STATE OF INDIANA	)	BEFORE THE INDIANA
	) SS:	
COUNTY OF MARION	)	COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Quanta Specialty Lines Insurance Company)
48 Wall Street, Floor 14)
New York, New York 10005)

Examination of **Quanta Specialty Lines Insurance Company**

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **Quanta Specialty Lines Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each Director of **Quanta Specialty Lines Insurance Company** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

June 11, 2012
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7196 9007 2680 0477 2588

STATE OF INDIANA) BEFORE THE INDIANA
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Quanta Specialty Lines Insurance Company)
48 Wall Street, Floor 14)
New York, New York 10005)

Examination of **Quanta Specialty Lines Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Quanta Specialty Lines Insurance Company** (hereinafter "Company") for the time period January 1, 2006 through December 31, 2010.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on April 17, 2012.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on May 2, 2012 and was received by the Company on May 7, 2012.

On May 18, 2012, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2010.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.

2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.

3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Stephen W. Robertson
Insurance Commissioner

Signed and Sealed this 11th day of June, 2012.

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

QUANTA SPECIALTY LINES INSURANCE COMPANY

NAIC COMPANY CODE 11446

As of

December 31, 2010

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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE
311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

April 18, 2012

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3695, an examination has been made of the affairs and financial condition of:

Quanta Specialty Lines Insurance Company
340 West 10th Street, Second Floor
Indianapolis, Indiana 46202

an Indiana domestic, stock, property and casualty insurance company hereinafter referred to as the "Company". The examination was conducted at the corporate offices of the Company at 48 Wall Street, 14th Floor, New York, New York.

The Report of Examination, reflecting the status of the Company as of December 31, 2010, is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2005. The present multi-state risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting Group) and covered the period from January 1, 2006 through December 31, 2010, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. This examination was coordinated with the examination of Quanta Indemnity Company that was conducted by representatives of the Colorado Division of Insurance.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Johnson Lambert & Co., LLP for the years 2006 to 2008 and by KPMG LLP for the years 2009 and 2010 . Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

Robert W. Gardner, FCAS, MAAA, of INS Consultants, Inc., a consulting actuary appointed by the INDOI, conducted a review of the Company's loss and loss adjustment expense reserves as of December 31, 2010.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that Thomas Consulting Group 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. An examination also includes 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 comments and recommendations from the previous INDOI examination were reviewed. It was noted the Company has taken corrective action with respect to all prior recommendations.

HISTORY

The Company was originally incorporated in the state of Indiana as Chubb Corporate Solutions Insurance Company on November 20, 2001. On October 28, 2003, the Company was sold to Quanta U.S. Holdings Inc. (Quanta US), a Delaware corporation, through the sale of 100% of its capital stock by its original parent - Federal Insurance Company, an Indiana insurer. Prior to its acquisition by Quanta US, the Company was a "shell" company that did not write any business. On October 28, 2003, the Company's name was changed to Quanta Specialty Lines Insurance Company (QSLIC). Effective July 1, 2005, Quanta US contributed all of the capital stock of the Company to Quanta Indemnity Company (QIC).

In 2006, as a result of unexpected losses from 2005 hurricanes, the insurance rating agency of A.M. Best downgraded the financial strength of the Company's parent, Quanta Capital Holdings Ltd. (QCH) from an A- to a B++. The rating downgrade limited the Company's ability to write business in its target markets and the Company's management therefore announced, on May 25, 2006, that the Company and other affiliated insurers within the Quanta Group were being placed into self-managed run-off.

On May 30, 2008, QHC entered into a definitive amalgamation agreement with Catalina Holdings (Bermuda) Ltd (CHBL) and Catalina Alpha Ltd. ("CatAlpha"). The INDOI approved the amalgamation agreement on September 8, 2008 and QCH was merged into CatAlpha on October 10, 2008.

CAPITAL AND SURPLUS

The Company's Amended and Restated Articles of Incorporation authorize 3,750 shares of common capital stock at a par value of $1,000 per share. As of December 31, 2010, all 3,750 shares of common stock were issued and outstanding. The amount of issued common capital stock did not change during the period under examination. The Company has no preferred stock authorized, issued or outstanding. In addition to common capital stock, the Company began operations in 2003 with $35,117,410 of additional paid in and contributed surplus. During 2005, the Company also received an additional capital contribution of $15,000,000 from its parent, QIC. There were no changes in capital or gross paid-in and contributed surplus since the previous examination.

All of the Company's outstanding stock as of December 31, 2010 was held by QIC, a Colorado domestic property and casualty insurance company.

DIVIDENDS TO STOCKHOLDERS

The Company did not declare or pay stockholder dividends during the period covered by this examination. However please refer to the subsequent events section of this report.

TERRITORY AND PLAN OF OPERATION

Since its inception, the Company has only been licensed in the state of Indiana as a property and casualty insurer. However prior to its run-off in 2006, the Company wrote business through surplus lines agents in 44 other states and the District of Columbia where it was authorized as a surplus lines insurer.

As of December 31, 2010, the Company only had 16 policies in force. All of these policies were environmental business. Prior to entering into run-off, the Company wrote commercial lines of business that included fidelity and crime, environmental liability and professional liability. In addition to these lines of business, the Company assumed other lines of business through an intercompany pooling arrangement and from third party reinsurers. The other lines of business assumed included ocean marine, group accident & health, homeowners multiple peril, commercial multiple peril, and liability products.

Within these lines of business the Company issued policies or assumed risks for commercial general liability, commercial excess liability, commercial inland marine, builders risk, contractors wrap-up, contractors' equipment, directors & officers liability, commercial and contract surety bonds, medical excess loss, medical stop loss, medical professional liability, medical excess/stop loss, lawyers professional liability, builders warranty, environmental site protection, contractors environmental protection, remediation cost cap, and lender environmental site protection.

GROWTH OF THE COMPANY

Comparative financial data, as reported in the Company's filed Annual Statements for the period under examination, was as follows:

	2010	2009	2008	2007	2006
Total admitted assets	$71,678,379	$83,154,490	$92,780,748	$120,560,708	$174,410,455
Total liabilities	45,872,958	59,339,394	67,346,824	89,263,663	143,532,902
Capital	3,750,000	3,750,000	3,750,000	3,750,000	3,750,000
Surplus	25,805,421	23,815,096	25,433,924	31,297,045	30,877,553
Net income	1,914,722	(1,637,001)	(6,294,730)	47,218	(2,197,484)
Direct premiums written	(282,296)	(451,605)	(12,074,989)	(18,354,546)	7,915,044
Net premiums written	(51,644)	(83,798)	(1,988,842)	(6,209,034)	4,666,974

The trend of decreasing assets and liabilities over the examination period is primarily attributable to the Company's continued run-off of its insurance business. In addition, the negative premiums beginning in 2007 represent return of premiums due to policy cancellations.

In 2010, the Company reported a net income of $1,914,722 compared to net losses reported in the previous two years. The net income is the result of realized capital gains combined with a reduction in underwriting expenses. The decrease in the 2010 underwriting expenses was mainly due to the elimination of contingent commissions as a result of the Company's commutation of a contingent commission agreement in October of 2009.

MANAGEMENT AND CONTROL

Directors

The Company's By-laws specify the number of Directors of the Company shall not be less than five nor more than 25. The following is a listing of persons serving as Directors at December 31, 2010:

Name and Residence	Principal Business Affiliation
Peter D. Johnson Redbank, New Jersey	President and Chief Executive Officer Quanta U.S. Holdings, Inc.

Martha G. Bannerman Greenwich, Connecticut	General Counsel and Secretary Quanta U.S. Holdings, Inc.
Keith A. Lyon Melbourne, near Royston, UK	General Counsel Catalina Holdings (Bermuda) Ltd.
Jeffrey J. Miszner Port Washington, New York	Vice President of Finance, U.S. Operations Quanta U.S. Holdings, Inc.
R. Matthew Neff Indianapolis, Indiana	President/CEO CHV Capital, Inc.

Officers

The Company's Amended and Restated Code of By-laws state the officers of the Company shall consist of a President, Secretary, and Treasurer and may, in addition, consist of one or more Vice Presidents, Assistant Secretaries or Assistant Treasurers. The Company's daily operations were primarily managed by the following key senior officers and their respective titles as of December 31, 2010.

Name	Office
Peter D. Johnson	President, Chief Executive Officer
Martha G. Bannerman	General Counsel and Secretary
Jeffrey J. Miszner	Vice President of Finance, U.S. Operations
John R. Weale	Chief Financial Officer
D. Campbell McBeath	Treasurer
Charles N. Kasmer	Chief Actuary
Peter L. Harnik	Chief Investment Officer
Gary Haase	Vice President, Reinsurance
John Manzi	Vice President, Policy Services and Assistant Secretary

Please refer to the subsequent events section of this report for a discussion regarding changes in officers.

Corporate Governance

As of December 31, 2010 directors serving on the committees of the board were as follows:

Audit Committee:

R. Matthew Neff	Chairman
Peter D. Johnson	Member

The Company also receives oversight from the board and management committees of CatAlpha and CHBL. The CatAlpha management committees are comprised of senior officers from the

Company, CatAlpha and CHBL. The CatAlpha management committees included: Large Loss Committee, Reserve Committee, Commutation Committee, and the Policy Team.

CONFLICT OF INTEREST

Directors, officers and certain employees are required to complete a questionnaire which discloses conflicts of interest. It was determined that all directors and officers serving during the examination period completed the required conflict of interest questionnaire.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. It was noted during the examination the board members did subscribe to an Oath of Office.

CORPORATE RECORDS

Articles of Incorporation

The Articles of Incorporation were amended in their entirety effective February 7, 2008. The amended articles were filed with the State of Indiana on February 15, 2008.

Bylaws

There were no amendments made to the Company's By-laws during the period covered by this examination.

Minutes

The board of directors meeting minutes and board committee minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. In general, it was noted that the annual meetings and other regular board meetings were held in accordance with the Company's By-laws.

AFFILIATED COMPANIES

Organizational Structure

The Company is a member of an insurance holding company system. The Company is a wholly owned subsidiary of QIC, a Colorado insurer. QIC is 100% owned by Quanta US, a Delaware holding company. Quanta US is 100% owned by Quanta Reinsurance Ltd. (QRe), a Bermuda insurer. In turn, QRe is 100% owned by Cat Alpha, holding company located in Hamilton, Bermuda. Cat Alpha is 100% owned by the ultimate parent of the group, CHBL, a holding company also located in Hamilton, Bermuda. The common voting shares of CHBL are owned by institutional investors. The Organizational Chart below shows the ownership relationships between the Company and its parents, and other U.S. insurance affiliates and Quanta Reinsurance U.S. Ltd. (QRUS) as of December 31, 2010.

Organizational Chart

ORGANIZATIONAL CHART	**Domiciliary Jurisdiction**
Catalina Holdings (Bermuda) Ltd.- (ultimate Parent)	Bermuda
Catalina Alpha Ltd. (stock) – 100%	Bermuda
Quanta Reinsurance Ltd. (stock) – 100%	Bermuda
Quanta Reinsurance U.S. Ltd. – 100%	Bermuda
Quanta U.S. Holdings Inc. (stock) – 100%	Delaware
Quanta Indemnity Company (stock) – 100%	Colorado
Quanta Specialty Lines Insurance Company (stock) – 100%	Indiana

Affiliated Agreements

As of December 31, 2010, the Company operated under the following intercompany agreements which have been filed with the INDOI:

Overhead Allocation Services Agreement

Effective January 1, 2007, the Company entered into an Overhead Allocation Services Agreement with its affiliated entities QCH (CatAlpha), Quanta US, QRe, QRUS, and QIC. Under the terms of this agreement, shared costs are incurred and paid for by a single Quanta-related entity and if the services benefited other Quanta-related entities, the costs are subject to reimbursement by the entities benefiting from such services.

This agreement superseded the Intercompany Operational Services Agreement that had been in effect since December 1, 2003 and the Claim Services Agreement with QIC that was effective as of September 1, 2004.

Agreement for the Allocation and Settlement of Consolidated Federal Income Tax Liability (Tax Agreement)

The Company entered into the Tax Agreement effective January 1, 2010 for the purpose of establishing methods for allocating taxes among the members of the group, reimbursing the parent for taxes paid on the members' behalf, and to compensate a member for losses or credits on a separate return basis. The agreement is made and entered into among Quanta US, QIC, and the Company.

This agreement superseded the tax agreement that was effective December 1, 2003 which included QRUS.

Surety Bond

Effective November 1, 2003, the Company entered into a surety bond with its upstream parent, QRe (Surety). Under the provisions of the bond, QRe shall provide sufficient funds if the Company's surplus falls below $15,000,000 or if its surplus is less that the statutory minimum required by Indiana law.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond. The Company is insured for aggregate losses up to $10,000,000 with a $200,000 deductible. The fidelity bond coverage limit was adequate to meet the prescribed minimum coverage specified by the NAIC.

Other significant insurance coverages in force at December 31, 2010, included professional liability, umbrella liability, employment practices liability, fiduciary liability, and directors & officers Liability. All other coverages were determined to be adequate as of December 31, 2010.

STATUTORY AND SPECIAL DEPOSITS

The Company reported the following special deposits with various states as of December 31, 2010:

State	Book Value	Fair Value
For all Policyholders:		
Indiana	$2,497,236	$2,537,225
All Other Special Deposits:		
Arkansas	128,984	130,708
Louisiana	99,958	100,786
Massachusetts	699,226	710,423
New York	2,652,973	2,721,298
Total Deposits	$6,078,377	$6,200,440

REINSURANCE

Reinsurance Assumed

The Company does not assume reinsurance.

Reinsurance Ceded

There were no significant changes made to the Company's ceded reinsurance program during the examination period. The Company's reinsurance program that was in place as of December 31, 2010 primarily covers losses for business that was written by the Company prior to entering run-off in 2006. The Company ceded reinsurance under its various lines of business as follows:

HBW Business

The Builders Risk component of the Company's HBW program was covered under the Company's property treaties and individual facultative certificates.

The Company's Commercial General Liability (CGL) portion of the HBW business that was written during the period of April 1, 2004 to April 1, 2005 is reinsured under a quota share treaty that provides coverage for 40% of losses up to $1,000,000 per policy per loss. Excess liability (EL) is reinsured for 40% of losses up to $2,000,000 per policy per loss in excess of the primary coverage. For CGL and EL policies written from April 1, 2005 to April 1, 2006 the quota share percentage coverage increased from 40% to 46%.

Wrap-Up CGL business that was written during the period of February 1, 2005 to May 1, 2006 is reinsured under a quota share agreement that provides coverage for 75% of losses up to $2,000,000 per policy per loss.

For CGL and Wrap-up CGL policies issued during the period of April 1, 2006 to December 31, 2006 the Company is reinsured under a quota share agreement that provides coverage for 100% of losses up to $1,000,000 per CGL policy per loss. Wrap-up CGL is covered for 100% of losses up to $2,000,000 per policy per loss. EL policies are 100% reinsured for $3,000,000 per policy per loss in excess of the primary coverage. The Wrap-up EL limit is $2,000,000 per policy per loss.

In addition, some of the Company's HBW Excess Liability business above the treaty coverage is reinsured on a facultative basis.

Technical Risk & Property

During 2005, the Company's technical risk property business was reinsured through a Per Risk Excess agreement and a Property Catastrophe Excess of Loss agreement. Effective as of October 1, 2005, the Company transferred all of its technical risk property business through a 100% quota share agreement to Arch Reinsurance, Ltd. (Arch). This treaty was entered into to allow the Company to exit the technical property insurance and reinsurance market. During the period covered by this examination, the Company and Arch mutually agreed to commute the 100% quota share treaty effective March 23, 2010.

Professional Liability & Fidelity

The Company's professional liability lines are reinsured under two agreements, a quota share agreement and an excess loss agreement. Under the quota share agreement, the reinsurer assumes 50% of professional liability (including fidelity) losses up to $15,000,000. Above the quota share coverage, the Company is reinsured for fidelity losses up to $10,000,000 in excess of $15,000,000 though a Fidelity Excess of Loss Treaty.

Environmental

The Company's environmental exposures are reinsured through a 40% quota share treaty for limits up to $25 million plus a surplus share for 60% of premiums in relation to limits $25 million excess of $25 million. The Company receives a 27.5% ceding commission on the treaties. The reinsurance indemnifies the Company for losses related to all business classified by the Company as environmental insurance which included environmental site protection, contractors environmental protection (including E&O), remediation cost cap, and lender environmental site protection.

Intercompany Quota Share Reinsurance Agreement

The Company's net retained business after the cession of business to non-affiliated reinsurers is reinsured by its upstream parent, QRe, under a 65% quota share agreement. Under the terms of this agreement, the Company retains 35% of premiums, losses and expenses and receives a 27% ceding commission. QRe is an unauthorized reinsurer. As a result, the loss and loss adjustment expense reserves ceded under this agreement are secured with funds held by the Company. As of December 31, 2010 the Company reported funds held from QRe of $28,607,549.

RESERVES

Michael A. Christian, FCAS, MAAA, with the firm of Towers Watson, is the Company's Appointed Actuary. Mr. Christian was appointed by the Board of Directors on November 10, 2010 to render an opinion on the reserves of the Company. Ollie L. Sherman, Jr., FCAS, MAAA, of Towers Watson, provided the Company's actuarial opinion for the years ended December 31, 2006, 2007, 2008 and 2009.

The scope of the opinion was to examine the loss and loss adjustment expense reserves of the Company. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. The 2010 opinion stated the reserves: A) meet the requirements of the insurance laws of the State of Indiana; B) are consistent with reserves computed in accordance with accepted loss reserving standards and principles; and C) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

During the examination, it was determined by the INDOI consulting actuary, Robert W. Gardner, FCAS, MAAA, of INS Consultants, Inc., that the significant actuarial items in the Company's 2010 Annual Statement are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the INDOI.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balance prepared from the Company's general ledger for the year ended December 31, 2010 was agreed to the 2010 Annual Statement without exception. The Annual Statement for the years ended December 31, 2006 through December 31, 2010 were agreed to each year's independent audit report with no exception noted. The Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

The Company's accounts and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger. The Company maintains adequate supporting work papers which were reviewed during the examination. From a review of the internal controls and the Company's disaster recovery plan, it was determined that the current information system possesses most of the physical and internal controls as prescribed by the NAIC.

The Company's independent auditors issued unqualified opinions on the Company's audited financial statements for each year during the examination period. No material exceptions were noted when agreeing the Company's audited financial statements to the respective Annual Statements. All of the independent audit work papers were made available to the Examiners during the examination.

QUANTA SPECIALTY LINES INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

	As of December 31, 2010			
	Per Annual Statement	**Examination Adjustments**	**Per Examination**	**December 31, Prior Year**
Assets:				
Bonds	$ 66,439,105	$ -	$ 66,439,105	$ 74,646,325
Cash ($160,556), cash equivalents $0 and short-term investments $2,943,044	3,103,600	-	3,103,600	5,269,806
Subtotals, cash and invested assets	$ 69,542,705	$ -	$ 69,542,705	$ 79,916,131
Investment income due and accrued	815,875	-	815,875	587,396
Uncollected premiums and agents' balances in the course of collection	8,050	-	8,050	8,050
Deferred premiums, agents' balances and installments booked but deferred and not yet due	343,149	-	343,149	316,192
Amounts recoverable from reinsurers	961,070	-	961,070	1,778,678
Current federal and foreign income tax recoverable and interest thereon	-	-	-	285,630
Receivable from parent, subsidiaries and affiliates	7,530	-	7,530	128,754
Aggregate write-ins for other than invested assets	-	-	-	133,659
Total Assets	**$ 71,678,379**	**$ -**	**$ 71,678,379**	**$ 83,154,490**

QUANTA SPECIALTY LINES INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2010			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Liabilities:				
Losses	$ 8,438,782	$ -	$ 8,438,782	$ 10,631,865
Loss adjustment expenses	6,192,382	-	6,192,382	7,965,852
Commissions payable, contingent commissions and other similar charges	522,530	-	522,530	697,588
Other expenses	220,034	-	220,034	255,985
Unearned premiums	289,560	-	289,560	378,520
Ceded reinsurance premiums payable	552,543	-	552,543	2,710,893
Funds held by company under reinsurance treaties	28,607,549	-	28,607,549	35,829,139
Payable to parent, subsidiaries and affiliates	820,124	-	820,124	822,881
Payable for securities	39,424	-	39,424	-
Aggregate write-ins for liabilities	190,030	-	190,030	46,671
Total Liabilities	**$ 45,872,958**	**$ -**	**$ 45,872,958**	**$ 59,339,394**
Common capital stock	$ 3,750,000	$ -	$ 3,750,000	$ 3,750,000
Gross paid in & contributed surplus	50,117,410	-	50,117,410	50,117,410
Unassigned funds (surplus)	(28,061,989)	-	(28,061,989)	(30,052,314)
Surplus as regards policyholders	**$ 25,805,421**	**$ -**	**$ 25,805,421**	**$ 23,815,096**
Total liabilities, capital and surplus	**$ 71,678,379**	**$ -**	**$ 71,678,379**	**$ 83,154,490**

QUANTA SPECIALTY LINES INSURANCE COMPANY

FINANCIAL STATEMENTS

Summary of Operations

	As of December 31, 2010			
	Per Annual Statement	**Examination Adjustments**	**Per Examination**	**December 31, Prior Year**
Underwriting Income				
Premiums earned	$ 37,316	$ -	$ 37,316	$ 163,656
Losses incurred	$ (1,406,247)	$ -	$ (1,406,247)	$ (1,635,042)
Loss adjustment expenses incurred	(854,627)	-	(854,627)	(404,839)
Other underwriting expenses incurred	3,511,264	-	3,511,264	5,746,445
Total underwriting deductions	$ 1,250,390	$ -	$ 1,250,390	$ 3,706,564
Net underwriting gain (loss)	$ (1,213,074)	$ -	$ (1,213,074)	$ (3,542,908)
Investment Income				
Net investment income earned	$ 1,135,133	$ -	$ 1,135,133	$ 1,134,381
Net realized capital gains (losses) less capital gains tax	2,097,889	-	2,097,889	771,523
Net investment gain	$ 3,233,022	$ -	$ 3,233,022	$ 1,905,904
Other Income				
Net gain from agents' or premium balances charged off	$ (108,108)	$ -	$ (108,108)	$ -
Finance and service charges not included in premium	2,882	-	2,882	3
Total other income	$ (105,226)	$ -	$ (105,226)	$ 3
Net gain from operations after dividends to policyholders and before federal and foreign income taxes incurred	$ 1,914,722	$ -	$ 1,914,722	$ (1,637,001)
Dividends to policyholders	-	-	-	-
Net gain from operations after dividends to policyholders, after capital gains tax before all other federal and foreign income taxes	$ 1,914,722	$ -	$ 1,914,722	$ (1,637,001)
Federal and foreign income taxes incurred	-	-	-	-
Net income	**$ 1,914,722**	**$ -**	**$ 1,914,722**	**$ (1,637,001)**

QUANTA SPECIALTY LINES INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

	As of December 31, 2010			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Capital and Surplus Account:				
Surplus as regards policyholders December 31, prior year	$ 23,815,096	$ -	$ 23,815,096	$ 25,433,924
Net income	1,914,722	-	1,914,722	(1,637,001)
Change in net unrealized capital gains (losses)	(114,585)	-	(114,585)	-
Change in net deferred income tax	-	-	-	556,676
Change in nonadmitted assets	190,188	-	190,188	(538,503)
Net change in capital and surplus for the year	**$ 1,990,325**	**$ -**	**$ 1,990,325**	**$ (1,618,828)**
Capital and surplus, December 31, current year	**$ 25,805,421**	**$ -**	**$ 25,805,421**	**$ 23,815,096**

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2010, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

There were no significant findings made as a result of this examination. In addition, the Company has complied with the comments made in the prior report of examination.

SUBSEQUENT EVENTS

Extraordinary Dividend

The Company paid an extraordinary dividend of $10,000,000 to its parent, Quanta Indemnity Company, in November 2011. The dividend was approved by the INDOI on October 27, 2011.

Executive Officer Changes

The Company's Chief Financial Officer as of December 31, 2010, John Weale, resigned on November 30, 2011. Jeff Miszner was appointed as the new Chief Financial Officer for the Company and Quanta U.S. Holdings, Inc.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the INDOI.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., hereinafter collectively referred to as the "Examiners" performed an examination of the **Quanta Specialty Lines Insurance Company,** as of **December 31, 2010.**

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2010 NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of the **Quanta Specialty Lines Insurance Company,** as of **December 31, 2010,** as determined by the undersigned.

D. Patrick Huth, CFE
The Thomas Consulting Group, Inc.

State of:
County of:

On this 27th day of April, 2012, before me personally appeared, D. Patrick Huth, to sign this document.

IN WITNESS WHEROF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires February 17 2013

Notary Public

TAMIKA A ALLEN
NOTARY PUBLIC STATE OF NEW YORK
RICHMOND COUNTY
LIC. #01AL6201112
COMMISSION EXPIRES FEBRUARY 17, 2013