

**REPORT ON EXAMINATION**

**OF THE**

**TORUS SPECIALTY 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 SPECIALTY INSURANCE COMPANY**

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

Attest By:

A handwritten signature in black ink, appearing to be "K. Stewart", written over a horizontal line.

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.

A handwritten signature in black ink, appearing to be "K. Stewart", written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION  
OF THE  
TORUS SPECIALTY 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".

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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. 14.030, dated October 7, 2014, an examination has been made of the affairs, financial condition and management of the

### **TORUS SPECIALTY INSURANCE COMPANY**

hereinafter referred to as “the Company” or “TSIC” 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 the 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 National Insurance Company (TNIC), 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, and 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, TSIC 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 \$48,326,048 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 \$48,326,048. 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.

TSIC 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 Point Capital, 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:*

TSIC 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 TSIC: executive and administrative, legal, treasury, corporate secretarial, claims, investment management and other services. TSIC 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, TSIC entered into separate Investment Management Agreements with Varadero Capital, L.P.

Effective December 31, 2014, TSIC terminated the separate Investment Management Agreements with BlackRock Financial Management Inc. (BlackRock) originally effective February 17, 2009, 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 August 16, 1991, under the laws of the State of Delaware, as BT Insurance Corporation, a subsidiary of Bankers Trust (Delaware) and commenced business on November 19, 1991.

On December 22, 1998, the Company was acquired by Alea Holdings US Company (formerly RR Holdings (US) Inc.) and its name was changed to Rhine Re Insurance Ltd.

On August 31, 2000, the Company's name was changed to Alea North America Reinsurance Company. On December 20, 2001, the Company's common stock was contributed to Alea North America Insurance Company.

On November 15, 2002, the Company's name was changed to Alea North America Specialty Insurance Company.

On September 29, 2006, the Company was acquired by Praetorian Insurance Company (PIC) and its name was changed to Praetorian Specialty Insurance Company. Effective May 31, 2007, Praetorian Financial Group and its subsidiaries were sold to QBE Holdings, Inc. (QBE).

On February 17, 2009, the Company was acquired as a clean shell for \$61.48 million by Torus US Holdings Inc. (Torus US) with all prior obligations remaining the responsibility of the seller through a series of agreements. On March 2, 2009, the Company's name was changed to Torus Specialty Insurance Company. After that date, the Company commenced operations in line with the business objectives of the Torus Group.

The Company 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, but in no event less than two. 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. 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 Chief Executive Officer, a President, one or more

Vice-Presidents, a Secretary and a Treasurer. 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 except that the Chief Executive Officer and the Secretary may not be held by the same person. 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 Service:*

On April 23, 2009, the Company entered into a service agreement with Torus US Services, Inc. (TUSS) effective January 1, 2009. TNIC was added to this agreement by addendum 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:*

On February 17, 2009, the Company entered into a tax allocation agreement with Torus US Holdings Inc. (Torus US), Torus US Intermediaries, and TUSS effective January 1, 2009. TNIC was added to this agreement by addendum 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 1<sup>st</sup> to December 31<sup>st</sup> 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.

*Torus Brazil Representation Services Agreement*

The Company entered into a representation service agreement with subsidiary Torus Specialty Insurance Company Escritorio No Brazil Ltd. (TSICCERB) effective October 11, 2010, which authorizes TSICCERB to represent TSIC in Brazil according to Brazilian legislation by means of its registration with the Secretary of Private Insurance. Services rendered by TSICCERB include assisting TSIC in analyzing and evaluating reinsurance programs and covers to be underwritten or renewed by TSIC, assisting TSIC in revising and monitoring claims, and other services as needed. The original agreement was approved by the Delaware Department of Insurance.

*Guarantee and Indemnification Agreement:*

In connection with the purchase of the Company from PIC, QBE guarantees the obligations under the quota share reinsurance agreement pursuant to a guarantee agreement effective February 17, 2009. The beneficiary of the guarantee agreement is Torus US, TSIC's parent. QBE is the ultimate controlling entity of PIC. The original reinsurance agreement was 90% quota share effective November 1, 2006. Immediately thereafter, PIC sold the Company to Torus Holdings for \$61,480,000. The change in reinsurance and sale of the Company were approved by the Delaware Department of Insurance on February 17, 2009.

Unaffiliated Agreements

*BlackRock - Investment Management Agreement:*

The Company entered into an investment management agreement with BlackRock Financial Management, Inc. (BlackRock) effective February 17, 2009. 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)

*Praetorian Specialty Custodial Agreement:*

The Company entered into a custodial agreement with The Bank of New York Mellon effective January 30, 2009, for the purpose of safekeeping of the Company's invested 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 Delaware and is an exempt surplus lines writer in the remaining U.S. States, the District of Columbia, Guam, Puerto Rico, the U.S. Virgin Islands, Brazil and the Cayman Islands. The Company, a multi-line carrier underwriting commercial property and casualty, sells its products principally through independent agents. The Company sells its products through independent agents from its offices in New Jersey, Illinois, Georgia, Texas and California. During 2013, eighty-three percent (83%) of the Company's direct writing were generated in seventeen states, of which Florida (18%), California (11%), New York (10%) and Texas (10%) were the top four states in direct premium volume. The majority of direct written (82%) were in four lines of business: 33% in medical professional, 19% in other liability per occurrence, 18% in allied lines and 12% in fire.

### **Plan of Operation**

The Company's operations are entirely within the property and casualty insurance industry. Torus offers and will introduce new offerings that are diverse and represent a growing range of specialty insurance, as well as reinsurance products, to a local, regional and global client base. The Company focuses on insurance and reinsurance products that benefit from its analytical underwriting approach. Torus underwrites unique risks, typically of the type where underwriting performance is improved by a data driven approach supported by extensive knowledge of the underlying risk. With the acquisition agreement with Enstar, the Company revised its underwriting focus and terminated active writing in the Property lines, Surety business and some other specialty lines.

The Company's target markets include all public and private companies as well as all 501(c) entities (not-for-profit). The Company will 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 \$10 million for most products. Self-insured retentions vary depending on the size of the insured, limits offered and product, and can range from as low as \$5,000 per policy to \$25 million per policy. The Company's current initiatives focus on Specialty Lines with eleven different lines of business overall. The Global Property, Renewable Energy, Surety, and many of the Program business lines were put into run-off in 2013. The core businesses going forward are Excess Liability, Internet Casualty, D&O, Healthcare, and Professional Lines.

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	\$40,894,746	\$219,227,582	\$117,540,736	\$101,736,846	\$(25,048,129)
2012	32,976,585	200,701,530	97,333,861	103,367,669	(17,614,572)
2013	20,497,909	182,330,781	96,789,741	85,541,039	(13,095,468)

- Net premiums written decreased 49.9% since 2011
- Net admitted assets decreased 16.8% since 2011
- Liabilities decreased 17.7% since 2011
- Capital and surplus decreased 15.9% since 2011
- Net income continued to be negative since 2011

The Company began operations in 2010 and has reduced its premium base every year since then as the surplus lines hardened and the Company tried to shed unprofitable business. The reduction in net premiums written contributed to the decreases in net admitted assets and liabilities, primarily reserves. Due to net income being negative for the years under examination, the capital and surplus decreased. Capital and Surplus decreased despite Capital infusions paid in of \$30.0 million in 2012 and \$6.0 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, but showed improvement each year since 2011.

### REINSURANCE

The Company reported the following written premiums in 2013:

Direct	\$107,860,423
Assumed from non-affiliates	<u>15,701,121</u>
Gross Premiums Written	\$123,561,544
Ceded to affiliates	\$67,917,316
Ceded to non-affiliates	<u>35,146,320</u>
Subtotal Ceded	\$103,063,636
Net Premiums Written	<u>\$20,497,909</u>

#### Assumed

The composition of the 2013 assumed written premiums by insured (and domicile) reported on was numerous small cessions (less than \$100k) amounting to \$12 million of the reported \$15.7 in assumed business.

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 Insurance Bermuda Ltd. (TIBL) 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.

The Company participates in the Torus Global property per risk reinsurance program. The worldwide program, incepting January 1, 2013 offers per risk coverage for business classified as property, energy and construction (except offshore energy) with limits up to \$50 million in two layers on a loss occurring basis. Layer 1 consists of a \$10 million excess of \$15 million, is 100% placed and includes two reinstatements at 100% each. Layer 2 consists of a \$25 million excess of \$25 million layer, is 100% placed and includes one reinstatement. Both layers are placed at 90%. The Company paid \$5.3 million in premium for this cover.

The Company participates in the Torus global property catastrophic reinsurance program. The worldwide program, incepting January 1, 2013 offers limits up to \$130 million in two layers on a loss occurring basis. Layer 1 covers \$30 million excess of \$20 million, is 100% placed and includes one reinstatement at 100%. Layer 2 covers \$80 million excess of \$50 million, it is 100% placed and includes one reinstatement. Effective October 1, 2013 the Company purchased an additional catastrophic buy down treaty. The worldwide program offers \$5 million excess of \$15 million loss, is 100% placed and includes one reinstatement at 100%. The Company paid \$16.3 million in premiums and ceded no losses to this program.

### **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 exam period. 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

	<b>Assets</b>	<b>Non Admitted Assets</b>	<b>Net Admitted Assets</b>	<b>Notes</b>
Bonds	\$ 61,486,745		\$ 61,486,745	1
Common stocks	78,218,165		78,218,165	2
Cash, cash equivalents and short-term investments	11,979,916		11,979,916	
Other invested assets				
Receivable for securities				
Aggregate write-ins for invested assets				
Investment income due and accrued	294,121		294,121	
Uncollected premiums in course of collection	6,370,798	\$ 1,850,726	4,520,072	
Deferred premiums booked but deferred and not yet due	4,093,976		4,093,976	
Amounts recoverable from reinsurers	18,820,969		18,820,969	
Other amounts receivable under reinsurance contracts				
Current federal and foreign income tax recoverable and interest thereon				
Net deferred tax asset				
Receivable from parent, subsidiaries and affiliates	1,138,913		1,138,913	
Aggregate write-ins for other than invested assets	1,777,903		1,777,903	3
<b>Totals</b>	<b>\$ 184,181,506</b>	<b>\$ 1,850,726</b>	<b>\$ 182,330,780</b>	

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

		<u>Note</u>
Losses	\$ 29,867,913	4
Reinsurance payable on paid losses and loss adjustment expenses		
Loss adjustment expenses	2,801,863	4
Commissions payable, contingent commissions and other similar charges	(358,925)	
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		
Borrowed money		
Unearned premiums	14,442,911	
Advance premium		
Dividends declared and unpaid		
Ceded reinsurance premiums payable (net of ceding commissions)	25,395,335	
Funds held by Company under reinsurance treaties	233,690	
Amounts withheld or retained by Company for account of others	1,920,493	
Remittances and items not allocated		
Provision for reinsurance	3,557,443	
Net adjustments in assets and liabilities due to foreign exchange rates		
Drafts outstanding		
Payable to parent, subsidiaries and affiliates	13,133,169	
Payable for securities		
Payable for securities lending		
Capital notes		
Aggregate write-ins for liabilities	5,795,850	
Protected cells		
Total Liabilities	\$ 96,789,741	
Common capital stock	\$ 3,500,000	
Gross paid in and contributed surplus	206,829,491	
Unassigned funds (surplus)	(124,788,452)	
Surplus as regards policyholders	\$ 85,541,039	
Total Liabilities, Capital and Surplus	\$ 182,330,780	

Statement of Income  
As of December 31, 2013

<u>Underwriting Income</u>	
Premium earned	\$ 26,650,715
Losses incurred	(13,624,395)
Loss adjustment expenses incurred	(6,400,849)
Other underwriting expenses incurred	(19,399,630)
Aggregate write-ins for underwriting deductions	
Net income of protected cells	
Net underwriting gain (loss)	<u>(12,774,161)</u>
<u>Net Investment Income</u>	
Net investment income earned	630,282
Net realized capital gains or (losses)	213,229
	<u>843,511</u>
<u>Other Income</u>	
Net gain (loss) from agents' or premium balances charged off	(1,164,819)
Finance and service charges not included in premiums	
Aggregate write-ins for miscellaneous income	
Total other income	<u>(1,164,819)</u>
Net income before dividends to policyholder, after capital gains tax and before all other federal and foreign income taxes	(13,095,468)
Dividends to policyholders	
Net income after dividends to policyholder, after capital gains tax and before all other federal and foreign income taxes	(13,095,468)
Federal and foreign income taxes incurred	
Net Income	<u>(13,095,468)</u>

Capital and Surplus Account  
As of December 31, 2013

Surplus as regards policyholders, December 31, prior year	103,367,669
Net Income	(13,095,468)
Net transfers (to) from Protected Cell accounts	
Change in net unrealized capital gains (losses) less capital gains tax	(5,815,825)
Change in net unrealized foreign exchange capital gain (loss)	
Change in net deferred income tax	
Change in non-admitted assets	(1,619,022)
Change in provision for reinsurance	(3,296,315)
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	<u>(17,826,630)</u>
Surplus as regards policyholders, December 31, current year	<u><u>85,541,039</u></u>

Reconciliation of Surplus since last Examination

	<u>Common Capital Stock</u>	<u>Gross Paid -in &amp; Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>	<u>Total</u>
December 31, 2011	\$ 3,500,000	\$ 170,829,491	\$ (72,592,645)	\$ 101,736,846
2012 Operations (1)			(28,369,177)	(28,369,177)
2012 Surplus Adj. (2)		30,000,000		30,000,000
2013 Operations (1)			(23,826,630)	(23,826,630)
2013 Surplus Adj. (2)		6,000,000		6,000,000
December 31, 2013	<u>\$ 3,500,000</u>	<u>\$ 206,829,491</u>	<u>\$ (124,788,452)</u>	<u>\$ 85,541,039</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 500 common shares with a par value of \$7,000 per share. As of December 31, 2013, the Company has all 500 authorized common shares issued and outstanding, for a common capital stock balance of \$3,500,000. All of the issued and outstanding common shares are owned by Torus US Holdings, Inc.

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

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

**NOTES TO FINANCIAL STATEMENTS**

Note 1 - Bonds \$61,486,745

The Company's bond holdings comprised 40.5% of total admitted assets.

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

U.S. Governments	\$13,097,281	21.30%
Other Governments	10,117,134	16.45%
Special Revenue	8,943,621	14.38%
U.S States, Territories and Possessions	643,706	1.05%
Industrial & Miscellaneous	<u>28,785,003</u>	<u>46.81%</u>
 Total	 <u>\$61,486,745</u>	 <u>100.00%</u>

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

Class 1	\$58,422,487	95.02%
Class 2	<u>3,064,258</u>	<u>4.98%</u>
Total	<u>\$61,486,745</u>	<u>100.00%</u>

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

Note 2 – Common Stocks \$78,218,165

The Company's common stock holdings comprised 51.6% of total admitted assets. This entire balance is comprised of the Company's 100% ownership of subsidiary Torus National Insurance Company, a Delaware-domestic insurance company, acquired July 1, 2010.

Note 3- Aggregate Write-Ins \$1,777,903

Retroactive Reinsurance	\$1,558,085
Cash advances TPA	\$ 219,818

The majority of the aggregate write-ins is retroactive reinsurance with ALEA (Bermuda) LTD., and in connection with the agreement, a trust exists to collateralize the credit exposure.

As of the exam date, the total trust value is \$3,000,839; while the Company's net exposure is \$1,558,085.

<u>Note 4 - Losses</u>	\$29,867,913
<u>Note 4 - Loss Adjustment Expenses</u>	2,801,863

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 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.

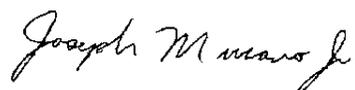
**CONCLUSION**

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	\$ 219,277,582	\$ 182,330,780	\$ (36,946,802)
Liabilities	\$ 117,540,736	\$ 96,789,741	\$ (20,750,995)
Common Capital Stock	3,500,000	3,500,000	-
Gross Paid In and Contributed Surplus	170,829,491	206,829,491	36,000,000
Unassigned Funds (Surplus)	(72,592,645)	(124,788,452)	(52,195,807)
Total Surplus as Regards Policyholders	\$ 101,736,846	\$ 85,541,039	\$ (16,195,807)
Totals	<u>\$ 219,277,582</u>	<u>\$ 182,330,780</u>	<u>\$ (36,946,802)</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