

REPORT ON EXAMINATION
OF THE
CATLIN SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2008



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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.

A handwritten signature in black ink, appearing to be "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 25th day of June, 2010

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

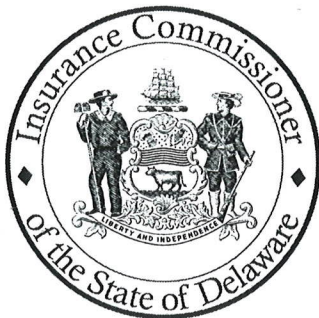
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2008 of the

CATLIN SPECIALTY INSURANCE COMPANY

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

Attest By: Sonia C. Harris

Date: 25 June 2010



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 25TH day of June 2010.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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May 6, 2010

SALUTATION

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

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 09.021, an examination has been made of the affairs, financial condition and management of the

CATLIN SPECIALTY 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 160 Greentree Drive, Suite 101, Dover, Delaware. The examination was conducted at the principal offices of the Company located at 3340 Peachtree Rd. NE, Suite 2950, Atlanta, GA 30326. The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was as of December 31, 2005. This examination covered the period of January 1, 2006, through December 31, 2008, and encompasses a general review of transactions during the period, the Company’s business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2008. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial

statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, PricewaterhouseCoopers, LLP (PWC). Certain auditor work papers 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.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material adjustments to the Company's financial statement that warranted disclosure in this examination report.

SUBSEQUENT EVENTS

On December 1, 2009, the Company entered into an amended tax sharing agreement with Catlin, Inc. and affiliates. This agreement was amended to allow the companies within the consolidated group to receive the benefit for any tax assets they may be entitled to, even if Catlin, Inc. may not be able to currently take advantage of this benefit when it files a consolidated tax return. The written agreement approved by the Company's Board of Directors

allocates the federal income tax primarily on a separate return basis with current credit for any net operating losses or other items utilized by the separate companies whether or not currently taken in the consolidated tax return. Intercompany tax balances are settled 30 days after filing the consolidated return.

On December 31, 2009, the Company entered into an amended Intercompany Service and Cost Allocation Agreement with Catlin, Inc. and its affiliates and subsidiaries. This agreement was amended to include all of the affiliated companies under the Catlin, Inc. umbrella. The companies' agreed to share management services of company operations. The Company will charge and receive expenses from all of the US subsidiaries and the US parent. Calculation of costs of the services will be prepared by the Company quarterly and will be settled no later than sixty days after the end of a calendar quarter.

On December 31, 2009, the Company entered into an intercompany pooling agreement, the Catlin US Intercompany Pooling agreement. The members of the pool are the Company, and Catlin Insurance Company, Inc. Their pool participation percentages are 65% and 35%, respectively. The Pooling Agreement covers all lines of business that the pool members are eligible to write. Under the agreement, 100% of all pool members' premiums, losses, insurance expenses and other related underwriting activity are ceded to the Company, who is the Pool Leader. The Company purchases external reinsurance. The net retention after external reinsurance is retroceded to each Pool member in proportion to its pool year participation percentage. The Pool members collect and allocate certain account balances on a pooled basis.

COMPANY HISTORY

The Company was organized in 1941 as a mutual insurance company under the name Southern Farmers Mutual Insurance Company under the laws of Arkansas. In 1958, the Company changed its name to Safeline Insurance Company and was converted from a mutual to a stock insurance company. From that point, the Company underwent various name and organizational changes.

On January 17, 1997, the Arkansas Insurance Commissioner approved a change in control of the Company, when AXA Group acquired control of the insurance holding company system in which the Company was a member. The name of the Company was changed to AXA Global Risk US Underwriters Insurance Company. The Company re-domiciled from Arkansas to Delaware effective December 31, 1998. On September 18, 2000, the Company changed its name to AXA Corporate Solutions Excess and Surplus Lines Insurance Company.

On November 22, 2004, the Company was acquired by Wellington Underwriting Holdings, Inc. (WUH). Effective November 23, 2004, the Company changed its name to Wellington Specialty Insurance Company.

On December 18, 2006, the Company's ultimate parent Wellington Underwriting, plc, was acquired by Catlin Group Limited (CGL). CGL operates in the U.S. through its subsidiary Catlin, Inc. (Catlin US), which now has management oversight of the Company operations. The Company was renamed Catlin Specialty Insurance Company during 2007 to reflect the new Group ownership. Regulatory approval was obtained prior to the effective date of each transaction.

During the period covered by this examination, gross paid-in and contributed surplus increased \$83,000,000 from \$22,125,497 in 2005 to \$105,125,497 in 2008. The increase for the period is illustrated in the following schedule:

Ending Balance as of December 31, 2005	\$22,125,497
2006: Capital Contribution from WUH	18,000,000
2007: Capital Contribution from Catlin US	<u>65,000,000</u>
Ending Balance as of December 31, 2008	<u>\$105,125,497</u>

The capital contributions were reported to and approved prior to payment by the Delaware Insurance Department in accordance with 18 Del. C. §5005.

CORPORATE RECORDS

The recorded minutes of the shareholders, Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, except for the approval of investment transactions in accordance with 18 Del. C. §1304.

Therefore,

It is recommended that the Board of Directors or a committee thereof authorize or approve the investments as required by 18 Del. C. §1304.

MANAGEMENT AND CONTROL

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and business of the Company shall be managed by the Board. The bylaws provide that the number of directors that

shall constitute the whole Board shall not be less than three members or more than fifteen. Each director shall be elected for a term of one year and serve until such director's successor is elected and qualified.

The Board, by vote of a majority of the whole Board, may from time to time designate one or more committees. The bylaws provide that the committees shall keep regular minutes of their meetings and the findings of the committees shall be reported to the Board.

Dividends on the capital stock may be declared by the Board at any regular or special meeting. Dividends may be paid in cash, property or in shares of capital stock.

The Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2008, is as follows:

<u>Name</u>	<u>Principal Occupation</u>
Steven John Oakley Catlin	Chief Executive Officer and Deputy Chairman of Catlin Group Limited
Richard Stephen Banas	President and Chief Executive Officer of Company and Chairman of the Board of Directors
Vincent Anthony Brazauskas	Senior Vice President and Chief Administrative Officer of Company
Peter Walter Presperin	Senior Vice President and Chief Financial Officer of Company
Paul David Brand	Deputy Underwriter for Catlin Holdings, Ltd.
Kenneth Peter Meagher	General Counsel
Robert Clark Gowdy	Consultant

Nicholas James Greggains	Chief Underwriting Officer – Insurance of the Company
Andrew Joseph Englesbe	Chief Underwriting Officer – Reinsurance of the Company

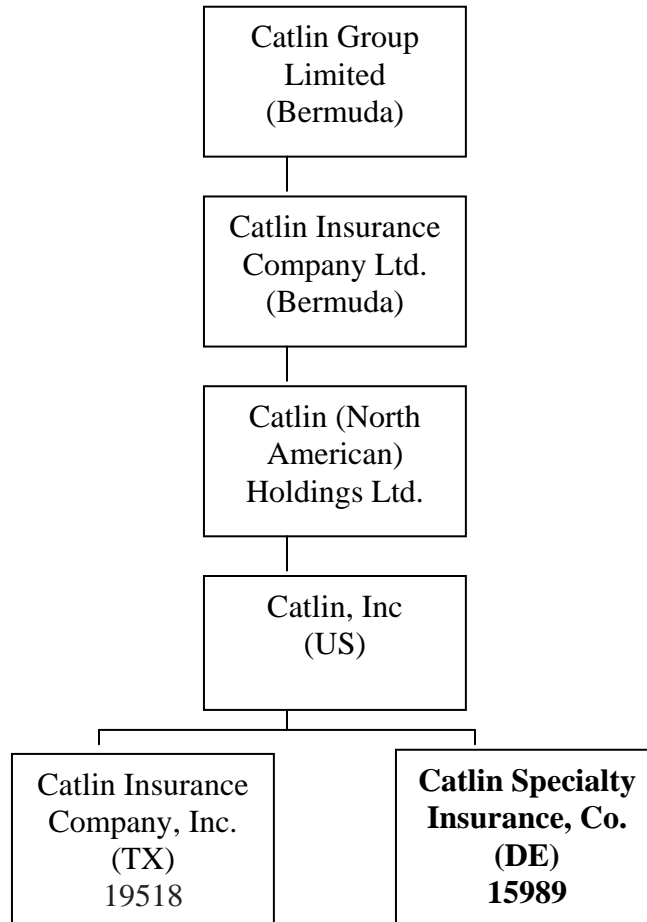
The bylaws state that the officers of the corporation shall consist of a President, a Secretary, a Treasurer, and may, at the discretion of the Board of Directors, include one or more Executive Vice Presidents and a Chief Executive Officer. The following persons were elected as officers and were serving in that capacity at December 31, 2008:

<u>Name</u>	<u>Office</u>
Richard Stephen Banas	President and Chief Executive Officer
Steven Collyer Adams	Secretary and Associate General Counsel
Peter Walter Presperin	Senior Vice President and Chief Financial Officer
Vincent Anthony Brazaukas	Senior Vice President and Chief Administrative Officer
William Patrick Casey	Senior Vice President
Penelope Ann Foltz	Vice President and Director of Regulatory Compliance
Thomas Gerard Ford	Vice President and Director of Human Resources
Kenneth Peter Meagher	Vice President and Assistant Secretary

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. §4919.

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined under Chapter 50, “Insurance Holding Companies” of the Delaware Insurance Code. The Company is a wholly owned subsidiary of Catlin, Inc. Catlin, Inc. is a wholly owned subsidiary of Catlin North American Holdings, Ltd, whose ultimate parent is Catlin Group Limited. The following depicts an abbreviated organizational chart of the Company’s relationship within the holding company system at December 31, 2008.



AFFILIATED AGREEMENTS

The following agreements were in effect between the Company and its affiliates at December 31, 2008.

Management Agreement

Effective January 1, 2007, the Company entered into an Administration and Services Agreement with Catlin, Inc. and its subsidiaries. Under the terms of the agreement, Catlin, Inc. charges the Company and its subsidiaries for certain claims, underwriting, and operation support services incurred by Catlin, Inc. The costs associated with these services are charged to the Company quarterly.

Tax Allocation Agreement

Effective December 31, 2007, the Company entered into a Tax Allocation Agreement with other members of the consolidated group. This agreement provides that each member of the consolidated group will be allocated a tax liability based on separate tax return calculations. Any separate tax liability owed by the Company is payable to its parent within ten days of the filing date. The Company's parent will pay separate tax return refunds within thirty days of filing, except as otherwise noted.

Quota Share Reinsurance Agreement

Effective January 1, 2007 and subsequently renewed in 2008, the Company entered into a Quota Share Reinsurance Agreement with its Bermuda parent, Catlin Insurance Company, Ltd. This reinsurance agreement is a 75% quota share agreement, on all lines and coverages. There is a letter of credit set up collateralizing all amounts including the unearned premium reserve and incurred but not reported reserve.

Excess of Loss Reinsurance Agreement

Effective May 1, 2008, the Company entered into an Excess of Loss Reinsurance Agreement with its affiliate Catlin Lloyd's Syndicate No. 2003. This agreement is on the casualty business and the policy limits are \$11 million with coverage of \$6 million excess of \$5 million. The reinsurance agreement was not disclosed in the annual Form B filing as required by 18 Del. C. §5004(b)(3)f.

Therefore,

It is recommended that all in force reinsurance agreements with affiliates be filed and contained within the Holding Company Registration Statement in a Form B filing as required by 18 Del C. §5004(b)(3)f.

Risk Management Agreement

Effective March 1, 2003, Catlin Group Limited retained the Company's parent, Catlin Inc. to provide enterprise risk management services. Such services include establishing key performance objectives, developing risk profiles, developing performance targets, and various other management services.

CORPORATE GOVERNANCE

The Company's corporate governance is integrated with that of its ultimate parent, CGL. CGL holds overall responsibility for the governance but delegates responsibility for the execution of certain control processes to respective operating platforms. Catlin US is considered a platform consisting of the Company and its affiliate Catlin Insurance Company, Inc. (CICI).

Risk Management

CGL has established a formal risk management program to analyze its risk profile and adopt appropriate risk mitigation strategies. The risk management program is supervised by the

Group Chief Risk Officer (CRO) who provides guidance and support for risk management practices across the Group, its operating platforms and its various departments. The CRO reports to the Group's Chief Executive and to the Catlin Group Board and Audit Committee. Responsibility for risk management is spread throughout the organization. The Group Executive Committee (GEC), composed of two Executive Directors and other senior managers, meets monthly to consider risk management issues. Furthermore, responsibility for risk management is embedded in the operational responsibilities of each manager.

The Chief Executive of each of Catlin Group's underwriting platforms is responsible for developing and executing a strategy and business plan, subject to the approval of the GEC, the Group's Board and the platform's own Board. In managing an underwriting platform's operations, the Chief Executive is responsible for identifying and managing the risks to the platform's objectives. They are charged with establishing and ensuring compliance with appropriate policy, procedures and other controls that reflect Group policy and procedures with all applicable external regulatory requirements.

To assist in ensuring the control environment is operating effectively, management has established separate risk, compliance, and audit functions. The Head of Risk, supported by the Group Risk team, oversees and directs the risk program, including regular assessment of risks and control effectiveness. A dedicated compliance team communicates new or changed regulations, establishes compliance procedures and conducts reviews of compliance efforts in order to provide useful feedback to management. A US-based Internal Audit Manager, reporting to the Group Head of Internal Audit for independence and objectivity, conducts independent audits and reviews of the design and operating effectiveness of controls.

Board of Directors and Audit Committee

The Group's governance process establishes the roles of its Audit Committee and Board of Directors. Two Boards provide oversight of the Company, the Group Board and the Company's specific Board. Together, the Boards are responsible for overseeing the internal controls over financial reporting established by management and the process by which management satisfies itself that they are working effectively. The Boards are apprised of the Company's financial position, operating results and objectives and strategies. Additionally, the Boards are made aware of sensitive information, investigations, and improper acts in a sufficient and timely manner.

The Company does not have a separate Audit Committee, and thus, relies on the Group Audit Committee for monitoring and assisting the Board. Additionally, the Group Head of Internal Audit directs the internal audit program across all Group operations and subsidiaries. The program is designed to provide management and the Board, through its Audit Committee, with reasonable assurance that the Group's controls and procedures are able to contain risks within acceptable limits.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained General Liability, Excess Liability, Employee Benefits Liability and Property insurance coverage.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company is a participating employer in the Catlin, Inc. 401(K) Profit Sharing Plan. The Company matches up to six percent of eligible compensation contributed by participating employees. In addition, the Company may make a profit sharing contribution to the accounts of eligible employees at the discretion of the Board.

Further, a select group of the Company's management team participates in the Catlin Inc. Executive Nonqualified Excess Plan. This plan is a deferred compensation plan that allows participants to defer a portion of their compensation until a later date. Additionally, the Company makes contributions to the Executive Nonqualified Excess Plan to partially account for contributions that are not allowed to be made to the 401K Plan because of compensation that exceed IRS limits. Cost allocated to the Company for these plans were \$1,376,258 for 2008 and \$126,868 for 2007.

TERRITORY AND PLAN OF OPERATION

At December 31, 2008, the Company was only licensed in Delaware. The Company writes direct business in 45 other states and the District of Columbia as an excess and surplus lines carrier with the largest volumes in California, Texas, Florida, Louisiana, and Ohio.

The Company is engaged in the business of property casualty insurance, primarily providing commercial liability and property coverage through general agents. As a specialty carrier, the Company concentrates on writing excess and surplus lines coverages for risks that do not fit normal underwriting patterns and thus require specialized treatment.

The majority of the Company's business is liability business. However, the Company also underwrites a broad range of insurance products, including casualty, professional lines, medical malpractice, and inland marine. The Company has strived to establish a diverse portfolio of underwriting specialties which complement the Catlin Group risk profile, in addition to establishing an infrastructure to support the growth of these operations.

Currently, the Company is segregated into twelve operating units. Scottsdale, Arizona and San Antonio, Texas are the largest of these units and serve as the repositories for the inherited Wellington business. These operating units have also started writing new business for the Company. Their book is predominately Premises and Completed Operations.

In 2007, three additional operating units began writing business: Atlanta, Georgia predominately writes Premises, Completed Operations, Commercial Umbrella and Excess Liability; Houston, Texas writes Medical Malpractice; and New York, New York writes Inland Marine. In 2008, the Company added seven more operating units: Cleveland, Ohio; Hartford, Connecticut; a New York, New York group writing Professional Liability; Boston, Massachusetts; two California groups; and a Summit, New Jersey operating unit.

The Company products are marketed via general agents and brokers who have no authority to negotiate reinsurance or settle claims. Bound policies are subject to review by Company underwriters for compliance with underwriting and policy issuance guidelines, producer binding authority and adherence to quoted rates and terms.

GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premium Written</u>	<u>Net Income</u>
2008	\$201,919,549	\$96,693,555	\$25,115,246	\$ 2,746,432
2007	\$165,185,474	\$98,766,296	\$101,772	\$(8,522,798)
2006	\$89,648,917	\$44,420,885	\$41,644,853	\$(918,202)
2005	\$41,737,107	\$26,454,898	\$14,327,111	\$(2,782,428)

Since December 31, 2005, the Company's financial results were as follows:

- Approximately 383.8% increase in admitted assets. The growth is mainly attributable to the \$18 million and \$65 million capital contributions from the respective parents of the Company. This fueled the growth of the Company over the period of exam and its increase of investments in bonds. In addition, an increase in agents' balance receivable reflects the increase in written premiums.
- Approximately 265.5% increase in capital and surplus. Capital primarily increased due to the capital contributions from CGL and WUH. Surplus increased due to the normal growth of the Company over the period, in addition to the support from the parent in the form of a 75% quota share reinsurance contract.
- Approximately 75.3% increase in net premium written. Written premium increased as a result of continued development of production sources and an increase in the number of states in which the Company was licensed to write business.
- Approximately 198.7% increase in net income. Cash flow deteriorated in 2007 as a result of the investment in new business teams. However, the increase in written premiums and investments contributed to the gain in 2008.

LOSS EXPERIENCE

Net loss and expenses unpaid reserves as of December 31, 2007 were \$28.5 million. During 2008, \$5.5 million was paid for incurred loss and loss adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now \$23.5 million as a result of re-estimation of unpaid claims and claim adjustment expenses across all lines. Therefore, there has been a \$0.5 million unfavorable prior year development since 2007. The increase is generally the result of ongoing analysis of loss development trends.

REINSURANCE

Assumed

The Company does not have any assumed reinsurance.

Ceded

The Company has a comprehensive reinsurance program that is designed to protect it against losses in all lines of business written. The Company utilizes internal reinsurance options initially. If the needs cannot be met internally, the Company will negotiate externally with the assistance of a reinsurance intermediary. The reinsurance intermediaries responsible for handling such treaties and monitoring the reinsurers in 2008 were Towers, Perrin, Forster & Crosby, Inc. and Aon Benfield, Inc. The reinsurance intermediary agreements were found to be in compliance with 18 Del. C. §1603 and §1604.

In 2008, reinsurance ceded totaled \$94,283,583 or 78.97% of the Company's direct premiums. The Company reported reinsurance recoverable on paid losses and loss adjustment

expenses of \$2,439,140 million and a total net recoverable from reinsurers of approximately \$72.1 million at December 31, 2008.

Internal

The following is a summary of the internal reinsurance treaties in place at December 31, 2008:

- **Whole Account Quota Share Treaty** – This agreement is effective January 1, 2007 and renewed through December 31, 2008, between the Company and CICL. The treaty provides that the Company cede 75% of gross premiums and net claims. Gross premiums were defined as premiums written during each year less premiums paid for inuring reinsurance. Net claims were defined as claims incurred on policies written during the year less reinsurance recoveries.
- **Excess of Loss Reinsurance Agreement** - This agreement is effective May 1, 2008 through April 30, 2009 between the Company and Catlin Lloyds Syndicate No. 2003. The Company cedes 100% of all primary and excess casualty business. The reinsurer will pay losses in excess of \$5 million for every loss occurrence, up to \$6 million for every occurrence.

External

The following is a summary of the external reinsurance treaties in place at December 31, 2008:

- **Boiler and Machinery Treaty** – This agreement is effective January 1, 2008 between the Company and the Hartford Steam Boiler Inspection and Insurance Company. The Company cedes 100% of equipment breakdown liability of the Commercial Package Policies for its Contract Binding Authority Program. The Reinsurers liability shall not exceed \$25 million.
- **Professional Liability Treaty** – This agreement is effective January 1, 2008 and renewed through October 31, 2009 between the Company and various participants. The agreement is a 50% quota share of Errors & Omissions and Directors & Officers business written out of the Catlin NY Office. The reinsurers' liability shall not exceed \$10 million, with a 250% maximum loss ratio.

- **Casualty Liability Treaty** – This agreement is effective July 1, 2008 through June 30, 2009 between the Company and various participants. The agreement is a 40% quota share on Casualty business written out of the Cleveland and Hartford offices. The reinsurers' liability shall not exceed \$5 million.
- **Inland Marine Treaty** – This agreement is effective August 1, 2008 through August 1, 2009 between the Company and various participants. The agreement is a 50% quota share on Inland Marine business written out of the New York office. The reinsurers' liability shall not exceed \$15 million. There is an occurrence cap of the lesser of 200% of subject premium and \$25 million, but not less than \$20 million.
- **Aggregate Stop Loss Treaty** – This agreement is effective January 1, 2008 between the Company and XL Re Ltd. The agreement covers all casualty business, and the reinsurer will indemnify the Company for all subject ultimate net loss excess of a 120% net loss ratio. The reinsurer liability will not exceed 20% of the Company's net premium income for each underwriting year of account.
- **Facultative Agreements** – The Company has various facultative agreements with General Reinsurance Co. and Transatlantic Reinsurance Co. for various inland marine and casualty policies.

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.

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, audited the Company's records for the years ended 2006, 2007 and 2008. 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 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.

STATUTORY DEPOSITS

Listed below are the Company's statutory deposits.

<u>State</u>	<u>Description</u>	<u>Book Value</u>	<u>Fair Value</u>
DE	Various Bonds and Cash	\$2,616,684	\$2,681,711
NY	Various Bonds	<u>4,188,960</u>	<u>4,346,639</u>
Total Benefit of All Policyholders		<u>\$6,805,644</u>	<u>\$7,028,350</u>
AR	US Treasury, 4.0%, 11/15/2012	\$ 125,294	\$ 138,738
LA	US Treasury, 3.875%, 2/15/2013	104,290	111,410
MA	US Treasury, 4.875%, 1/31/2009	749,950	752,430
NM	US Treasury, 4.0%, 11/15/2012	125,294	138,738
OK	US Treasury, 3.375%, 7/31/2013	<u>101,281</u>	<u>109,268</u>
Total All Other Special Deposits		<u>\$1,206,109</u>	<u>\$1,250,584</u>

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, 2008.

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

CATLIN SPECIALTY INSURANCE COMPANY

ASSETS

DECEMBER 31, 2008

Assets	Ledger Assets	Non-Admitted Assets	Net-Admitted Assets
Bonds	\$124,575,165		\$124,575,165
Preferred stocks	0		0
Common stocks	0		0
Cash and Short Term Investments	48,992,658		48,992,658
Receivables for Securities	1,119,555		1,119,555
Investment income due and accrued	834,707		834,707
Premiums and Considerations:			
Uncollected premiums and agents balances	20,910,147	\$2,089,312	18,820,835
Deferred premium	0		0
Reinsurance:			
Amounts recoverable from reinsurers	2,439,140		2,439,140
Federal income tax recoverable	2,454,993	2,454,993	0
Net deferred tax asset	4,756,258	4,756,258	0
EDP equipment and software	1,089,824		1,089,824
Furniture and equipment	704,357	704,357	0
Receivable from parent, subs and affiliates	3,932,212		3,932,212
Other Assets	115,453		115,453
Prepaid Expenses	148,803	148,803	0
	<hr/>		
Total Assets	\$212,073,272	\$10,153,723	\$201,919,549
	<hr/>		

CATLIN SPECIALTY INSURANCE COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

DECEMBER 31, 2008

		NOTES
Losses	\$23,163,842	1
Reinsurance payable on paid losses	0	
Loss adjustment expenses	13,864,401	1
Commissions payable	5,396,104	
Other expenses	8,555,818	
Taxes, licenses and fees	0	
Federal and foreign income taxes	260,970	
Unearned premiums	13,038,516	
Ceded reinsurance premiums payable	40,928,715	
Payable to parent, subsidiaries and affiliates	0	
Other Liabilities	<u>17,628</u>	
 Total Liabilities	 <u>\$105,225,994</u>	
 Common capital stock	 \$ 3,000,000	
Gross paid in and contributed surplus	105,125,497	
Unassigned funds (surplus)	<u>(11,431,942)</u>	
 Surplus as regards policyholders	 <u>\$96,693,555</u>	
 Total liabilities, surplus and other funds	 <u>\$201,919,549</u>	

CATLIN SPECIALTY INSURANCE COMPANY

SUMMARY OF OPERATIONS

DECEMBER 31, 2008

Underwriting Income

Premiums earned	<u>\$19,841,370</u>
Deductions	
Losses incurred	\$ 9,646,341
Loss expenses incurred	5,969,369
Other underwriting expenses incurred	7,585,982
Aggregate write-ins for underwriting deductions	<u>20,708</u>
Total underwriting deductions	<u>\$ 23,222,400</u>
Net underwriting gain or (loss)	<u>\$ (3,381,030)</u>

Investment Income

Net investment income earned	\$ 6,106,455
Net realized capital gains (losses)	<u>204,659</u>
Net investment gain or (loss)	<u>\$ 6,311,114</u>

Other Income

Net gain or (loss)	\$0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	<u>0</u>
Total other income	<u>\$0</u>

Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$ 2,930,084
Federal income taxes	<u>183,652</u>
Net Income	<u><u>\$2,746,432</u></u>

CATLIN SPECIALTY INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS

FROM DECEMBER 31, 2005 to DECEMBER 31, 2008

Capital and Surplus Account

Capital and Surplus, December 31, 2005	<u>\$ 26,454,898</u>
Net Income	\$ (6,694,568)
Change in net unrealized capital gains	(83,535)
Change in net deferred income tax	3,008,999
Change in non-admitted assets and related items	(8,992,239)
Change in provision for reinsurance	0
Capital paid in	83,000,000
Dividends to stockholder	<u>0</u>
Change in surplus as regards policyholders	<u>\$ 70,238,657</u>
Capital and Surplus, December 31, 2008	<u><u>\$ 96,693,555</u></u>

ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS

DECEMBER 31, 2008

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

NOTES TO THE FINANCIAL STATEMENTS

<u>(Note 1) Losses</u>	<u>\$23,163,842</u>
<u>Loss Adjustment Expenses</u>	<u>\$13,864,401</u>

The above captioned amounts are the same as that reported by the Company in its 2008 Annual Statement.

The Department's consulting actuary INS Consultants Inc., (INS) was retained and performed an independent analysis of the Company's gross and net loss and loss adjustment expense (LAE) reserves as of December 31, 2008.

The INS analysis of the Company's year-end 2008 loss reserves was performed separately for Loss and Defense and Cost Containment Expense (Loss and DCC) by reserve line and for Adjusting and Other Expense (A&O) across all lines combined. The analysis of Loss and DCC was performed using the NAIC definition of ALAE and reclassifying a portion of the result to A&O.

For the Loss and ALAE reserve review, INS followed the data segregation presented in the Company's Actuarial Report where the data was grouped into four reserve lines. INS performed an independent analysis of the reserve needed in all four lines: Commercial Multi-

Peril (CMP) Non-Liability, Commercial Multi-Peril Liability, Other Liability, and Products Liability. Non-reviewed lines are classified as Other Lines, although separate consideration was given to the losses arising from Hurricane Ike, affecting both CMP Non-Liability and Other Lines. The reserves from the four reviewed lines together with the Hurricane Ike reserves comprise nearly 95% of total Loss and ALAE reserves. INS estimated the A&O reserve across all lines combined.

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

INS 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 necessary actions needed to comply with the 2005 examination report issued by the Department.

SUMMARY OF RECOMMENDATIONS

Examination findings and recommendations as of December 31, 2008 consisted of the following:

- The investment transactions were not approved by the Board of Directors or a committee thereof in accordance with 18 Del. C. §1304.

Therefore;

It is recommended that the Board of Directors or a committee thereof authorize or approve the investments as required by 18 Del. C. §1304.

- The Excess of Loss Reinsurance agreement effective May 1, 2008 between the Company and its affiliate Catlin Lloyd's Syndicate No. 2003 was not disclosed in the annual Form B filing as required by 18 Del. C. §5004(b)(3)f.

Therefore;

It is recommended that all inforce reinsurance agreements with affiliates be filed and contained within the Holding Company Registration Statement in a Form B filing as required by 18 Del C. §5004(b)(3)f.

CONCLUSION

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

<u>Description</u>	<u>December 31, 2008</u>	<u>December 31, 2005</u>	<u>Changes</u>
Assets	\$201,919,549	\$41,737,107	\$160,182,442
Liabilities	\$105,225,994	\$15,282,209	\$89,943,785
Capital and Surplus	\$ 96,693,555	\$26,454,898	\$70,238,657

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

Respectfully submitted,

Nicholas Prumatico Jr., CFB

Nicholas Prumatico, Jr.
Examiner In-Charge
State of Delaware