

**REPORT ON EXAMINATION**  
**OF**  
**TOA REINSURANCE COMPANY OF AMERICA**  
**AS OF**  
**DECEMBER 31, 2009**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
TOA REINSURANCE COMPANY OF AMERICA  
AS OF  
DECEMBER 31, 2009

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 read "Karen Weldin Stewart".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 14th day of March, 2011

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

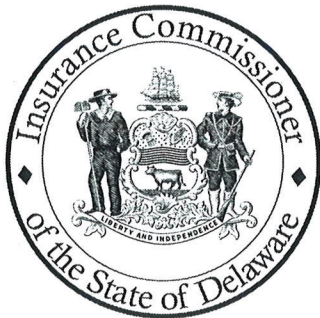
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

**TOA REINSURANCE COMPANY OF AMERICA**

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

Attest By: *Sonia C. Harris*

Date: 14 March 2011



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 14th day of March, 2011.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

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## SALUTATION

March 17, 2011

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

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 10.001, dated November 18, 2009, an examination has been made of the affairs, financial condition and management of

### **TOA REINSURANCE COMPANY OF AMERICA**

hereinafter referred to as "Company" or "Toa Re", incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. The examination was conducted at the Company's administrative office located at 177 Madison Avenue, 3<sup>rd</sup> Floor, Morristown, New Jersey 07962. The examination report thereon is respectfully submitted.

## **SCOPE OF THE EXAMINATION**

The last examination was as of December 31, 2006. This examination covered the period of January 1, 2007, through December 31, 2009, 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, 2009. 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, Smart & Associates LLP (Smart). 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**

#### **Dividend**

Upon receiving approval from the Delaware Department of Insurance, the Company paid an ordinary dividend of \$6.0 million to its parent, The Toa Reinsurance Company, Limited (Toa-Japan) on March 24, 2010.

#### **New Business**

During 2010 the Company made a decision to enter into the Multiple Peril Crop Insurance (MPCI) program available through the Federal Crop Insurance Corporation (FCIC) as a reinsurer on both a quota share and excess of loss basis with an expected goal of between \$35 million and \$55 million in annual premium in 2011. In addition the Company established an Agricultural Reinsurance Division with offices in Irvine California with experienced agricultural reinsurance personnel.

## **COMPANY HISTORY**

### **General**

The Company was originally incorporated and started operations as The Toa-Re Insurance Company of America, a U.S. subsidiary of Toa Fire and Marine Reinsurance Company, Limited [Tokyo, Japan], on October 15, 1982.

On December 30, 1997, Toa-Japan acquired The Mercantile and General Reinsurance Company of America (M&G America) and its wholly-owned subsidiary, Mercantile and General Services, Inc., (M&G Services). M&G America was then merged with The Toa-Re Insurance Company of America on the same date. Pursuant to 18 Del. C. § 4943 and an Agreement and Plan of Merger, the original date of incorporation for the surviving Company was deemed March 13, 1922, the original date of incorporation of M&G America. The name of M&G Services was subsequently changed to Toa Re Services, Inc. (Toa Re Services) effective December 1998.

On April 22, 1999, the Company changed its name from The Toa-Re Insurance Company of America to The Toa Reinsurance Company of America. On that same date, the Company's parent changed its name from Toa Fire and Marine Reinsurance Company, Limited, to The Toa Reinsurance Company, Limited (Toa-Japan).

Capitalization

The Company is authorized to issue 400 shares of common capital stock with a par value of \$10,000 per share. Currently, all 400 shares are issued and held by Toa-Japan. The following table reflects the Company's capitalization activity since the prior examination:

| <u>Capital Stock</u> |                    | <u>Gross Paid-in &amp; Contributed Surplus</u> |
|----------------------|--------------------|--|
| December 31, 2006    | \$4,000,000        | \$181,352,611                                  |
| Activity             | <u>0</u>           | <u>0</u>                                       |
| December 31, 2009    | <u>\$4,000,000</u> | <u>\$181,352,611</u>                           |

Dividends

According to Company records for the years indicated, and as reflected in minutes to the Board of Directors' meetings, cash dividends were paid to the sole stockholder and approved by the Delaware Insurance Department as follows:

| <u>Date Declared</u> | <u>Date Paid</u> | <u>Dividend Paid</u> |
|----------------------|------------------|----------------------|
| March 15, 2007       | March 28, 2007   | \$5,000,000          |
| February 21, 2008    | March 24, 2008   | \$5,000,000          |
| March 11, 2009       | March 25, 2009   | \$5,000,000          |

Mergers, Acquisitions and Disposals

The Company voluntarily dissolved its dormant wholly-owned subsidiary, Toa Re Services, in late 2008.

**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, for the approval of investment transactions in accordance with 18 Del. C. §1304.

**MANAGEMENT AND CONTROL INCLUDING CORPORATE GOVERNANCE**

The Company's business affairs and corporate activities are vested in a Board of Directors that shall be elected annually by the sole shareholder and consist of not less than seven members or more than seventeen members. The Board of Directors, duly elected in accordance with its bylaws and serving at December 31, 2009, is as follows:

| <u>Individual</u>                            | <u>Principal Business Affiliation</u>  |
|--|--|
| Yasushi Enomoto<br>Tokyo, Japan              | Managing Director<br>The Toa Reinsurance Company, Ltd.   |
| Hiroshi Fukushima<br>Tokyo, Japan            | President and Chief Executive<br>The Toa Reinsurance Company, Ltd.                             |
| John Joseph Hayden<br>Morristown, NJ         | Senior Vice President, General Counsel and Secretary<br>The Toa Reinsurance Company of America |
| Tomoatsu Noguchi<br>Tokyo, Japan             | Managing Director and General Manager – IT Dept.<br>The Toa Reinsurance Company, Ltd.          |
| Teruhiko Ohtani<br>Tokyo, Japan              | Chairman<br>The Toa Reinsurance Company, Ltd.  |
| James Anthony Pilla<br>Morristown, NJ        | Executive Vice President – Underwriting<br>The Toa Reinsurance Company of America              |
| Edward Joseph Stanco<br>Morristown, NJ       | Chief Executive Officer<br>The Toa Reinsurance Company of America                              |
| Nathaniel Benjamin Wallman<br>Morristown, NJ | Senior Vice President and Chief Financial Officer<br>The Toa Reinsurance Company of America    |
| Koji Watanabe<br>Tokyo, Japan                | Senior Vice President – International Development<br>The Toa Reinsurance Company of America    |

In accordance with its bylaws, officers serving the Company shall be a Chief Executive Officer, a Chief Financial Officer and a Secretary. The Board may also elect a Chairman, a President, a Treasurer and one or more Vice-Presidents as necessary. The senior officers, duly appointed in accordance with the bylaws and serving at December 31, 2009, are as follows:

| <u>Individual</u>    | <u>Office</u>  |
|----------------------|--|
| Edward J. Stanco     | Chief Executive Officer                              |
| Nathaniel B. Wallman | Senior Vice President and Chief Financial Officer    |
| John J. Hayden       | Senior Vice President, General Counsel and Secretary |
| James A. Pilla       | Executive Vice President - Underwriting              |
| Caroline M. Kane     | Senior Vice President and Chief Agent in Canada      |
| Peter A. Royek       | Senior Vice President and Actuary                    |
| Koji Watanabe        | Senior Vice President – International Development    |
| Sandra K. Van Enk    | Senior Vice President – Claims                       |
| Michael P. Blaber    | Senior Vice President – Treaty Underwriting          |
| Robert B. Clark      | Senior Vice President – Treaty Underwriting          |

As of December 31, 2009, the Board of Directors had one standing committee: the Conflict of Interest Committee constituted by Edward J. Stanco and Koji Watanabe.

### Corporate Governance

Our review of corporate governance was designed to assess the impact of the Board of Directors and management on the control environment within the organization. The control environment is heavily influenced by the decisions at the top of an organization and the control consciousness of its people is influenced in the establishment of the process. Control consciousness is developed through such intangibles as integrity, ethical values and competence of the entity's people, management's philosophy and operating style, but also through more concrete expressions such as the way management assigns authority and responsibility, and organizes and develops its people. The Company is a member of a privately held foreign corporation. The governance process establishes the role of the Board and its committees in the

## Toa Reinsurance Company of America

establishment of a sound risk management process that has a pervasive influence on the way business activities are structured, objectives and strategies are established and risks identified. It also influences risk assessment, control activities, information and communication systems, and monitoring activities. Those charged with governance demonstrate a sufficient level of knowledge of accounting and regulatory requirements, industry experience, and entity operations. A process exists by which those charged with governance are made aware of key developments that may impact financial reporting based on individual areas (i.e. underwriting, claims, risk managements). The relative small size of the Company allows upper management to be more involved in the daily transactions of the Company. The Board formally meets semi-annually and receives detailed board packages outlining financial information on a quarterly basis.

Management sets the tone that high-quality and transparent financial reporting is expected. Upper management has established strict and defined types of business it is willing to reinsure. The Company's underwriting philosophy is very conservative. Management does not want to overexpose themselves in certain areas. The Company uses management committees to oversee operations. These committees include, investments, underwriting and pension and benefits. These committees along with the parental oversight provide the organizational framework for the governance of the Company.

## Holding Company

The Company is a member of a holding company system known as The Toa Re Group and is subject to the holding company registration requirements of Chapter 50, of the Delaware Insurance Code. The Company maintains that Toa-Japan, a reinsurer domiciled and based in Tokyo, Japan, is the ultimate controlling entity of the group. Toa-Japan has branch operations in

Hong Kong, Kuala Lumpur and Singapore, representative offices in London, Taipei and New York, with subsidiary operations in Switzerland. As of March 31, 2009, Toa-Japan had consolidated assets of \$5.484 billion and total net assets of \$1.133 billion.

As a result of a series of mergers and acquisitions in the Japanese insurance market, as of December 31, 2009 several shareholder groups own 10% or more of Toa-Japan as follows: The Nipponkoa Insurance Co., Ltd. [Japan], owns 10.17% of the shares of Toa-Japan; Tokio Marine Holdings, Inc., Ltd. [Japan], owns 14.73% of the shares of Toa-Japan; AIOI Insurance Co., Ltd. [Japan], owns 10.17% of the shares of Toa-Japan; and Mitsubishi-UFJ Financial Group, Inc. [Japan], 12.12% of the shares of Toa-Japan. A request for Exemption from Form A and a Request for Approval of a Disclaimer of Affiliation with respect to each of the above transactions was filed by the Company with the Delaware Department of Insurance because none of the transactions was entered into for the purpose of changing or influencing the management or day-to-day control of the Company. Each of the applications was approved by the Department.

An organizational chart of the Toa Re Group as of December 31, 2009, is as follows:

The Toa Reinsurance Company, Ltd. [Japan], 100% owner of  
**The Toa Reinsurance Company of America [Delaware]**  
The Toa 21<sup>st</sup> Century Reinsurance Company, Ltd [Switzerland]

Affiliated Agreements

## Toa Reinsurance Company of America

Other than a reinsurance agreement with parent Toa-Japan (see the Reinsurance section of this report), the Company was not a party to any affiliated management, service or tax sharing agreements during the examination period.

### Custodian Agreements

The Company entered into a Custodian Agreement with Brown Brothers Harriman & Co., L.P. (BBH), a New York Limited Liability Company, effective February 2, 2005. Pursuant to the agreement, BBH acts as the custodian for the Company's portfolio of investment securities. As of the examination date, BBH held long-term bonds with market and book values of \$802,550,530 and \$782,156,537, respectively, and common stocks with market values of \$167,446,067. Custodian fees incurred by the Company pursuant to this agreement during 2009 were \$97,668. A review of the terms of the custodian agreement indicates that the agreement contains the minimum standards required under the NAIC Handbook.

The Company entered into a Trust Agreement with RBC Dexia and RBC Dominion Securities (collectively RBC, formerly Royal Trust Company of Canada) effective January 1, 1999, for investments held to fulfill Canada's regulatory requirements. As of the examination date, RBC held long-term bonds with an aggregate market value of \$160,779,201 and book value of \$157,188,308, respectively. A review of the terms of the trust agreement indicates that the agreement contains the minimum standards required under the NAIC Handbook.

### Management and Agency Agreement

Toa Reinsurance Company of America

The Company participates in a Management and Agency Agreement with Cushman & Wakefield, Inc. (“Cushman & Wakefield”) effective July 17, 1998. The agreement acknowledges that the Company appoints Cushman & Wakefield to act as sole agent for the management of the principal offices of the Company located at 177 Madison Avenue, Morristown, New Jersey. The Company paid Cushman & Wakefield \$34,288 in 2009 for management of the building.

Investment Advisory Agreements

The Company has entered into Investment Advisory Agreements with investment managers which manage a portfolio of the Company’s investment securities held by custodian BBH in accordance with the investment guidelines established by the Company as follows:

| <u>Investment Advisor</u>                               | <u>Agreement Effective Date</u> | 12/31/09<br>Bond<br>Market<br>Value<br><u>(in 000s)</u> | 12/31/09<br>Bond<br>Book<br>Value<br><u>(in 000s)</u> | 12/31/09<br>Stock<br>Market<br>Value<br><u>(in 000s)</u> | 2009<br>Incurred<br>Fees<br><u>(in 000s)</u> |
|---|---------------------------------|---|---|--|--|
| Western Asset Management                                | 9/3/98                          | \$296,197   | \$288,606   | \$ 0   | \$ 466                                       |
| William Blair & Company                                 | 3/10/99                         | 0   | 0   | 63,431   | 416  |
| Gabelli Asset Management Company                        | 11/13/02                        | 0   | 0   | 74,838   | 445  |
| Morgan Stanley Investment Mgmt. (*)                     | 3/3/04                          | 448,238   | 431,182   | 0  | 436  |
| Wells Capital Management Incorporated<br>Managed by Toa | 6/5/09                          | 0   | 0   | 29,177   | 91   |
|   |                                 |   | <u>58,116</u>   | <u>62,368</u>  | <u>0</u>                                     |
| Totals  |                                 | <u>\$802,551</u>  | <u>\$782,156</u>                                      | <u>\$167,446</u>   | <u>\$1,854</u>                               |

(\*) The original agreement is with Weiss, Peck & Greer Investments, a division of Robeco USA, LLC, which was assigned to Morgan Stanley effective 4/11/08

### **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.

### **TERRITORY AND PLAN OF OPERATION**

#### Territory

At December 31, 2009, the Company has certificates of authority to write business in twenty-four states and the District of Columbia and meets the standards as an approved reinsurer in the remaining twenty-six states. In addition to being recognized by the U.S. Treasury as an approved reinsurer, the Company maintains a Canadian branch located in Toronto, Ontario, which is licensed in Canada by the Office of the Superintendent of Financial Institutions (OSFI) and by the Province of Ontario to write property and casualty reinsurance.

The principal office facilities of the Company are located in Morristown, New Jersey, and are supplemented by branch operations in Toronto. The Canadian branch contributed approximately \$51.0 million USD in assumed written premiums in 2009, or 18.4% of the Company's 2009 total assumed written premiums of \$277.2 million.

As of the examination date, the Company had a rating of "A" (*Excellent*) from A.M. Best.

#### Plan of Operation

Toa Re operates as a treaty (96%) and facultative (4%) reinsurer primarily engaged in the underwriting of casualty and general property business through numerous unaffiliated reinsurance brokers. The Company assumes business from insurance and reinsurance companies

domiciled in the United States and abroad, which meet certain financial and underwriting criteria established by the Company.

At December 31, 2009, the classes of business on a net premiums written basis were split as follows:

| <u>Class</u>                         | <u>Percent</u> |
|--------------------------------------|----------------|
| Casualty lines                       | 26.40%         |
| Property lines                       | 7.07%          |
| Property and Casualty Combines lines | 7.70%          |
| All Other Lines                      | 0.54%          |
| Non-proportional Reinsurance lines   | <u>58.29%</u>  |
| Total                                | <u>100.00%</u> |

2009 net written premiums by line of business (top 5) are as follows:

| <u>Line of Business</u>            | <u>Premiums</u>      | <u>Percent of Total</u> |
|------------------------------------|----------------------|-------------------------|
| Non-proportional Assumed Liability | \$110,026,654        | 47.46%                  |
| Other Liability - Occurrence       | 44,523,988           | 19.21%                  |
| Non-proportional Assumed Property  | 24,824,356           | 10.71%                  |
| Allied Lines                       | 16,120,296           | 6.95%                   |
| Commercial Multiple Peril          | 11,122,799           | 4.80%                   |
| All Others                         | <u>25,198,990</u>    | <u>10.87%</u>           |
| Total                              | <u>\$231,817,083</u> | <u>100.00%</u>          |

## **GROWTH OF THE COMPANY**

The following information was obtained from the Company's filed Annual Statements and covers the three preceding years since its last examination (2006):

| <u>Year</u> | <u>Admitted<br/>Assets</u> | <u>Capital &amp;<br/>Surplus</u> | <u>Premiums<br/>Earned</u> | <u>Net Income</u> |
|-------------|----------------------------|----------------------------------|----------------------------|-------------------|
| 2009        | \$1,414,447,591            | \$476,026,036                    | \$235,640,355              | \$33,330,150      |
| 2008        | \$1,315,025,148            | \$402,483,157                    | \$225,105,012              | \$41,812,763      |
| 2007        | \$1,427,654,454            | \$457,048,459                    | \$272,128,225              | \$52,994,251      |
| 2006        | \$1,369,524,260            | \$404,599,261                    | \$283,353,196              | \$39,660,642      |

Since December 31, 2006, the Company's financial results were as follows:

- 3.28% increase in admitted assets
- 17.65% increase in capital and surplus
- 16.84% decrease in premiums earned

The decrease in premiums earned is due to the tightening of the business market in the last two years as a result of the credit market's impact on business spending, including insurance, and the closing of many businesses during this economic downturn. Despite the unfavorable economic conditions of the past two years, the Company has remained profitable through diligent underwriting standards.

## **REINSURANCE**

### General

The Company reported the following distribution of net premiums written for 2009:

|   |    |                    |
|---|----|--------------------|
| Direct                                  | \$ | 0                  |
| Reinsurance assumed from affiliates     |    | 0                  |
| Reinsurance assumed from non-affiliates |    | <u>277,225,165</u> |
| Total gross (direct and assumed)        | \$ | <u>277,225,165</u> |
| Reinsurance ceded to affiliates         | \$ | 45,152,285         |
| Reinsurance ceded to non-affiliates     |    | <u>255,797</u>     |
| Total ceded                             | \$ | <u>45,408,082</u>  |
| Net premiums written                    | \$ | <u>231,817,083</u> |

The Company retained 83.6% of its gross business in 2009.

Assumed

The Company assumes business from a wide range of insurance and reinsurance companies and focuses a significant portion of its treaty marketing efforts on small to medium sized regional property and casualty insurers. Marketing is generally controlled by the underwriting department in conjunction with senior management. The Company advertises in business trade publications emphasizing strong capitalization and explicit support from its parent.

2009 assumed premiums by cedent (top 5) are as follows:

|                                       | <u>Premiums</u>      | <u>Percent of Total</u> |
|---------------------------------------|----------------------|-------------------------|
| Great American Insurance Company (OH) | \$15,613,222         | 5.63%                   |
| Liberty International of Canada (CN)  | 14,634,551           | 5.28%                   |
| Country-Wide Insurance Company (NY)   | 11,810,427           | 4.26%                   |
| Liberty Mutual Insurance Company (MA) | 10,291,859           | 3.71%                   |
| AEGIS Ltd (Bermuda)                   | 10,088,964           | 3.64%                   |
| All Others                            | <u>214,786,142</u>   | <u>77.48%</u>           |
| Total                                 | <u>\$277,225,165</u> | <u>100.00%</u>          |

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

Ceded

As of December 31, 2009, the Company had one significant retrocessional agreement covering the general book of business.

Renewed annually and effective January 1, the Company entered into a two-line surplus treaty and quota share reinsurance agreement with parent Toa-Japan. Under this agreement, the Company cedes both the surplus share of its net retention or quota share of its gross retention on all policies, bonds, binders and contracts of insurance or reinsurance written or assumed and classified as property or boiler and machinery (Class 1), municipal bond business (Class 2), and private passenger auto liability, commercial automobile liability, general liability (Class 3). Class 1 coverage provides the Company with protection up to 200% of the Company's net retention on any one program subject to a maximum cession of \$10 million. Class 2 coverage provides the Company with protection of up to 100% of the Company's net retention on any one program subject to a maximum cession of \$25 million. Class 3 coverage provides the Company with protection of up to 20% of the Company's net retention on any one policy subject to a maximum \$1 million any one loss occurrence.

The Schedule F data contained in the Company's annual statements filed for the years within the examination period were found to accurately reflect its reinsurance transactions. The only material reinsurance agreement is with Toa-Japan, which was reviewed and evaluated for

compliance with SSAP 62 of the NAIC “Accounting Practices and Procedures Manual” and included the required contractual clauses.

### **ACCOUNTS AND RECORDS**

The Company maintains its records on a combination of client server, 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 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.

### **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, 2009.

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

**THE TOA REINSURANCE COMPANY OF AMERICA**

**ASSETS**

**DECEMBER 31, 2009**

| <b>Assets</b>  | <b>Ledger<br/>Assets</b> | <b>Non-Admitted<br/>Assets</b> | <b>Net-Admitted<br/>Assets</b> | <b>Note</b> |
|--|--------------------------|--------------------------------|--------------------------------|-------------|
| Bonds  | \$ 952,432,169           |                                | \$ 952,432,169                 | 1           |
| Common stocks  | 167,446,067              |                                | 167,446,067                    |             |
| Real estate  | 3,666,979                |                                | 3,666,979                      |             |
| Cash and Short Term Investments                        | 84,351,665               |                                | 84,351,665                     |             |
| Other invested assets                                  | 48,971,024               |                                | 48,971,024                     |             |
| Investment income due and<br>accrued                   | 11,111,407               |                                | 11,111,407                     |             |
| Premiums and Considerations:                           |                          |                                |                                |             |
| Uncollected premiums and<br>agents balances            | 11,860,774               |                                | 11,860,774                     |             |
| Deferred premium                                       | 58,130,811               |                                | 58,130,811                     |             |
| Reinsurance:   |                          |                                |                                |             |
| Amounts recoverable from<br>reinsurers                 | 17,960,622               |                                | 17,960,622                     |             |
| Funds held by or deposited<br>with reinsured companies | 325,676                  |                                | 325,676                        |             |
| Federal income tax recoverable                         | 259,944                  |                                | 259,944                        |             |
| Net deferred tax asset                                 | 41,203,000               | \$23,855,000                   | 17,348,000                     |             |
| EDP equipment and software                             | 197,537                  |                                | 197,537                        |             |
| Furniture and equipment                                | 80,790                   | 80,790                         | 0                              |             |
| Aggregate write-ins for other than<br>invested assets  | 40,393,338               | 8,422                          | 40,384,916                     |             |
|  | <hr/>                    |                                |                                |             |
| <b>Total Assets</b>                                    | <b>\$ 1,438,391,803</b>  | <b>\$ 23,944,212</b>           | <b>\$ 1,414,447,591</b>        |             |
|  | <hr/>                    |                                |                                |             |

**THE TOA REINSURANCE COMPANY OF AMERICA**

**LIABILITES, SURPLUS AND OTHER FUNDS**

**DECEMBER 31, 2009**

|   |                                    | <b>NOTES</b> |
|---|------------------------------------|--------------|
| Losses  | \$ 673,651,102                     | 2            |
| Reinsurance payable on paid losses & loss adjustment expenses | 5,517,789                          |              |
| Loss adjustment expenses                                      | 88,553,413                         | 2            |
| Commissions payable   | 5,126,844                          |              |
| Other expenses  | 10,974,033                         |              |
| Taxes, licenses and fees                                      | 302,975                            |              |
| Unearned premiums   | 64,319,832                         |              |
| Ceded reinsurance premiums payable                            | 23,614,353                         |              |
| Funds held by company under reinsurance                       | 51,890,522                         |              |
| Provision for reinsurance                                     | 1,063,200                          |              |
| Payable for securities  | 10,115,973                         |              |
| Aggregate write-ins for liabilities                           | <u>3,291,519</u>                   |              |
| <br>Total Liabilities   | <br><u>\$ 938,421,555</u>          |              |
| <br>Common capital stock                                      | <br>\$ 4,000,000                   |              |
| Gross paid in and contributed surplus                         | 181,352,611                        |              |
| Unassigned funds (surplus)                                    | <u>290,673,425</u>                 |              |
| <br>Surplus as regards policyholders                          | <br><u>\$ 476,026,036</u>          |              |
| <br><b>Total liabilities, surplus and other funds</b>         | <br><b><u>\$ 1,414,447,591</u></b> |              |

**THE TOA REINSURANCE COMPANY OF AMERICA**

**STATEMENT OF INCOME**

**DECEMBER 31, 2009**

**Underwriting Income**

|                                      |                       |
|--------------------------------------|-----------------------|
| Premiums earned                      | <u>\$ 235,640,355</u> |
| <b>Deductions</b>                    |                       |
| Losses incurred                      | \$ 149,348,972        |
| Loss adjustment expenses incurred    | 26,254,601            |
| Other underwriting expenses incurred | <u>60,643,664</u>     |
| <b>Total underwriting deductions</b> | <u>\$ 236,247,237</u> |
| Net underwriting gain or (loss)      | <u>\$ (606,882)</u>   |

**Investment Income**

|   |                      |
|---|----------------------|
| Net investment income earned  | \$ 43,500,719        |
| Net realized capital gains (losses) less capital gains tax of \$1,531,341 | <u>(1,790,647)</u>   |
| Net investment gain or (loss)   | <u>\$ 41,710,072</u> |

**Other Income**

|  |                    |
|--|--------------------|
| Net gain or (loss) from agents or premium balances charged off | \$ 0               |
| Finance and service charges not included in premiums           | 0                  |
| Aggregate write-ins for miscellaneous income                   | <u>(70,908)</u>    |
| Total other income   | <u>\$ (70,908)</u> |

|  |                  |
|--|------------------|
| Net Income, after dividends to policyholders, but<br>before federal & foreign income taxes | \$ 41,032,282    |
| Federal income taxes   | <u>7,702,132</u> |

|                   |                                    |
|-------------------|------------------------------------|
| <b>Net Income</b> | <b><u><u>\$ 33,330,150</u></u></b> |
|-------------------|------------------------------------|

**THE TOA REINSURANCE COMPANY OF AMERICA**

**CAPITAL AND SURPLUS ACCOUNT**

**DECEMBER 31, 2009**

**Capital and Surplus Account**

|   |                              |
|---|------------------------------|
| Surplus as regards policyholders December 31, 2008      | <u>\$ 402,483,157</u>        |
| Net Income  | \$ 33,330,150                |
| Change in net unrealized capital gains                  | 28,593,909                   |
| Change in net unrealized foreign exchange capital gain  | 17,210,298                   |
| Change in net deferred income tax                       | (5,762,279)                  |
| Change in non-admitted assets and related items         | 8,714,436                    |
| Change in provision for reinsurance                     | 217,800                      |
| Dividends to stockholder                                | (5,000,000)                  |
| Aggregate write-ins for gains and (losses) in surplus   | <u>(3,761,435)</u>           |
| Change in surplus as regards policyholders for the year | <u>\$ 73,542,879</u>         |
| Surplus as regards policyholders December 31, 2009      | <u><b>\$ 476,026,036</b></u> |

**ANALYSIS OF FINANCIAL STATEMENTS CHANGES**  
**RESULTING FROM EXAMINATION**  
**DECEMBER 31, 2009**

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

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 1**   **Bonds** **\$952,432,169**

99.85% of the Company's bonds and mortgage-backed securities (MBS) are rated as Class 1 or Class 2 by the NAIC. The Company has no investments in private placement securities and has no exposure through direct investments in un-securitized mortgage loans, including sub-prime mortgages. The Company has indirect exposure to sub-prime mortgage risk through other investments in residential mortgage-backed securities with the following aggregate values at December 31, 2009: actual cost \$8,220,614, book value \$7,627,875, fair value \$6,643,070, other than temporary impairment losses recognized \$6,091,814.

**Note 2**   **Losses** **\$673,651,102**  
                  **Loss Adjustment Expenses** **\$88,553,413**

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for losses and LAE. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net of

reinsurance basis and did not address the collectability of reinsurance recoverables. The INS reserve review found the Company's combined net loss and LAE reserves were adequate to support the business underwritten.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are 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 liabilities will be the same as the reserve levels described in this examination report. The review was conducted in conjunction with the current financial examination. Based on the review, INS has accepted the conclusion that additional actuarial reserves were not required as of December 31, 2009.

### **SUMMARY OF RECOMMENDATIONS**

There were no recommendations that warranted disclosure in this examination report.

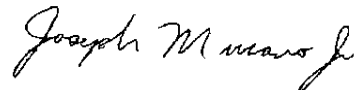
**CONCLUSION**

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, 2009</u> | <u>December 31, 2006</u> | <u>Increase/Decrease</u> |
|---------------------|--------------------------|--------------------------|--------------------------|
| Assets              | <u>\$1,414,447,591</u>   | <u>\$1,369,524,260</u>   | <u>\$44,923,331</u>      |
| Liabilities         | \$938,421,555            | \$964,924,999            | \$(26,503,444)           |
| Capital and Surplus | <u>\$476,026,036</u>     | <u>\$404,599,261</u>     | <u>\$71,426,775</u>      |
| Totals              | <u>\$1,414,447,591</u>   | <u>\$1,369,524,260</u>   | <u>\$44,923,331</u>      |

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

Respectfully submitted,



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Joseph J. Murano, CFE  
Examiner In-Charge  
State of Delaware