REPORT ON EXAMINATION

OF THE

CATLIN SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

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, 2012 of the

CATLIN SPECIALTY INSURANCE COMPANY

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

Attest By: Brandi Biddle

Date: June 3, 2014

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 3rd day of June, 2014.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT OF EXAMINATION

OF THE

CATLIN SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

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.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 3rd day of June, 2014

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SALUTATION

April 4, 2013

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

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 13.020, dated March 25, 2013, an Association examination has been made of the affairs, financial condition and management of the

CATLIN SPECIALTY INSURANCE COMPANY

hereinafter referred to as "Company" or "CSIC" incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 160 Greentree Dr., Suite 101, Dover, Delaware 19904. The examination was conducted at the main administrative office of the Company, located at 3340 Peachtree Rd. NE, Suite 2950, Atlanta, GA 30326. The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

We have performed a multi-state examination of the Company. The last examination of the Company was conducted as of December 31, 2008. This examination covers the period since that date through December 31, 2012, and including any material transactions and/or events noted occurring subsequent to December 31, 2012.

This examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* (NAIC Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires the examiners perform an examination to evaluate the financial condition and identify prospective risks of the Company. In doing so, the examiners reviewed corporate governance, identified inherent risks of the Company, and evaluated the controls and procedures used to mitigate the identified 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 the Company's compliance with Statutory Accounting Principles and applicable annual statement instructions.

Concurrent with this examination, statutory exams of the Company's affiliates, Catlin Indemnity Company (CIND) and Catlin Insurance Company, Inc. (CICI) were conducted as of December 31, 2012. CIND is domiciled in Delaware, and CICI is domiciled in Texas. Together, the companies are a part of the Catlin Holding Company Group and make up Catlin US, an underwriting platform that encompasses all of Catlin's statutory insurance operations in the United States. The Catlin US statutory entities participate in an intercompany pooling arrangement and utilize the same accounting, information technology, and primary administrative systems. To improve efficiency of the examination process and avoid duplication of work, the exams were fully coordinated.

The Company's external auditor PricewaterhouseCoopers, LLC (PwC), made available for review all work papers pertinent to its audit of the CSIC financial statements for the year ended December 31, 2012. Certain work papers prepared by the external accounting firm were incorporated into the examiners work papers if deemed appropriate and in accordance with the NAIC Handbook.

In addition to items hereinafter incorporated as a part of this report, the following were reviewed without exception and made part of the work papers of this examination.

Fidelity Bonds and Other Insurance
Pensions, Stock Ownership and Insurance Plans
Officers, Employees and Agents' Welfare
NAIC Ratios
Legal Actions
All Asset & Liability items not mentioned in this report

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

A review was performed of appropriate balance sheet and forepart files to verify corrective action had been taken with regard to prior examination report comments and recommendations.

Investment Transactions

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

Current Exam Finding: The Company has complied with this recommendation.

Holding Company Registration Statements

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

Current Exam Finding: The Company has complied with this recommendation.

SUBSEQUENT EVENTS

On December 31, 2013, the Company acquired CIND from Catlin, Inc. The acquisition was completed as a capital contribution to the Company and was approved by the Delaware Department of Insurance.

HISTORY

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

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

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

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

The Company is authorized as a stock insurer to transact the business of property, surety and casualty insurance, as defined in 18 Del. C. § 904, § 905,and § 906. The business of the Company includes property and casualty insurance, primarily providing commercial liability and property coverage.

Capitalization

The Amended and Restated Certificate of Incorporation provides that the authorized capital stock of CSIC shall be 3,000,000 shares of $1 par value common stock. At December 31, 2012, there were 3,000,000 shares issued and outstanding, resulting in total capital stock of $3,000,000.

At December 31, 2012, all the outstanding shares of the Company’s common stock were owned by Catlin Inc., which in turn is ultimately owned by Catlin Group Limited, a Bermuda holding company traded on the London Stock Exchange under the symbol "CGL".

During the period under examination, the Company did not receive any capital contributions, did not pay any dividends, did not hold any surplus notes, and did not borrow any money.

CORPORATE RECORDS

The recorded minutes and written resolutions of the Company’s shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by 18 Del. C. §1304 “Authorization; record of investments”.

A review of the Insurance Holding Company Annual Registration Statement filings (Form B and Form C*)* made by and on behalf of the Company for all years under examination revealed that the Company had complied with the requirements of 18 Del. Admin. Code §1801.

MANAGEMENT AND CONTROL

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and business of the Company shall be managed by the Board. The bylaws provide that the number of directors that shall constitute the whole Board shall not be less than three members or more than fifteen. Each director shall be elected for a term of one year and until such director's successor is elected and qualified.

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

At December 31, 2012, the members of the Board of Directors together with their principal business affiliations were as follows:

Name	**Principal Occupation**
Stephen John Oakley Catlin	Chief Executive Officer and Deputy Chairman of Catlin Group Limited
Andrew Neil McMellin	President and Chief Executive Officer of Catlin US
Vincent Anthony Brazauskas	Senior Vice President of Catlin US
Peter Walter Presperin	Senior Vice President and Chief Financial Officer of Catlin US
Nicholas James Greggains	Senior Vice President and Chief Underwriting Officer - Insurance of Catlin US
Joseph Stephen Horan	Chief Underwriting Officer - Reinsurance of Catlin US
Robert Clark Gowdy	Consultant

The minutes of the meetings and written resolutions of the shareholder and Board of Directors during the period under examination were read and noted. Attendance at meetings, election of directors and officers, and approval of investment transactions were also noted.

Receipt by the Board of Directors of the Report on Examination as of December 31, 2008 was noted in the minutes of the Board of Directors.

Committees

Article III, Section 1 of the amended and restated bylaws, states: "The Board of Directors, by vote of a majority of the whole Board, may from time to time designate committees of the Board…" However, as of December 31, 2012, the Board had not designated any committees.

During the period covered by this examination, the Company did not have a formally designated audit committee. However, the Company has designated Catlin Group Limited's audit committee to serve as the audit committee commencing January 1, 2014. All of Catlin Group Limited's audit committee members are considered non-executive and independent members.

Officers

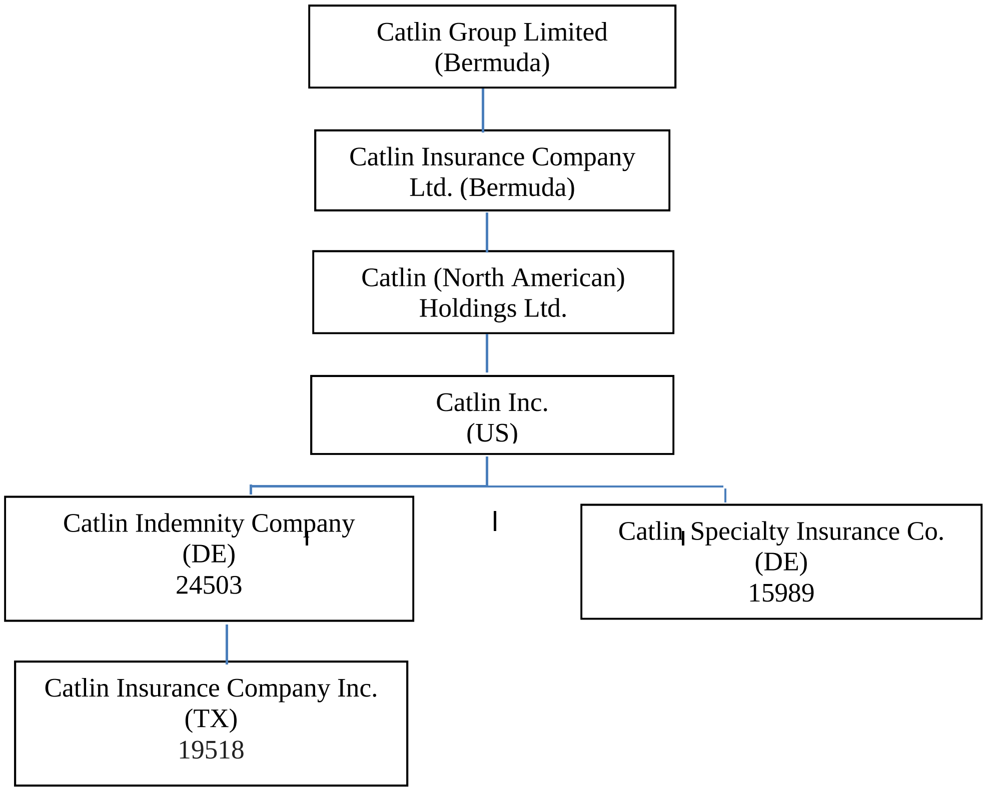
The bylaws state that the officers of the corporation shall consist of a President, a Secretary, a Treasurer, and may, at the discretion of the Board of Directors, include one or more Executive Vice Presidents and a Chief Executive Officer. The following persons were elected as officers and were serving in that capacity at December 31, 2012:

Name	**Principal Occupation**
Andrew Neil McMellin	President and Chief Executive Officer
Steven Collyer Adams	Secretary
Peter Walter Presperin	Senior Vice President and Chief Financial Officer
Richard Harold Miller	Senior Vice President and Chief Administrative Officer
Nicholas James Greggains	Senior Vice President and Chief Underwriting Officer
Vincent Anthony Brazauskas	Senior Vice President
Penelope Ann Foltz	Vice President, Regulatory Compliance
Thomas Gerard Ford	Vice President, Human Resources
Kenneth Peter Meagher	Vice President and Assistant Secretary
Cerina Lynne Stein	Assistant Vice President, Regulatory Compliance

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

Holding Company System

The Company is a member of an insurance holding company system as defined under Chapter 50, “Insurance Holding Companies” of the Delaware Insurance Code. The Company is a wholly owned subsidiary of Catlin, Inc. Catlin, Inc. is a wholly owned subsidiary of Catlin North American Holdings, Ltd, whose ultimate parent is Catlin Group Limited. The following depicts an abbreviated organizational chart of the Company’s relationship within the holding company system at December 31, 2012:



Intercompany Agreements

The Company is party to several inter-company agreements and transactions, which were disclosed in the Form B filings with the Delaware Insurance Department.

<u>Management Agreement / Intercompany Services and Cost Allocation Agreement</u>

Effective January 1, 2007 and revised November 18, 2009, this agreement is between Catlin, Inc. and its subsidiaries. Under terms of this agreement, companies charge Catlin, Inc. and its subsidiaries for claims, underwriting, and operation support services incurred by the Company. In addition, Catlin, Inc. charges the companies for certain retirement benefits related to employees providing services to the companies.

Investment Management Agreement

This agreement was effective January 5, 2012 between CSIC and Catlin Group Limited. Under this agreement, Catlin Group Limited agrees to be the Investment Manager for CSIC and set forth investment guidelines and investment framework.

Tax Sharing Agreement

This agreement was effective December 18, 2009. Companies that are part of Catlin US file a consolidated federal tax return under a Tax Sharing Agreement. The tax sharing agreement allows the companies within the consolidated group to receive the benefit for any tax assets they may be entitled to, even if the holding company, Catlin Inc., may not be able to currently take advantage of this benefit when it files a consolidated tax return.

Intercompany Pooling Agreement

Entered into on December 31, 2009 and revised April 1, 2011, this agreement is between CSIC, CIND and CICI. Under this agreement, CIND and CICI cede 100% of all written premium to CSIC, who as the pool leader, will enter into reinsurance contracts for the benefit of the pool. After placing reinsurance, CSIC cedes premiums remaining back to the pool members based on their pooling percentages: CSIC: 60%, CICI: 35%, and CIND: 5%.

Outward Agreement for Reinsurance

This agreement was effective July 1, 2012 between CSIC and Catlin Group Limited. Under this agreement, Catlin Group Limited provides services to CSIC in order to establish an appropriate outwards reinsurance program, including analysis of needs, assessment of counterparty strength, and negotiation of contracts, claim recovery, settlements, and reporting.

There are various other intercompany reinsurance agreements, which are discussed in the Reinsurance section of this report.

TERRITORY AND PLAN OF OPERATION

At December 31, 2012, the Company was only licensed in one state, Delaware. The Company writes direct business in all other 49 states and the District of Columbia as an excess and surplus lines carrier with the largest volumes in California, Texas, Florida, Nevada and Louisiana.

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

The Company is a part of Catlin US, an underwriting platform encompassing all of Catlin's operations in the United States. Catlin US offers coverage written on both an admitted and non-admitted basis. Admitted coverage is written by CICI and CIND and non-admitted coverage is written by CSIC.

Catlin US generates insurance premium revenues through its underwriting function with offices spread out across the United States. Core lines of insurance business offered include:

- General Casualty
- Professional Liability
- Professional Liability Commercial Errors & Omissions (Lawyers, Accountants, Insurance Agents, Technology, Miscellaneous)
- Healthcare Liability (Medical Malpractice)
- Construction Professional (Architects & Engineers, Owners & Contractors Professional)
- Inland & Ocean Marine
- Aviation
- Energy
- Environmental
- Equine

The Company's underwriting operations are handled in offices spread throughout the country. There are 18 various underwriting offices, with some of the largest production coming from Atlanta, Boston, California, Cleveland, Hartford, Houston, New York, San Antonio, and Scottsdale.

Catlin US utilizes multiple distribution systems which vary with specific products and/or business units. There is no internal sales force and business is typically written through wholesalers, retailers or managing general underwriters (MGU). Business is written through independent agents and brokers. None of the independent agents or brokers are exclusive to Catlin, and Catlin recieves submissions either directly from a retail agent/broker or through a wholesale agent/broker who is assisting the retail agent/broker with their insurance placement. The other distribution method used is through a MGU, who offers a specific insurance product(s) written exclusively by one of the Catlin companies. The MGU would work directly with an independent agent/broker on the placement of the insurance.

GROWTH OF THE COMPANY

The following information was extracted from copies of the Company's filed Annual Statements, for each year indicated, and covers the period from the Company's last examination.

Year	Net Admitted Assets	Total Liabilities	Total Capital and Surplus	Net Written Premiums	Net Income / (Loss)
2012	$355,233,583	$242,426,820	$112,806,763	$63,654,239	$2,525,139
2011	318,324,381	206,899,421	111,424,960	55,869,852	6,072,771
2010	303,353,445	200,446,697	102,906,748	53,651,500	992,735
2009	262,301,798	161,542,647	100,759,151	38,694,086	824,526
2008	201,919,549	105,225,994	96,693,555	25,115,246	2,746,432

The following contributed to the Company's change during the period covered by the exam:

- Admitted assets increased $153.3 million or 76% during this period. The Company's investment portfolio has remained conservative in that around 75% of invested assets are invested in bonds, primarily Class 1 bonds. Cash and cash equivalents make up the remaining 25%. The portfolio duration is conservative when compared with the duration of the related loss reserves. There has been a sharp increase in non-invested assets through the exam period mainly related to agents' balances and reinsurance recoverables. The increase can primarily be attributable to the increase/growth in business being written, the intercompany pooling agreement and various reinsurance agreements put into place as the pool leader (in particular the Bermuda Quota Share Agreement).

- Liabilities increased $137.2 million or 130% during the exam period. Losses and loss adjustment expenses increased through the years with the placement of the Intercompany Pooling agreement and the overall growth of premiums being written. Reinsurance payables have fluctuated throughout the exam. Reinsurance payables on paid losses and LAE have increased due to increase in assumed losses from pooled members. Ceded reinsurance premiums payable has also been affected by the Intercompany Pooling Agreement and increased participation in quota share treaties.

- Capital and surplus has increased $16.1 million or 17% mainly due to cumulative net income of $10.4 million and favorable changes in deferred tax items.

- Net written premium increased $38.5 million or 153% during the period. Premiums have continued to grow through the exam period, with the Company beginning new initiatives in the professional liability & casualty lines of business. With the start of the Intercompany Pooling agreement in 2009, the Company's assumed premium increased dramatically. The Company places all reinsurance contracts for the pooling, and thus, ceded premium increased as well.

- Net income was positive in all years. The Company has maintained an underwriting profit during the exam. However, investment income has dropped steadily during the exam period, mainly due to the Company's conservative investment portfolio consisting mainly of government bonds and the low investment rate environment.

LOSS EXPERIENCE

Losses and Loss Adjustment Expenses during the exam period were as follows:

	Losses	Loss Adjustment Expense
December 31, 2008	23,163,842	13,864,401
December 31, 2009	22,558,867	13,825,937
December 31, 2010	35,223,394	20,726,462
December 31, 2011	44,336,246	23,078,566
December 31, 2012	56,252,766	27,965,745
Increase / (Decrease)	33,088,924	14,101,344

The increase in reserves is generally a result of the continued growth of the Company’s business, along with the pooling participation. The results of loss development are the result of an ongoing analysis of loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

REINSURANCE

The Company reported the following written and assumed premiums for 2012:

Direct		$ 306,030,976
Assumed:		
Affiliates	$ 285,393,439	
Non-Affiliates	44,270	
Total Assumed		285,437,709
Ceded:		
Affiliates	$ 370,591,451	
Non-Affiliates	157,222,995	
Total Ceded		527,814,446
Total Net Premiums		$ 63,654,239

Assumed

External

The Company assumes external premiums from two fronting companies, State National Fronting Company and National Specialty Fronting Company. The business has not been renewed and is being run-off as appropriate licenses to write directly have been obtained by Catlin US.

Internal

Internal assumed premiums are related to the Catlin US Intercompany Pooling Agreement (Pooling Agreement).

- **Catlin US Intercompany Pooling Agreement** - entered into on December 31, 2009 and revised April 1, 2011 between CSIC, CIND, and CICI. Under this agreement, CIND and CICI cede 100% of all written premium to CSIC, who as the pool leader will enter into reinsurance contracts for the benefit of the pool. After placing reinsurance, CSIC cedes premiums remaining back to the pool members based on their pooling percentages: CSIC: 60%, CICI: 35%, and CIND: 5%

Ceded

The Company has a comprehensive reinsurance program that is designed to protect it against losses in all lines of business written. As the pool leader for the Pooling Agreement, the Company first cedes a portion of the gross premiums to external reinsurers, then to an internal reinsurer, Catlin Lloyds Syndicate 2003. The Company then cedes 75% of its remaining premiums to Catlin Insurance Company Ltd. (for business prior to January 1, 2011) and Catlin Reinsurance Switzerland Limited (for business on January 1, 2011 and after) under the Bermuda Quota Share Agreement. Lastly, the Company cedes 40% of premiums remaining after the Bermuda Quota Share to CICI (35%) and CIND (5%) under the Pooling Agreement.

Below is an overview of the sequence of premium movement associated with ceded reinsurance:

Reinsurance Ceded (in 000's)

Gross Premiums			$	591,468
Ceded Premiums:				
External	$	157,223		
Internal - Non-Pooling		9,415		
Bermuda Quota Share		318,740		
Internal - Pooling		42,436		
Total Ceded			$	527,814
Net Premiums			$	63,654

External

The Company cedes a portion of gross premiums to external reinsurers. While there are numerous treaties covering various lines of business, listed below are those which ceded the most premiums in 2012.

- **Professional Liability and Management Liability Quota Share –** Effective November 1, 2012, this agreement is between the Company and various reinsurers. The structure is a 43.5% participation on the Errors & Omissions and Directors & Officers business. The retention is based on coverage type, with the Company retaining at least a 50% part of the 100% share in the interests and liabilities of the reinsurer. The aggregate liability of the reinsurers shall not exceed 250% of the Company's net written premium for such business.
- **Owners and Contractors Protective Professional Liability Quota Share -** Effective November 1, 2012, this agreement is between the Company and various reinsurers. The structure is a 50% participation on the Owners and Contractors Protective Professional Liability business. The Company cedes 100% of up to a $20 million loss, each occurrence. The Company shall retain at least a 37.5% part of the 100% share in the interests and liabilities of the reinsurer. The aggregate liability of the reinsurers shall not exceed 250% of the Company's net written premium for such business.
- **Architects and Engineers Professional Liability Quota Share –** Effective November 1, 2012, this agreement is between the Company and various reinsurers. The structure is a 50% participation on the Architects and Engineers Professional Liability business The Company cedes 100% of up to a $10 million loss, each occurrence. The Company shall retain at least a 50% part of the 100% share in the interests and liabilities of the reinsurer.

The aggregate liability of the reinsurers shall not exceed 300% of the Company's net written premium for such business.

- **Primary and Excess Liability Quota Share –** Effective December 1, 2012, this agreement is between the Company and various reinsurers. The structure is a 55% participation on the school business written or renewed by Wright Specialty Insurance Agency and WRM America Indemnity Company. The primary excess liability covers polices up to $1 million each policy, each loss; where mandated by state statute, the reinsurer will accept $2 million per policy, per loss. The commercial excess liability covers policies up to a maximum of $15 million each policy, each loss.
- **Energy Liability Quota Share -** Effective June 1, 2012, this agreement is between the Company and various reinsurers, making up a 50% participation. Under this agreement, the Company will retain 50% of its net liability, ceding defined coverages written by the Energy division.
- **Casualty Liability Quota Share –** Effective July 1, 2013, the agreement is between the Company and various reinsurers, making up a 50% participation. Under this agreement, the Company will retain 50% of its net liability, ceding Casualty business underwritten by the Catlin US Cleveland and Hartford offices. The liability of the reinsurer will not exceed $10 million from any act of terrorism, up to a maximum of $20 million for all acts.
- **General Aviation Hull and Liability Risk Excess –** Effective April 1, 2012, the agreement is between the Company and various reinsurers. The contract is to indemnity the Company in respect of excess liability which accrues under all hull and hull war policies issued by CICI and CSIC and underwritten by W. Brown and Associates

classified as non-airline aviation business. Ultimate net loss excess limits and retention amounts vary based on business type written.

Internal

The following agreements were in place between the Company and Catlin Lloyds Syndicate 2003 (Syndicate 2003):

- **Casualty Excess of Loss Reinsurance Agreement -** This agreement originally went into effect May 1, 2008, but was renewed annually. The Company cedes 100% of all primary and excess casualty business. The reinsurer will pay losses in excess of $5 million for every loss occurrence, up to $6 million for every occurrence.
- **Ocean Marine Excess of Loss Agreement –** This agreement was effective September 15, 2012. Under the terms, Syndicate 2003 will reinsure defined marine business in excess of $5 million, up to $25 million each and every loss occurrence.
- **Property Quota Share Agreement –** This agreement was effective January 1, 2012. Syndicate 2003 will reinsure 100% of defined property business written or assumed net of inuring reinsurance where applicable. The agreement has various limits established for states and counties.The Company also cedes remaining premiums to Catlin Insurance Company Ltd. and Catlin Reinsurance Switzerland under the following agreement:
- **Bermuda Quota Share Agreement -** This agreement originally went into effect January 1, 2008 with Catlin Insurance Company Ltd. for all business prior to January 1, 2011. Effective January 1, 2011 and amended and renewed January 1, 2012, this agreement was entered into with Catlin Reinsurance Switzerland Limited for all business January 1, 2011 and after. The treaty provides that the Company will cede 75% of reinsurance premium as the pool leader and 75% of net liabilities.

ACCOUNTS AND RECORDS

The Company maintains its records on a combination of client server, host, and network applications which utilize various reporting systems to record and report financial information.

The accounts and records review included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, management and compliance. The general ledger account balances were reconciled and traced to amounts reported in the Annual Statement for the most recent year under review. All balance sheet accounts were summarized and traced to the appropriate asset exhibits and liability lines within the Annual Statement.

The accounts and records review also 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 independent certified public accounting firm, PricewaterhouseCoopers, LLP, audited the Company's records for all years under examination. Audit reports and applicable work papers were made available for the examiners' use. PwC reviewed the internal control structure in order to establish necessary audit procedures required to express an opinion on the December 31, 2012 financial statements. No material qualifying deficiencies were found to exist in either the design or oversight of the internal control structure.

Based on the examination review of the Company's accounts and records related to its filed Annual Statement, observations, discussions with management, and our review of financial reporting processes and controls, the Company's accounting systems, processes and procedures were found to conform to required insurance accounting practices.

STATUTORY DEPOSITS

The following statutory deposits were on file with the following states:

	Deposit for the Benefit of All Policyholders		All Other Special Deposits	
State	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Delaware	$ 3,114,630	$ 3,138,505		
Massachusetts			$ 725,000	$ 725,000
New Mexico			125,227	125,806
New York			2,534,015	2,562,235
Other				
State National Fronting Company			3,584,527	3,670,428
National Specialty Fronting Company			861,122	875,246
TOTAL DEPOSITS	$ 3,114,630	$ 3,138,505	$ 7,829,891	$ 7,958,715

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2012, as determined by this examination, along with supporting exhibits as detailed below:

- Assets
- Liabilities, Surplus and Other Funds
- Summary of Operations
- Capital and Surplus Account
- Reconciliation of Capital and Surplus for the Examination Period
- Schedule of Examination Adjustments

Assets

As of December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 172,332,233		$ 172,332,233
Stocks			-
Cash equivalents and short-term investments	56,493,518		56,493,518
Receivable for securities	1,786		1,786
Investment income due and accrued	1,143,999		1,143,999
Premiums and considerations:			-
Uncollected premiums and agents' balances	43,701,848	1,443,511	42,258,337
Deferred premiums, agents' balances and installments	13,653,771		13,653,771
Reinsurance:			-
Amounts recoverable from reinsurers	51,125,510		51,125,510
Funds held by or deposited with reinsured companies	3,398,460		3,398,460
Current federal and foreign income tax recoverable & interes	-		-
Net deferred tax asset	8,907,204	4,549,610	4,357,594
Electronic data processing equipment and software	16,470		16,470
Furniture and equipment	1,933,788	1,933,788	-
Receivable from parent, subsidiaries and affiliates	9,218,699		9,218,699
Aggregate write-ins	1,496,645	263,439	1,233,206
Total Assets excluding Separate Accounts	$ 363,423,931	$ 8,190,348	$ 355,233,583
From Separate Accounts	-	-	-
Total	$ 363,423,931	$ 8,190,348	$ 355,233,583

Liabilities, Surplus and Other Funds

As of December 31, 2012

Liabilities, Surplus and Other Funds		Notes
Losses	$ 56,252,766	1
Reinsurance payable on paid losses and loss adjustment expenses	8,838,879	
Loss adjustment expenses	27,965,745	1
Commissions payable, contingent commissions and other	3,048,672	
Other expenses	2,077,542	
Taxes, licenses and fees	(18,521)	
Current federal and foreign income taxes	2,569,264	
Net deferred tax liability	-	
Unearned premiums	32,375,369	
Ceded reinsurance premiums payable	92,710,601	
Funds held by company under reinsurance treaties	5,132,552	
Provision for reinsurance	908,000	
Payable to parent, subsidiaries and affiliates	8,777,451	
Aggregate write ins	1,788,500	
Total liabilities excluding Separate Accounts	242,426,820	
From Separate Accounts	-	
Total Liabilities	$ 242,426,820	
Common capital stock	$ 3,000,000	
Preferred capital stock	-	
Surplus notes	-	
Gross paid-in and contributed surplus	105,125,497	
Aggregate write-ins for special surplus funds	-	
Unassigned funds	4,681,266	
Surplus	$ 112,806,763	
Total Liabilities, Capital and Surplus	$ 355,233,583	

Summary of Operations

As of December 31, 2012

Underwriting Income		
Premiums Earned	$	58,988,246
Losses incurred		31,075,908
Loss adjustment expenses incurred		11,003,793
Other underwriting expenses incurred		14,998,726
Net underwriting gain (loss)		1,909,819
Investment Income		
Net investment income earned	$	2,682,936
Net realized capital gains		501,909
Net investment income		3,184,845
Other Income		
Net gain (loss) from agents' or premium balances charged off	$	(5,733)
Aggregate write-ins for miscellaneous income		52,300
Total other income		46,567
Net income before dividends to policyholders and before federal tax	$	5,141,231
Dividends to policyholders		-
Federal and foreign income taxes incurred		2,616,092
Net income	$	2,525,139

Capital and Surplus Account

As of December 31, 2012

Capital and Surplus, December 31, prior year	$	111,424,960
Net income (loss)		2,525,139
Change in net unrealized capital gains or (losses)		
less capital gains tax		-
Change in net unrealized foreign exchange capital gain (loss)		-
Change in net deferred income tax		1,164,273
Change in nonadmitted assets		(2,029,209)
Change in provision for reinsurance		(464,000)
Cumulative effect of changes in accounting principles		-
Capital Changes:		-
Paid In		-
Surplus Adjustment:		
Paid In		-
Dividends to stockholders		-
Aggregate write-in for gains and losses in surplus		185,600
Net change in capital and surplus for the year		1,381,803
Capital and surplus, December 31, current year	$	112,806,763

Reconciliation of Capital and Surplus

From December 31, 2008 to December 31, 2012

Capital and Surplus, December 31, 2008			$ 96,693,555
Net income (Loss)			10,415,171
Additions:			
	Change in net unrealized capital gains	137,842	
	Change in net deferred income tax	8,981,426	
	Change in nonadmitted assets	9,023,675	
	Change in provision for reinsurance	394,000	
	Cumulative effect of changes in accounting principles	-	
	Surplus Adjustment: Paid-in	-	
	Aggregate write in for gains and losses	2,629,675	
	Total Additions		21,166,618
Deductions:			
	Change in net unrealized capital gains	(54,307)	
	Change in net deferred income tax	(4,785,500)	
	Change in nonadmitted assets	(9,326,774)	
	Change in provision for reinsurance	(1,302,000)	
	Surplus Adjustment: Paid-in	-	
	Aggregate write in for gains and losses	-	
	Total Deductions		(15,468,581)
Capital and Surplus, December 31, 2012			$ 112,806,763

Schedule of Examination Adjustments

There were no examination adjustments.

NOTES TO FINANCIAL STATEMENTS

(Note 1)	**Losses**	**$56,252,766**
	Loss Adjustment Expenses	**$27,965,745**

The above-captioned amounts, which are the same as those reported by the Company in its Annual Statement, have 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, 2012. 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 recoverable.

The conclusions set forth in the INS report are based on information provided by the Company, including the 2012 Annual Statements and the related 2012 Statement of Actuarial Opinion with underlying actuarial work papers.

INS performed an analysis of Catlin US Pool's book of business on both a gross and a net basis for loss, defense and cost containment expense, and adjusting and other expense.

In INS' opinion, Company booked net loss and LAE reserves as of December 31, 2012 are reasonably stated.

SUMMARY OF RECOMMENDATIONS

No examination report recommendations were noted as a result of this examination.

CONCLUSION

The following schedule shows a comparison of the results from the December 31, 2008 examination to the 2012 Annual Statement balances, with changes between:

Description	December 31, 2008	December 31, 2012	Increase (Decrease)
Assets	$ 201,919,549	$ 355,233,583	$ 153,314,034
Liabilities	$ 105,225,994	$ 242,426,820	$ 137,200,826
Common Capital Stock	$ 3,000,000	$ 3,000,000	$ -
Surplus Notes	-	-	-
Gross paid in and contributed surplus	105,125,497	105,125,497	-
Aggregate Write-in for special surplus funds	-	-	-
Unassigned funds (surplus)	(11,431,942)	4,681,266	16,113,208
Total Capital and Surplus	$ 96,693,555	$ 112,806,763	$ 16,113,208
Total Liabilities, Capital and Surplus	$ 201,919,549	$ 355,233,583	$ 153,314,034

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, PWC, the coordination with the Texas Department of Insurance, and the Company's management and staff were appreciated and are acknowledged.

Respectfully submitted,

Bethaney E Ryals

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