Company comply with Parts 72.1(c) and 72.4 of Department Regulation 110 and include the required retention and coinsurance percentage in its directors and officers indemnification policy.

3. Managing General Agents (“MGA”)

Section 33.3(b)(2) of Department Regulation 120 states:

“A domestic insurer that appoints an MGA to act for it in any state or foreign country, shall complete and file the form required by subdivision (c) of this section with this department, within 30 days of the appointment. An amended form shall be filed within 30 days after any change including termination of appointment.”

The Company did not file the required form for three of its managing general agents.

It is recommended that the Company file the required form for all of its managing general agents pursuant to the provisions of Department Regulation 120.

4. 2006 Annual Statement Preparation

A review of the investments held in the Company's custodial accounts revealed that some of the investments were held for the benefit of other entities and were not under the exclusive control of the Company. The NAIC annual statement instructions for property/casualty insurers requires that insurers disclose information regarding investments that are not under the exclusive control of the insurer by placing one of the codes identified in the Investment Schedule General Instructions in Column 3 of Schedule D Part 1 of its annual statement. Upon review of the Schedule D Part 1 contained in the Company's filed 2006 annual statement, it was noted that Column 3 was left blank for the investments not under the exclusive control of the Company.

Additionally, in response to General Interrogatory 21.1 of the Company's 2006 annual statement, which asks "Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E Part 3 – Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force?", the Company responded "No." Additionally, General Interrogatory 21.6, which should indicate the amount of securities pledged as collateral, was left blank.

It is recommended that in the future the Company complete its annual statement in accordance with the annual statement instructions.

5. System Input Errors

During the course of the examination it was determined that due to a system error, accrued premiums were incorrectly entered into the Company's accounting system resulting in an overstatement of premium related assets on the balance sheet. The balance sheet items effected by the error are "Uncollected premiums and agents' balances in the course of collection" and "Deferred premiums, agents' balances and installments booked but deferred and not yet due." The reductions to these items were offset by a corresponding reduction in losses and commissions payable and contingent commissions. The net effect on the Company's surplus was immaterial, therefore no examination changes were made.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2006 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$320,827,964	\$ 0	\$320,827,964
Cash, cash equivalents and short-term investments	122,002,096	0	122,002,096
Receivable for securities	849,093	0	849,093
Investment income due and accrued	3,087,999	0	3,087,999
Uncollected premiums and agents' balances in the course of collection	21,215,329	5,230,885	15,984,444
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,966,815	0	8,966,815
Amounts recoverable from reinsurers	52,349,098	0	52,349,098
Funds held by or deposited with reinsured companies	17,638,838	0	17,638,838
Current federal and foreign income tax recoverable and interest thereon	5,247,348	0	5,247,348
Net deferred tax asset	10,398,560	10,398,560	0
Electronic data processing equipment and software	2,458,880	2,458,880	0
Furniture and equipment, including health care delivery assets	1,751,679	1,751,679	0
Receivables from parent, subsidiaries and affiliates	1,202,470	848,459	354,011
Cash advances to third party administrators	24,271,332	1,320,573	22,950,759
Remittances and items not allocated	8,057,482	0	8,057,482
Equities and deposits in pools and associations	663,293	0	663,293
Miscellaneous receivable	241,863	0	241,863
Prepaid expenses	<u>4,015</u>	<u>4,015</u>	<u>0</u>
Total assets	<u>\$601,234,154</u>	<u>\$22,013,051</u>	<u>\$579,221,103</u>

Liabilities, Surplus and Other FundsLiabilities

Losses		\$97,099,347
Reinsurance payable on paid losses and loss adjustment expenses		27,849,822
Loss adjustment expenses		13,873,219
Commissions payable, contingent commissions and other similar charges		5,686,986
Other expenses (excluding taxes, licenses and fees)		478,543
Taxes, licenses and fees (excluding federal and foreign income taxes)		7,482,808
Unearned premiums		998,025
Ceded reinsurance premiums payable (net of ceding commissions)		25,188,912
Funds held by company under reinsurance treaties		196,047,599
Amounts withheld or retained by company for account of others		17,342,294
Provision for reinsurance		3,059,000
Payable to parent, subsidiaries and affiliates		5,094,083
Miscellaneous liabilities		23,859
Retroactive reinsurance reserve		<u>(73,952)</u>
Total liabilities		\$400,150,545

Surplus and Other Funds

Common capital stock	\$ 8,425,518	
Gross paid in and contributed surplus	189,341,086	
Unassigned funds (surplus)	<u>(18,696,046)</u>	
Surplus as regards policyholders		<u>179,070,558</u>
Total liabilities, surplus and other funds		<u>\$579,221,103</u>

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2003. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2004, 2005, and 2006. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$78,818,077 during the five-year examination period January 1, 2002 through December 31, 2006, detailed as follows:

Underwriting Income

Premiums earned		\$437,154,828
Deductions:		
Losses incurred	\$ 245,464,642	
Loss adjustment expenses incurred	48,884,274	
Other underwriting expenses incurred	211,037,350	
Aggregate write-ins for underwriting deductions	<u>23,859</u>	
Total underwriting deductions		<u>505,410,125</u>
Net underwriting gain or (loss)		\$ (68,255,297)

Investment Income

Net investment income earned	\$ 51,674,531	
Net realized capital gain	<u>2,658,227</u>	
Net investment gain or (loss)		54,332,758

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(1,871,686)	
Amtrust renewal	10,000,000	
Fiduciary administrative fee	1,000,000	
Retroactive reinsurance loss	<u>(25,104)</u>	
Total other income		<u>9,103,210</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$(4,819,329)
Federal and foreign income taxes incurred		<u>4,517,996</u>
Net income		<u>\$(9,337,325)</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2001			\$100,252,481
	Gains in <u>Surplus</u>	Losses in <u>Surplus</u>	
Net income		\$ 9,337,326	
Net transfers (to) from protected cell accounts	\$ 77,384		
Net unrealized capital gains or (losses)		77,385	
Change in net deferred income tax	10,398,561		
Change in nonadmitted assets		22,013,051	
Change in provision for reinsurance		3,059,000	
Capital changes paid in	5,425,518		
Surplus adjustments paid in	<u>97,403,376</u>		
Total gains and losses	<u>\$113,304,839</u>	<u>\$34,486,762</u>	
Net increase in surplus			<u>78,818,077</u>
Surplus as regards policyholders per report on examination as of December 31, 2006			<u>\$179,070,558</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$110,972,566 is the same as reported by the Company as of December 31, 2007. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

A. Claims and complaint handling

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained four recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Description of the Company</u>	
It is recommended that the Company take proper care in the calculation of the ownership of the holding company and in the preparation of the annual statement.	3
The Company has complied with this recommendation.	
B. <u>Management</u>	
<u>Board of Directors</u>	
i. It is recommended that the Company hold annual meetings as prescribed by its charter.	5
The Company has complied with this recommendation.	
ii. It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law. It is noted that subsequent to the completion of this examination, the board of directors approved the Company's investment transaction via unanimous consent.	6
The Company has complied with this recommendation.	
<u>Conflict of Interest</u>	
It is recommended that all directors sign an annual conflict of interest statement. Subsequent to the completion of this examination, the Company provided conflict of interest disclosures for all board members.	6
The Company has complied with this recommendation.	
C. <u>Reinsurance</u>	
It is recommended that the Company include the following wording to the offset clause in its reinsurance agreements: "In the event of the insolvency of either party to this agreement then offsets shall only be allowed to the extent permitted by the provisions of New York Insurance Law, Section 7427."	10
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
D. <u>Custodian Agreement</u>	

It is recommended that the Company amend its custodian agreement to incorporate the provisions set forth in this report. 15

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Company maintain the proper minimum number of directors in accordance with its charter and by-laws and pursuant to Section 1201(a)(5)(B)(v) of the New York Insurance Law.	4
ii. It is recommended that the Company comply with Section 1201(a)(5)(B)(vi) of the New York Insurance Law by having at least two directors that are residents of the State of New York.	5
B. <u>Reinsurance</u>	
It is recommended that the Company comply with Section 1505(d) of the New York Insurance Law and notify the superintendent of its intention to enter into reinsurance agreements with members of its holding company system.	8
C. <u>Accounts and Records</u>	
i. It is recommended that the Company ensure that all future contracts with its independent certified public accountants contain the required provisions pursuant to Department Regulation 118.	13
ii. It is recommended that the Company comply with Parts 72.1(c) and 72.4 of Department Regulation 110 and include the required retention and coinsurance percentage in its directors and officers indemnification policy.	13
iii. It is recommended that the Company file the required form for all of its managing general agents pursuant to the provisions of Department Regulation 120	13
iv. It is recommended that in the future the Company complete its annual statement in accordance with the annual statement instructions.	14

Appointment No 22542

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Sheik Mohamed

as proper person to examine into the affairs of the

ALEA NORTH AMERICA INSURANCE COMPANY

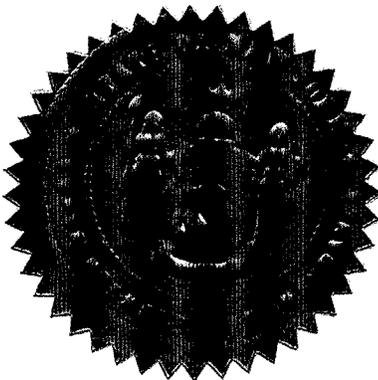
and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 1st day of September, 2006



Howard Mills

HOWARD MILLS
Superintendent of Insurance