

REPORT ON EXAMINATION

OF THE

TORUS NATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

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 OF EXAMINATION, made as of December 31, 2013 of the

TORUS NATIONAL INSURANCE COMPANY

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

Attest By:  _____

Date: June 12, 2015



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 12th day of June, 2015.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
TORUS NATIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

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".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 12th day of June, 2015

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SALUTATION

May 29, 2015

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

Dear Commissioner,

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 14.031, dated October 7, 2014, an examination has been made of the affairs, financial condition and management of the

TORUS NATIONAL INSURANCE COMPANY

hereinafter referred to as “the Company” or “TNIC” and incorporated under the laws of the State of Delaware. The Company’s registered agent in Delaware is The Corporation Trust Company located at 1209 Orange Street, Wilmington, Delaware 19801. The examination was conducted at the Company’s administrative office located at Harborside Financial Center Plaza 5, Suite 2600, Jersey City, New Jersey 07311. The examination of the Company was conducted concurrently with Enstar Group Limited, a large multi-national organization. The State of New Jersey was assigned lead state status by the National Association of Insurance Commissioners (NAIC). The Torus sub-group consists of the Company, Torus Specialty Insurance Company (TSIC), and Torus Insurance Bermuda Limited (TIBL), of which all are Delaware domiciled entities. Separate reports of examination were filed for each company.

SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2011 by the Delaware Insurance Department. This examination covers the period of January 1, 2012 through December 31, 2013, 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, 2013. 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, KPMG LLP (KPMG). Certain auditor work papers of their 2013 audit have been incorporated into the work papers of the examiners and have been utilized

in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

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

Fidelity Bonds and Other Insurance
Pensions, Stock Ownership and Insurance Plans
Statutory Deposits
Loss Experience

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, adjustments to the financial statements, or specific recommendations as a result of this examination.

SUBSEQUENT EVENTS

Commutations, Endorsements and Reinsurance Agreements

Effective January 1, 2014, TNIC commuted its 65% quota share and Excess of Loss (XOL) Reinsurance Agreement with Torus Insurance (UK) Limited for business originally effective January 1, 2009. This Commutation Agreement was approved by the Delaware Department of Insurance. The Company recognized the amounts received from the commutation of \$43,284,001 as a reduction in loss and loss adjustment expenses (thereby reducing loss and loss adjustment expenses incurred). The Company also increased its loss and loss adjustment expenses (thereby increasing its loss and loss adjustment expenses incurred to recognize the effect of releasing the reinsurer from its obligations under the treaties) for a total of \$43,284,001. The commutation agreement and settlement were approved by the Delaware Department of Insurance.

The Company entered into retroactive treaties with its affiliate Torus Insurance (Bermuda) LTD., effective January 1, 2104 to ceded 100% of its discontinued lines including reserves with Torus Insurance (UK) Ltd. under the 65% quota share and aggregate excess of loss treaties.

TNIC entered into XOL Reinsurance Agreements with Torus Insurance (Bermuda) Limited for excess of loss business effective January 1, 2014, which was approved by the Delaware Department of Insurance.

Effective January 1, 2014, the existing 65% quota share agreement with Torus Bermuda Ltd. was endorsed to increase the ceded percentage to 100% on discontinued business effective January 1, 2013. In addition, the term “period thereon” was amended and restated as follows: “All unpaid losses on risk attaching during the period commencing January 1, 2009 and ending December 31, 2012, both days inclusive, and on all losses occurring for the period commencing January 1, 2012 and ending December 31, 2013 both days inclusive”. The agreement was approved by the Delaware Department of Insurance.

Change in Ownership

On July 18, 2013, Torus and The Enstar Group Limited of Bermuda (Enstar) entered into an agreement in consortium with Stone PointCapital, more specifically, Trident Funds and Dowling Capital Partners. The consortium purchased Torus for \$646 million. The ownership interests as now; Enstar (58.98%), Trident Funds (39.32%, managed by StonePoint Capital) and Dowling Capital Partners (1.70%) acquired the Torus Group effective April 1, 2014. The Delaware Department of Insurance approved of this acquisition.

Intercompany Services Agreement

TNIC entered into an Intercompany Services Agreement effective April 1, 2014, with affiliates Torus US Services, Inc. and Enstar (US), Inc., whereby Torus US Services and Enstar US will provide the following services to TNIC: executive and administrative, legal, treasury, corporate secretarial, claims, investment management and other services. TNIC will reimburse Torus US Services and Enstar US for the cost of such services on a regular basis. The Delaware Department of Insurance approved this agreement.

Investment Management Agreements

Effective June 18, 2014, TNIC entered into separate Investment Management Agreements with Varadero Capital, L.P.

Effective December 31, 2014, TNIC terminated the separate Investment Management Agreements with BlackRock Financial Management Inc. (BlackRock) originally effective August 25, 2010, respectively, effective December 31, 2014, and entered into new separate Investment Management Agreements with Allocated Asset and Management (AAM) effective January 1, 2015.

COMPANY HISTORY

The Company was incorporated on November 6, 1944, under the laws of the State of California. The Company was formerly known as TIG Insurance Company. The Company was acquired by TSIC on July 1, 2010, from Fairfax Holdings Limited as a clean shell for \$32.7 million and the Company re-domesticated from California to Delaware at that time. After that date, the Company commenced operations in line with the business objectives of the Torus Group.

The Company is now a wholly-owned subsidiary of TSIC, an insurance company domiciled in the State of Delaware, which is a wholly-owned subsidiary of Torus US Holdings, Inc., whose ultimate parent is Torus Insurance Holdings Limited (Bermuda) (the Torus Group).

MANAGEMENT AND CONTROL

Management

Pursuant to the General Corporation Law of the State of Delaware as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business, property and affairs are managed by or under the direction of its Board of Directors (Board).

Shareholders

In accordance with the Company's bylaws, the annual shareholder's meeting shall be held at such date and time and at such place as the Board may determine.

Directors

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board. In accordance with the Company's bylaws, the number of Directors shall be fixed from time to time by a resolution of the Board or stockholders. Directors shall be elected annually by the stockholder and shall hold office for one year until successors are elected and qualified, or until earlier resignation or removal. Directors need not be stockholders. Directors may be designated as "Type A Directors", who carry ten votes as opposed to just "Directors", who carry one vote each. The members of the Board, serving as of December 31, 2013, each elected or appointed in accordance with Company bylaws, were as follows:

<u>Director</u>	<u>Title</u>
John F. Shettle, Jr.	Chief Executive Officer, Torus Americas
Timothy W. Harris	Chief Financial Officer, Torus Insurance Holding Ltd.
Gary L. Ropiecki*	Chief Financial Officer, Torus Americas

*Resigned April 2014

Committees

The Company's bylaws provide for the Board to designate one or more committees, each such committee to have and exercise the powers and authority of the Board and each committee consisting of at least one member. As of December 31, 2013, the Company had no standing committees.

Officers

The Company's bylaws provide that the Board has the power to elect officers of the Company and that those officers shall be a President, a Secretary, a Treasurer or a Chief Financial Officer and may elect a Chairman or a Chairman of the Board and a Vice-Chairman of the Board. As deemed appropriate, the Board may decide to elect additional officers, such as Vice-Presidents, Assistant Secretaries and Assistant Treasurers, from time to time. Any number of offices may be held by the same person unless the certificate of incorporation or the amended and restated bylaws otherwise provide. As of December 31, 2013, the Company's principal officers and their respective titles were as follows:

<u>Officer</u>	<u>Title</u>
John F. Shettle, Jr.	President
Gary L. Ropiecki*	Treasurer and Chief Financial Officer
Concepcion L. Valenzuela	Corporate Secretary

*- Resigned April 2014

Corporate Records

The minutes of the meetings of the Stockholder and Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers and approval of investment transactions were also noted.

Inspection of Company files indicated that an ethics statement/conflict of interest statement was completed by all key officers and directors for the examination period.

Holding Company System

The Company is a member of an Insurance Holding Company System as defined under Chapter 50 of the Delaware Insurance Code. The Company's ultimate parent at December 31, 2013, was Torus Insurance Holdings Ltd. (Torus Holdings), a Bermuda corporation. Torus Holdings provides specialized property and casualty coverage for select commercial customer groups of insureds. For the year ending 2013, Torus Holdings reported assets of approximately \$2.697 billion, liabilities of \$1.889 billion, shareholders' equity of \$807.5 million, gross written premiums of \$847.5 million, net premiums written of \$517.9 million and a net loss of \$74.0 million on an International Financial Reporting Standards (IFRS) basis in U.S. dollars.

The following holding company system, as of December 31, 2013, reflects only identities and interrelationships between the Company and its direct parent, its intermediate parent, and its ultimate parent and affiliates concurrently examined with each entity's domicile in brackets. Unless otherwise noted, each subsidiary is 100% economically-owned and 100% voting-controlled by its immediate parent.

Torus Insurance Holdings Ltd. [Bermuda]
Torus Insurance (Bermuda) Limited [Bermuda]
Torus Finance Limited [United Kingdom]
Torus US Holdings Inc. [Delaware]
Torus US Services, Inc. [New Jersey]
Torus Specialty Insurance Company [Delaware]

Torus Insurance (Bermuda) Limited (US Reinsurance Trust)
Torus National Insurance Company [Delaware]

Pursuant to 18 Del. C. §5005 of the Delaware Insurance Code and 18 Del. Admin. Code §1801, in seeking authorization to enter into certain transactions, the Company submitted Form D Prior Notice of a Transaction statements that were filed with the Delaware Insurance Department. In addition, the Company filed the annual Form B and Form C holding company registration statements for the years under examination.

Affiliated Agreements

Cost Sharing Agreement with Torus US Services:

The Company, through an addendum, entered into an existing service agreement dated January 1, 2009, among TSIC and Torus US Services, Inc. (TUSS) effective July 1, 2010. The Company receives services from TUSS including information technology, human resources and payroll services, underwriting, claims, actuarial, finance, regulatory and compliance, budget and forecasting, tax related services, management oversight and other services. The costs of such services are charged to the Company and other members of the holding company group based on an allocation of the actual cost incurred by the provider of the services. The allocation is calculated as agreed by the parties in good faith and in accordance with *Statement of Statutory Accounting Principles* Number 70, Allocation of Expenses. The agreement states that within 15 days of receipt of the report, the party or parties shall remit payment in full. The original agreement and the amendment were approved by the Delaware Department of Insurance.

Tax Allocation Agreement and Amendment:

The Company, through an addendum, entered into an existing tax allocation agreement among TSIC, Torus US Holdings Inc. (Torus US), Torus US Intermediaries, and TUSS effective July 1, 2010. The addendum states that the laws of the State of Delaware shall have jurisdiction

with regard to any conflicts. Torus US, the Company and affiliates constitutes an affiliated group within section 1504(a) of the Internal Revenue Code of 1986 and, therefore, are eligible to file a consolidated United States federal income tax return and pay federal income taxes on a consolidated basis if necessary. Pursuant to the terms of the agreement, no party will be required to neither pay more in taxes nor receive a lesser payment of a refund than it would have paid or received if it computes its taxes independently and filed a separate tax return. Additionally, the Company has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes. The agreement is considered to be terminated if the companies agree in writing to terminate the agreement or if a company in the affiliated group ceases business or the affiliated group fails to file a consolidated tax return for any taxable year. Settlement of balances among the group members must occur within 90 days of the final filed tax return. The original agreement and the amendment were approved by the Delaware Department of Insurance.

Binding Authority Agreement:

The Company entered into a wholesale broker and limited binding authority agreement with Torus Insurance Services effective January 1, 2011. This affiliate was formed in 2010 to establish broker operation based in California to service the West Coast. The effective period of the contract is from January 1st to December 31st and was renewed annually. The authorized classes of business coverages stated under the contract include property, surety, marine and transportation, and casualty. Risks covered include vehicle, liability, burglary and theft, personal property floater, glass, boiler and machinery, credit, workers' compensation and employers' liability, leakage and fire extinguisher equipment, malpractice, elevator, congenital defects,

livestock, entertainment and miscellaneous. The fee for this service is 5% of gross written premiums. The agreement was terminated prior to December 31, 2013. The original agreement was approved by the Delaware Department of Insurance.

Guarantee and Indemnification Agreements:

Torus Insurance (Bermuda) Limited (Torus Bermuda) entered into two separate guarantee and indemnification agreements with State National Insurance Company and United Specialty Insurance Company (collectively "State National") whereby Torus Bermuda guarantees the obligations of the quota share reinsurance agreements that the Company entered into as reinsurer to State National. The amount covered under the guarantees totaled \$80,415,716, which represents the gross unearned premium and gross outstanding losses of \$12,934,269 and \$67,481,447, respectively, at December 31, 2013. For 2013, this guarantee cost the Company \$273,345 and \$804,157 from inception through December 31, 2013. The original agreements were approved by the Delaware Department of Insurance.

In connection with the purchase of the Company from TIG in 2010, Fairfax Financial Holdings Limited (Fairfax) guarantees the obligations of TIG under the amended and restated reinsurance agreement pursuant to a guarantee agreement effective July 1, 2010. The beneficiary of the guarantee agreement is TSIC, TNIC's parent. Fairfax is the ultimate controlling entity of TIG.

Capital Maintenance Agreement:

The Company entered into a capital maintenance agreement with most of the members of the Torus Group effective May 10, 2012. TNIC sought admittance into New York as a licensed carrier and a condition was that TNIC would maintain a minimum of \$60 million in surplus. Members of the Torus Group agreed to maintain TNIC's capital requirements as required by NY

Law 1402. The capital maintenance agreement shall remain in effect until TNIC is no longer licensed in New York or until TNIC has been licensed in New York for three years.

Unaffiliated Agreements

BlackRock - Investment Management Agreement:

The Company entered into an investment management agreement with BlackRock Financial Management, Inc. (BlackRock) effective August 25, 2010. Services provided by BlackRock pursuant to this agreement include performing certain investment accounting and recordkeeping services valuation, reconciliation and reporting of the Company's invested assets and cash. The most recent SSAE 16 Report for BlackRock was obtained and reviewed without exception. (This agreement was canceled in 2014)

TIG- BONYM custody agreement:

The Company is a party to a custodial agreement with The Bank of New York Mellon effective July 1, 2010, for the purpose of safekeeping of the Company's assets. A review of the agreement showed that it contains the necessary and required safeguards to protect the Company's investments held by the custodian.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is licensed to transact business in all fifty U.S. States and the District of Columbia. The Company, a multi-line carrier underwriting commercial property and casualty, sells its products principally through independent agents. The Company's operations have been within the property and casualty insurance industry and its offerings are diverse and represent a growing range of property, and specialty insurance, as well as reinsurance products, to a local,

regional and global client base. With the acquisition agreement with Enstar, the Company revised its underwriting focus and terminated active writing in the property lines, surety business and other specialty lines. At the end of 2013 the Company commenced writing in worker's compensation. The Company had offices in New Jersey, Illinois, Georgia, Texas and California. At the end of 2013, the offices in Atlanta, Georgia and Houston, Texas were closed. During 2013, seventy-seven percent (77%) of the Company's direct writing were generated in fourteen states, of which California (21%), Texas (10%) and Florida (9%) were the top three states in direct premium volume. The majority of direct written (93%) were in three lines of business: 67% in other liability per occurrence, 17% in other liability claims made, and 9% in worker's compensation.

Plan of Operation

The Specialty groups focused on the small and middle market sectors, employing \$25 million capacity and distributing through wholesale and national retailer producers. The Specialty Lines groups major sectors included the following: middle market lead umbrella, middle market excess liability, program support umbrella, small business umbrella platform, professional liability including E&O and D&O, commercial automobile, employment practices liability, fiduciary coverage (including crime and identity) and medical malpractice. Also included are all public and private companies as well as all 501(c) Not for Profit Entities. For most products, target industry classes were oil and gas (other than refiners), utilities, consumer products, services, manufacturing, and aerospace/defense. Torus was also selectively target financial institutions, hospitality, homebuilders, large technology, pharmaceutical, medical device, hospitals, specialty retail, casinos, construction, accountants, law firms, and consultants. Limits up to \$15 million are offered with an average limit of \$5 million for most products. Self-

insured retentions were varying depending on the size of the insured, limits offered and product coverage can range from as low as \$5,000 per policy to \$25 million per policy.

The Global Property group wrote coverage for the following industries: chemical, general industrial, high-tech, pharmaceutical. Global Property coverages included fire, allied lines, earthquake, and boiler and machinery with inspection. The Onshore Energy subdivision wrote transportation, storage processing and refining of oil and gas companies, including terminals and pipelines. The Onshore Energy coverages included fire and allied lines, including business interruption, liability, inland marine, boiler and machinery, burglary and theft, flood, earthquake and glass. The Power and Utility subdivision wrote all aspects of the gas and electrical power and utility businesses ranging from construction and operating exposures of power plants to renewable resources, including wind power, geothermal power, hydropower, waste-to-energy and solar power. The Power and Utility coverages included fire and allied lines, including business interruption, builder's risk and extra expense, flood, windstorm, earthquake, boiler and machinery, ocean marine, bodily injury, liability and inland marine.

The Construction subdivision wrote for large accounts, master builder's risk and contractor's equipment. The Construction coverages included fire, allied lines, including business interruption, earthquake, windstorm, boiler and machinery, inland marine and ocean marine.

Both General Property and Construction ceased underwriting new business in 2013 and were in run-off status as of December 31, 2013. The core businesses going forward are Excess Liability, Internet Casualty, D&O, Healthcare, Professional Lines and Workers Compensation.

A.M. Best Rating

The Torus Group and its U.S. insurance affiliates have a rating of “A-” (Excellent) from A.M. Best.

GROWTH OF COMPANY

The following information was extracted from the Company’s filed Annual Statements and covers the period from the last examination (2011), and the intervening period to this examination (2013):

<u>Year</u>	<u>Net Premiums Written</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income</u>
2011	\$12,135,385	\$111,235,917	\$29,565,228	\$81,670,689	\$(214,274)
2012	22,577,687	112,643,236	40,846,750	71,796,486	(8,013,879)
2013	30,579,340	139,769,273	66,783,605	72,985,668	(5,802,094)

- Net premiums written increased 152.0% since 2011
- Net admitted assets increased 25.7% since 2011
- Liabilities increased 125.9% since 2011
- Capital and surplus decreased 10.6% since 2011
- Net income continued to be negative since 2011

The Company began operations in 2010 and has grown its premium base every year since then. The rapid growth in net premiums written fueled the increases in net admitted assets and liabilities, primarily reserves. However, due to net income being negative for the years under examination, the capital and surplus decreased, even when including capital paid in of \$6 million in 2013. Net income was negative for the years under examination due to the high operating expenses incurred to support management’s business initiatives and expansion plans.

REINSURANCE

The Company reported the following written premiums in 2013:

Direct	\$105,112,080
Assumed from non-affiliates	<u>29,024,001</u>
Gross Premiums Written	\$134,136,081
Ceded to affiliates	\$61,338,817
Ceded to non-affiliates	<u>42,217,924</u>
Subtotal Ceded	\$103,556,741
 Net Premiums Written	 <u>\$30,579,340</u>

Assumed

The Company has entered into fronting agreements with State National and United Specialty (collectively known as State National) on September 1, 2010 whereby the Company assumes 100% of the premiums written by State National for a 5% fronting fee. In 2013, the Company assumed \$27.3 million from State National and incurred \$1.4 million in fronting fees. Under the same agreement the Torus Insurance (Bermuda) Ltd., entered into two separate Guaranty and Indemnification agreements with State National whereas, Torus Insurance (Bermuda) Ltd., guarantees the obligation of the Company, under the 100% quota share agreement with State National. The amounts covered under the agreement totaled \$80.4 million

The composition of the 2013 assumed written premiums by insured (and domicile) reported on Schedule F was as follows:

State National Insurance Company (Texas)	\$25,180,000	86.8%
United Specialty Insurance Company (Delaware)	2,116,000	7.3%
Greenspring Financial Insurance Ltd. (Cayman Islands)	1,000,000	3.4%
Magna Carta Insurance Ltd. (Bermuda)	<u>728,000</u>	<u>2.5%</u>
Total	\$29,024,000	100.0%

Ceded

In the ordinary course of business the Company cedes on both a pro-rata and excess of loss basis internally and to third-party reinsurers. Ceded to affiliates is effected under the following:

Under the 65% quota share reinsurance agreement with Torus Bermuda effective January 1, 2013 (which replaced a similar agreement with Torus UK effective July 1, 2010), the Company cedes 65% of its net retention with a ceding commission at cost plus an override commission, which increased from 14% to 20% effective January 1, 2011. The original agreement and replacement agreement were approved by the Delaware Department of Insurance.

Under the aggregate stop loss accident-year reinsurance agreement with TIBL effective January 1, 2013 (which replaced a similar agreement with Torus UK effective July 1, 2010), the Company's aggregate book of business is covered. TIBL receives a premium of 5% of the Company's ultimate subject net earned premium for each calendar accident year to cover up to 80% of net losses incurred by the Company in excess of an 80% net loss ratio after inuring to all internal (the 65% quota share) and external reinsurance. The agreement automatically renews each year. The original agreement and the replacement agreement were approved by the Delaware Department of Insurance.

Under the excess of loss reinsurance agreement with automatic renewals from TIBL effective January 1, 2013, the contract covers losses occurring in excess of \$7.5 million each and every risk, subject to a maximum of \$42.5 million per loss occurrence. Business classes covered are onshore energy and power and utility accounts. The agreement was approved by the Delaware Department of Insurance.

Third party cessions are affected via program. The largest programs as measured by premiums and reserves are under the casualty programs.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records and supporting data were reviewed and tested to the extent deemed necessary and found to be satisfactory. The trial balance prepared from the Company's general ledger for the year ended December 31, 2013, was agreed to the annual statement.

Personal computers and file servers support financial reporting and analysis. In general, it has been determined that the Company has a sufficient level of controls in place for all of the above areas. The Company performs full system backups and rotates copies of programs and data files to its off-site storage facility on a weekly basis.

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 internal control structure for the Company's accounting systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance. The statutory-basis financial statements of the Company were audited annually by KPMG, the Company's independent certified accounting firm, for the years 2012 and 2013 inclusive. The Company's accounts and records are also subject to review by the internal audit department of the Torus group.

FINANCIAL STATEMENTS

The following pages contain the Company's Financial Statements for the year ending December 31, 2013, as determined by this examination, with supporting exhibits as detailed below:

Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account
Reconciliation of Surplus since last Examination
Schedule of Examination Adjustments

Assets
As of December 31, 2013

	Assets	Non Admitted Assets	Net Admitted Assets	Notes
Bonds	\$ 86,015,465	-	\$ 86,015,465	1
Common stocks	-	-	-	
Mortgage loans - first liens	-	-	-	
Cash, cash equivalents and short-term investments	20,423,465	-	20,423,465	
Receivable for securities	-	-	-	
Securities lending reinvested collateral assets	1,001,546	-	1,001,546	
Aggregate write-ins for invested assets	-	-	-	
Investment income due and accrued	500,838	-	500,838	
Uncollected premiums in course of collection	13,458,393	\$ 579,826	12,878,567	
Deferred premiums booked but deferred and not yet due	339,013	-	339,013	
Amounts recoverable from reinsurers contracts	6,691,240	-	6,691,240	
Current federal and foreign income tax recoverable and interest thereon	-	-	-	
Net deferred tax asset	-	-	-	
Receivable from parent, subsidiaries and affiliates	11,919,139	-	11,919,139	
Totals	\$ 140,349,099	\$ 579,826	\$ 139,769,273	

Liabilities, Surplus and Other Funds
As of December 31, 2013

		<u>Notes</u>
Losses	\$ 27,583,331	2
Reinsurance payable on paid losses and loss adjustment expenses	-	
Loss adjustment expenses	1,334,727	2
Commissions payable, contingent commissions and other similar charges	(4,755)	
Other expenses (excluding taxes, licenses and fees)	-	
Taxes, licenses and fees (excluding federal and foreign income taxes)	-	
Current federal and foreign income taxes	-	
Net deferred tax liability	-	
Unearned premiums	16,724,229	
Advance premium	-	
Dividends declared and unpaid	-	
Ceded reinsurance premiums payable (net of ceding commissions)	19,163,667	
Funds held by Company under reinsurance treaties	-	
Amounts withheld or retained by Company for account of others	191,547	
Remittances and items not allocated	-	
Provision for reinsurance	7,443	
Net adjustments in assets and liabilities due to foreign exchange rate	-	
Drafts outstanding	-	
Payable to parent, subsidiaries and affiliates	1,252,950	
Payable for securities	-	
Payable for securities lending	-	
Capital notes	-	
Aggregate write-ins for liabilities	530,467	
Protected cells	-	
Total Liabilities	<u>66,783,605</u>	
	-	
Common capital stock	4,200,000	
Gross paid in and contributed surplus	75,242,333	
Unassigned funds (surplus)	(6,456,665)	
Surplus as regards policyholders	<u>72,985,668</u>	
	-	
Total Liabilities, Capital and Surplus	<u>\$ 139,769,273</u>	

Statement of Income
As of December 31, 2013

<u>Underwriting Income</u>	
Premium earned	\$ 25,905,744
Losses incurred	(17,394,286)
Loss adjustment expenses incurred	(3,084,713)
Other underwriting expenses incurred	(11,394,850)
Aggregate write-ins for underwriting deductions	-
Net income of protected cells	-
Net underwriting gain (loss)	<u>(5,968,106)</u>
	-
<u>Net Investment Income</u>	
Net investment income earned	1,252,791
Net realized capital gains or (losses)	<u>(200,150)</u>
	<u>1,052,640</u>
	-
<u>Other Income</u>	
Net gain (loss) from agents' or premium balances charged off	(886,629)
Finance and service charges not included in premiums	-
Aggregate write-ins for miscellaneous income	-
Total other income	<u>(886,629)</u>
Net income before dividends to policyholder, after capital gains tax and before all other federal and foreign income taxes	(5,802,094)
Dividends to policyholders	-
Net income after dividends to policyholder, after capital gains tax and before all other federal and foreign income taxes	(5,802,094)
Federal and foreign income taxes incurred	-
Net Income	<u>\$ (5,802,094)</u>

Capital and Surplus Account
As of December 31, 2013

Surplus as regards policyholders, December 31, prior year	\$ 71,796,486
Net Income	(5,802,094)
Net transfers (to) from Protected Cell accounts	-
Change in net unrealized capital gains (losses) less capital gains tax	-
Change in net unrealized foreign exchange capital gain (loss)	-
Change in net deferred income tax	-
Change in non-admitted assets	897,216
Change in provision for reinsurance	94,060
Change in surplus notes	-
Capital changes	-
Surplus adjustment: Paid in	6,000,000
Dividends to stockholders	-
Aggregate write-ins for gains and losses in surplus	-
Change in surplus as regards policyholders for the year	1,189,182
Surplus as regards policyholders, December 31, current year	<u>\$ 72,985,668</u>

Reconciliation of Surplus since last Examination

	Common Capital Stock	Gross Paid -in & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2011	\$ 4,200,000	\$ 69,242,333	\$ 8,228,356	\$ 81,670,689
2012 Operations (1)			(9,874,203)	(9,874,203)
2013 Operations (1)			(4,810,818)	(4,810,818)
2013 Surplus Adj. (2)		6,000,000		6,000,000
December 31, 2013	<u>\$ 4,200,000</u>	<u>\$ 75,242,333</u>	<u>\$ (6,456,665)</u>	<u>\$ 72,985,668</u>

(1) Operations are defined as: net income and all activity except capital changes, surplus adjustments, dividends to stockholders or aggregate write-ins for special surplus funds.

(2) Surplus adjustment – Paid in.

Dividends

The Company has not declared or paid any dividends to stockholders for the years under examination.

Capitalization

The Company is authorized to issue 30,000 common shares with a par value of \$140 per share. As of December 31, 2013, the Company has all 30,000 authorized common shares issued and outstanding, for a common capital stock balance of \$4,200,000. All of the issued and outstanding common shares are owned by TSIC.

SCHEDULE OF EXAMINATION ADJUSTMENTS

No financial adjustments were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds \$86,015,465

The Company's bond holdings comprised 80.06% of total admitted assets.

Security composition for the year ending 2013 was comprised of the following:

U.S. Governments	\$ 15,380,481	17.88%
Other Governments	5,837,724	6.79%
U.S. States, Territories and Possessions	3,765,492	4.38%
Special Revenue	10,995,020	12.78%
Industrial & Miscellaneous	<u>50,036,748</u>	<u>58.17%</u>
Total	\$86,015,465	100.0%

Bonds categorization for the year ending 2013 was comprised of the following:

Class 1	\$80,842,925	93.99%
Class 2	<u>5,172,540</u>	<u>6.01%</u>
Total	<u>\$86,015,465</u>	<u>100.00%</u>

All investments were rated by the SVO, Moody's and Standard & Poor's with similar quality ratings.

Note 2-Losses \$27,583,331
Note 2- Loss Adjustment Expenses \$ 1,334,727

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The Delaware Department of Insurance retained the services of INS Consultants (INS), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2013. The INS analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The review does not address the collectability of reinsurance recoverables.

The conclusions set forth in the INS report are based on information provided by the Company, including the 2013 Annual Statements and the related 2013 Statement of Actuarial Opinion with underlying actuarial work papers.

INS performed an analysis on the Company's book of business by segment of business on both a gross and a net basis for loss, defense and cost containment (DCC) expense and adjusting and other (A&O) expense. INS also reviewed the Company's work papers which reconcile the year-end 2013 data to Schedule P. The work papers supported the conclusion that the year-end amounts were closely reconciled to the Schedule P amounts.

Based on work performed, INS concluded that the Company's carried net and gross loss and LAE reserves at December 31, 2013, to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

PRIOR EXAM COMMENTS AND RECOMMENDATIONS

There were no recommendations made in the prior examination report.

COMMENTS AND RECOMMENDATIONS

There were no recommendations made in the examination report.

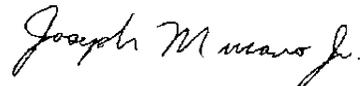
CONCLUSION

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, 2011</u>	<u>December 31, 2013</u>	<u>Increase (Decrease)</u>
Assets	\$ 111,235,917	\$ 139,769,273	\$ 28,533,356
Liabilities	\$ 29,565,228	\$ 66,783,605	\$ 37,218,377
Common Capital Stock	4,200,000	4,200,000	-
Gross Paid In and Contributed Surplus	69,242,333	75,242,333	6,000,000
Unassigned Funds (Surplus)	8,228,356	(6,456,665)	(14,685,021)
Total Surplus as Regards Policyholders	\$ 81,670,689	\$ 72,985,668	\$ (8,685,021)
Totals	<u>\$ 111,235,917</u>	<u>\$ 139,769,273</u>	<u>\$ 28,533,356</u>

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

Respectfully submitted,



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