

REPORT ON EXAMINATION

OF THE

PAVONIA LIFE INSURANCE COMPANY OF DELAWARE

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

PAVONIA LIFE INSURANCE COMPANY OF DELAWARE

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

Attest By: *Brant Biddle*

Date: March 23, 2015



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 23rd day of March, 2015.

[Handwritten signature]

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
PAVONIA LIFE INSURANCE COMPANY OF DELAWARE
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 23rd day of March, 2015

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SALUTATION

February 27, 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. 14.003 dated October 28, 2014, an examination has been made of the affairs, financial condition and management of the

PAVONIA LIFE INSURANCE COMPANY OF DELAWARE

hereinafter referred to as “the Company” or “PLIC-DE” 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 180 Mount Airy Road, Basking Ridge, New Jersey 19801. The examination of the Company was conducted concurrently with the Enstar Group, a large multi-national organization. The State of New Jersey was assigned lead state status by the National Association of Insurance Commissioners (NAIC). The life subgroup consists of the Company, Pavonia Life Insurance Company of Arizona (PLIC-AZ), an Arizona-domiciled insurance company, Pavonia Life Insurance Company of Michigan (PLIC-MI), a Michigan-domiciled insurance company and Pavonia Life Insurance Company of New

York (PLIC-NY), a New York-domiciled insurance company. Separate reports of examination were filed for each company.

SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2009, by the Delaware Insurance Department. This examination covers the period of January 1, 2010 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
Reinsurance

SUMMARY OF SIGNIFICANT FINDINGS

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

COMPANY HISTORY

The Company was incorporated on October 24, 2000, under the laws of the State of Delaware. A Certificate of Authority, was issued by the Insurance Commissioner on November 20, 2000, authorizing the Company to transact the business of life insurance, primarily credit related.

The Company became part of an insurance holding company system on December 15, 2000, as a wholly-owned subsidiary of HSBC Insurance Group Holding Company (HIGH), a

Pavonia Life Insurance Company of Delaware

Delaware corporation, which in turn is a wholly-owned subsidiary of HSBC Finance Corporation (formerly Household International, Inc.), which in turn is a wholly-owned subsidiary of HSBC Holdings Plc, a United Kingdom corporation, which was the ultimate controlling entity until March 31, 2013.

On March 31, 2013, HSBC Finance Corporation sold its share of the Company to Pavonia Holdings Inc., a wholly-owned subsidiary of Enstar Group Limited (Enstar), a Bermuda-domiciled company.

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 Article II, Section 1 of 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 Article III, Section 1 of the Company's bylaws, the Board shall consist of at three members but not more than fifteen members. 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 majority of the Directors shall be U.S. citizens and residents.

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>
Karl John Wall **	Chairman of the Board, President & Chief Executive Officer
Orla Maura Gregory	Enstar Group Limited – Senior Vice President – M&A
Richard John Harris	Enstar Group Limited – Chief Financial Officer
Kieran J. Hayes	Executive Vice President
John Henry Moran	Treasurer and Chief Financial Officer
Robert Francis Redpath	Vice President

** Retired effective March 31, 2014, leaving 5 Directors

Four of the six Directors (a 67% majority of the Board) were U.S. citizens (Gregory and Hayes were not U.S. citizens). However, only three of the six Directors (a 50% non-majority of the Board) were U.S. residents (Gregory and Harris reside in Bermuda and Hayes resides in Ireland). Consequently, the Company is not in compliance with its bylaws. The Board of Directors elected three U.S. citizen-residents to the Board on August 21, 2014, bringing the total number of Directors to eight, six of whom are U.S. citizens (now 75% of the total, a majority, three from before and three new ones) and five of whom are U.S. residents (now 62.5% of the total, a majority, two from before and three new ones). The Company is now in compliance with its bylaws.

Committees

Article IV of 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. As of December 31, 2013, the Company had no standing committees.

Officers

Article V, Section 1 of the Company's bylaws provide that the officers of the Company shall be a President, Treasurer, Secretary, Treasurer, and any other officers elected by the Board. The Board may also appoint such other officers as assistant vice presidents, assistant secretaries, assistant treasurers or other officers having such titles as it deems appropriate. Any two or more offices may be held by the same person, except the offices of President and Secretary.

As of December 31, 2013, the Company's principal officers and their respective titles are as follows:

<u>Officer</u>	<u>Title</u>
Karl John Wall **	Chairman of the Board, President & Chief Executive Officer
Thomas John Balkan	Secretary
Kieran J. Hayes	Executive Vice President
John Henry Moran	Treasurer and Chief Financial Officer
Robert Francis Redpath	Vice President

** Retired effective March 31, 2014, and replaced by Kieran J. Hayes

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.

A review of the Company's bylaws revealed that as a result of the acquisition of the Pavonia Life group of companies by Enstar effective April 1, 2013, the bylaws were amended and restated by the Board of Directors effective June 6, 2013.

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 Enstar.

Enstar acquires and manages insurance and reinsurance companies in run-off and portfolios of insurance and reinsurance business in run-off, and provides management, consulting and other services to the insurance and reinsurance industry. Since its formation in August 2001, Enstar has acquired 36 insurance and reinsurance companies and 21 portfolios of insurance and reinsurance business and is now administering those businesses in run-off. Enstar's primary objective is to grow its net book value per share, which is driven by completing new acquisitions and effectively managing the companies and portfolios of business previously acquired. For year-end 2013 on a consolidated GAAP basis, Enstar reported \$8.62 billion in assets, \$6.54 billion in liabilities and \$2.08 billion in shareholder equity.

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 in the life sub-group.

Enstar Group Limited, Bermuda
Laguna Life Holdings Ltd., Bermuda
Laguna Life Holdings SARL, Luxembourg
Pavonia Holdings (US), Inc., Delaware
Pavonia Life Insurance Company of Delaware, Delaware
Pavonia Life Insurance Company of Arizona, Arizona
Pavonia Life Insurance Company of Michigan, Michigan
Pavonia Life Insurance Company of New York, New York

Unless otherwise noted, all subsidiaries are 100% owned by its parent.

Pursuant to 18 Del. C. §5004 of the Delaware Insurance Code and 18 Del. Admin. Code 1801, in seeking authorization to enter into certain transactions, the Company submitted Form D

holding company registration 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. The Form A filed by the Company for the acquisition by Enstar was approved by the Delaware Department of Insurance.

The Company was a party to numerous affiliated agreements within the Household group, all of which were terminated effective March 31, 2013, with the sale of the Company and the Pavonia Life group by Household to Enstar. Effective April 1, 2013, the Company entered into similar affiliated agreements, but with Enstar affiliates.

Affiliated Agreements

Federal Income Tax Allocation Agreement:

The Company participates in a federal income tax allocation agreement dated April 1, 2013, along with certain insurance subsidiary members of the Pavonia Life group. The Company and the Pavonia Life group constitutes an affiliated group within section 1504(a) of the Internal Revenue Code of 1986 of which the Company is the common parent 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. Federal income tax expense and benefits are allocated in the ratio that the Company's separate tax return liability or benefit bears to the sum of the separate return tax liabilities and benefits of the Pavonia Life group. Payments of estimated taxes shall be made to the Company within ten days of the assessment and members will receive credit for such payments in the year-end computation. The year-end member obligations must be paid to the Company within 90 days of payment of any federal incomes taxes made by the Company on behalf of the Pavonia Life group.

Intercompany Services Agreement:

The Company has no employees. The Company entered into an intercompany services agreement with Enstar (US), Inc. (Enstar US), effective April 1, 2013, whereby Enstar US will provide the following services or arrange for the provision of the following services and all third party fees and expenses at cost necessary or appropriate for the management and operation of the Company and the insurance business: executive and administrative services, legal, data processing, treasury, corporate secretarial, premium collection and refunds, claims processing, investment management, record keeping and reporting and any other services reasonably requested by the Company. Terms of the agreement require quarterly settlement. For 2013, the Company incurred fees in association with the services and facilities provided by Enstar US pursuant to this agreement were \$305,245, of which \$75,000 relates to services and facilities provided directly by Enstar US and \$230,245 relates to services and facilities provided by Pavonia Holdings (US), Inc. This agreement was terminated subsequent to the examination date and replaced with a similar intercompany services agreement. See the Subsequent Events section of this report for more details.

All applicable agreements were filed with and approved by the Delaware Department of Insurance in accordance with 18 Del. C. §5005(a)(2).

Unaffiliated Agreements

Custodial Agreements:

The Company entered into a custodial agreement with Comerica Bank, N.A. (Comerica Bank) originally effective February 22, 2000, and amended and restated effective June 10, 2010, 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.

The Company entered into a custodial agreement with The Bank of New York Mellon effective August 26, 2013, 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.

Investment Accounting Service Agreement:

The Company entered into an investment accounting service agreement with State Street Bank and Trust Company (State Street) effective July 1, 2009. Services provided by State Street 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 State Street was obtained and reviewed without exception. This agreement was terminated subsequent to the examination date and replaced with a similar investment accounting service agreement. See the Subsequent Events section of this report for more details.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is licensed to transact the business of life insurance, primarily Credit life business in the state of Delaware only.

Plan of Operation

The Company is currently in run-off with only \$161,156 in direct premiums during 2013.

A.M. Best Rating

As a result of being in run-off since 2009, the Company voluntarily relinquished its A.M. Best rating in 2012 and is no longer rated.

GROWTH OF COMPANY

The following information was extracted from the Company's filed Annual Statements and covers the period from the last examination (2009), and the intervening period to this examination (2013):

<u>Year</u>	<u>Premiums And Annuity Considerations</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income</u>
2009	\$346,100	\$563,815,990	\$865,914	\$562,950,076	\$13,999,438
2010	270,201	600,607,921	828,170	599,779,751	3,324,010
2011	1,354,170	569,519,066	2,451,279	567,067,787	29,041,456
2012	227,203	190,315,436	4,099,505	186,215,931	291,165,973
2013	161,155	132,631,560	2,585,110	130,046,450	1,054,230

- Premiums and annuity considerations decreased 53.4% since 2009
- Net admitted assets decreased 76.5% since 2009
- Liabilities increased 198.5% since 2009
- Capital and surplus decreased 76.9% since 2009

The Company's financial position has decreased as a result of the following two factors:

The payment of \$462.5 million in dividends paid to its parents during the examination and the Company stopped writing new business in 2009 and has been in run-off since with only minimal renewal business. Net income in 2011 is reflective of a dividend from PLIC-MI of \$25 million. Net income in 2012 is reflective of a dividend received from PLIC-MI and PLIC-AZ of \$245 million and \$44 million, respectively.

ACCOUNTS AND RECORDS

Pursuant to the Intercompany Services Agreement, Enstar US provides the Company with services and facilities related to the Pavonia Life group's insurance business. The Company utilizes Enstar's mainframe located in Florida for processing, updating and storing the primary records of the Company. 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 Company's investment portfolio is managed by Enstar in accordance with the Intercompany Services Agreement with Enstar US.

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 statutory-basis financial statements of the Company were audited annually by KPMG, the Company's independent certified accounting firm, for the examination period. The Company's accounts and records are also subject to review by the internal audit department of Enstar.

INS Services, Inc. reviewed the Company's responses to the Evaluation of Controls in Information Systems Questionnaire (Exhibit C) and performed tests of the systems. INS Services analysis concluded that:

- the Company's responses to Exhibit C present fairly, in all material respects, the aspects of the Company's policies and procedures that may be relevant to their internal control structure,

- the control structure policies and procedures were suitably designed to achieve the control objectives implicit in the questionnaire, if those policies and procedures were complied with, and
- such policies and procedures have been placed in operation as of December 31, 2013.

During the review of statutory investment limitations, as of December 31, 2013, the Company reported investments in subsidiary common stock of \$129,780,272, which consisted of the statutory equity of 100%-owned PLIC-MI of \$99,800,908 and PLIC-AZ of \$29,979,365. The Company reported policyholder capital and surplus of \$129,046,440. Therefore, the Company's investments in wholly-owned subsidiary insurance company stocks exceeded its policyholder capital and surplus by \$733,832, which is in violation of 18 Del. C. §1313(b)(1)a.

PLIC-MI was approved by the Michigan Department of Insurance on November 7, 2014 to pay an extraordinary dividend of \$1 million to PLIC-DE, which would remedy the Delaware subsidiary investment limitation issue noted above. The \$1,000,000 dividend was paid on November 11, 2014.

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	-		-	
Common stocks	\$129,880,272		\$129,880,272	1
Mortgage loans - first liens	-		-	
Mortgage loans - other than first liens	-		-	
Real estate - properties held for the production of income	-		-	
Real estate - properties held for sale	-		-	
Cash, cash equivalents and short-term investments	2,441,972		2,441,972	
Contract loans	-		-	
Derivatives	-		-	
Other invested assets	-		-	
Receivable for securities	-		-	
Aggregate write-ins for invested assets	-		-	
Investment income due and accrued	-		-	
Uncollected premiums in course of collection	-		-	
Deferred premiums booked but deferred and not yet due	-		-	
Amounts recoverable from reinsurers	-		-	
Other amounts receivable under reinsurance contracts	-		-	
Current federal and foreign income tax recoverable and interest thereon	280,582		280,582	
Net deferred tax asset	-		-	
Guaranty funds receivable or on deposit	-		-	
Receivable from parent, subsidiaries and affiliates	28,733		28,733	
Health care and other amounts receivable	-		-	
Aggregate write-ins for other than invested assets	-		-	
From separate accounts	-		-	
Totals	\$ 132,631,559	\$ -	\$ 132,631,559	

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

		<u>Note</u>
Aggregate reserve for life policies	-	
Liability for deposit-type contracts	-	
Life contract claims	\$ 85,005	2
Premiums and annuity considerations received in advance	-	
Other amounts payable on reinsurance ceded	-	
Interest maintenance reserve	2,209,196	3
Commissions to agents due or accrued	-	
General expenses due or accrued	5,015	
Taxes, licenses and fees due or accrued	-	
Net deferred tax liability	30,977	
Unearned investment income	-	
Amounts withheld or retained by company	-	
Remittances and items not allocated	145	
Liability for benefit of employees and agents	-	
Borrowed money	-	
Asset valuation reserve	7,675	4
Reinsurance in unauthorized companies	-	
Payable to parent, subsidiaries and affiliates	247,097	
Funds held under coinsurance	-	
Derivatives	-	
Payable for securities	-	
Payable for securities lending	-	
Aggregate write-ins for liabilities	-	
From separate accounts	-	
Total Liabilities	<u>\$ 2,585,110</u>	
Common capital stock	\$ 1,000,010	
Gross paid in and contributed surplus	332,613,074	
Unassigned funds (surplus)	(203,566,634)	
Surplus as regards policyholders	<u>\$ 130,046,450</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 132,631,560</u></u>	

Summary of Operations
As of December 31, 2013

		<u>Note</u>
Premium & annuity considerations	\$ 161,155	
Considerations for supplementary contracts	-	
Net investment income	69,450	
Amortization of Interest Maintenance Reserve	1,287,218	
Separate Accounts net gain from operations excluding unrealized gains or loss	-	
Commissions and expense allowances on reinsurance ceded	-	
Reserve adjustments on reinsurance ceded	-	
Miscellaneous Income:	-	
Income from fees associated with investment management, administration and contract guarantees from separate accounts	-	
Aggregate write-ins for miscellaneous income	-	
Total	<u>1,517,823</u>	
Death Benefits	168,346	
Matured endowments	-	
Annuity benefits	-	
Disability benefits	-	
Surrender benefits	-	
Group conversions	-	
Interest & adjustments on contracts on deposit-type funds	-	
Payments on supplementary contracts with life contingencies	-	
Increase in aggregate reserves for life and accident and health contracts	<u>(794)</u>	
Total	167,552	
Commissions on premiums, annuity considerations, & deposit-type contract funds	-	
General insurance expenses	328,930	
Insurance taxes, licenses & fees, excluding federal income taxes	16,674	
Increase in loading on deferred and uncollected premiums	-	
Net transfers to or (from) Separate Accounts net of reinsurance	-	
Aggregate write-ins for deductions	-	
Total	<u>513,156</u>	
Net gain from operations before dividends to policyholders and federal income taxes	1,004,667	
Net gain from operations after dividends to policyholders and before federal t	1,004,667	
Federal income taxes incurred	(49,563)	
Net gain from operations after dividends to policyholders and federal taxes and before realized capital gains (or losses)	1,054,230	
Net realized capital gains or (losses)	<u>-</u>	
Net Income	<u>\$ 1,054,230</u>	

Capital and Surplus Account
As of December 31, 2013

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2012	<u>\$ 186,215,932</u>
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GAINS AND (LOSSES) IN SURPLUS

Net income	\$ 1,054,230
Change in net unrealized capital gains or (losses) less capital gains tax	36,580,603
Change in net unrealized foreign exchange capital gains (losses)	-
Change in net deferred income tax	1,892
Change in non-admitted assets	-
Change in liability for reinsurance in unauthorized companies	-
Change in reserve on account of change in valuation basis	-
Change in asset valuation reserve	281,772
Surplus (contributed to) withdrawn from separate accounts during period	-
Other changes in surplus in separate accounts statement	-
Cumulative effect of changes in accounting principles	-
Surplus adjustment: Transferred from capital	(16,587,979)
Dividends to Stockholders	(77,500,000)
Aggregate write-ins for gains and losses in surplus	-
Change in surplus as regards policyholders for the year	<u>\$ (56,169,482)</u>

Surplus as regards policyholder, December 31, 2013	<u><u>\$ 130,046,450</u></u>
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Reconciliation of Surplus since last Examination

	<u>Common Capital Stock</u>	<u>Gross Paid -in & Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>	<u>Total</u>
December 31, 2009	\$ 1,000,010	\$ 332,613,074	\$ 229,336,992	\$ 562,950,076
2010 Operations (1)			36,829,675	36,829,675
2011 Operations (1)			12,288,036	12,288,036
2011 Dividends (2)			(45,000,000)	(45,000,000)
2012 Operations (1)			(40,851,855)	(40,851,855)
2012 Dividends (2)			(340,000,000)	(340,000,000)
2013 Operations (1)			37,918,497	37,918,497
2013 Surplus Adj. (3)			(16,587,979)	(16,587,979)
2013 Dividends (2)			(77,500,000)	(77,500,000)
December 31, 2013	<u>\$ 1,000,010</u>	<u>\$ 332,613,074</u>	<u>\$ (203,566,634)</u>	<u>\$ 130,046,450</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) Dividends to stockholder declared, paid and approved.

(3) Surplus adjustment transferred from capital.

Dividends

According to Company records for the years under examination, as reflected in the Board of Director meeting minutes, \$462.5 million in dividends to stockholders have been declared, paid and approved by the Delaware Department of Insurance as follows:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Type</u>	<u>Amount</u>
November 17, 2011	December 27, 2011	Ordinary	\$45,000,000
May 22, 2012	June 29, 2012	Extraordinary	340,000,000
February 26, 2013	March 20, 2013	Extraordinary	74,000,000
November 22, 2013	December 31, 2013	Extraordinary	<u>3,500,000</u>
Total			<u>\$462,500,000</u>

Capitalization

The Company is authorized to issue 100,001 common shares with a par value of \$10 per share. As of December 31, 2013, the Company has all 100,001 authorized common shares issued and outstanding, for a common capital stock balance of \$1,000,010. All of the issued and outstanding common shares are owned by Pavonia Holdings (US), Inc.

SCHEDULE OF EXAMINATION ADJUSTMENTS

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

NOTES TO FINANCIAL STATEMENTS

(1) Common Stocks \$129,880,272

The above-captioned amount reported by the Company in its Annual Statement, which has been accepted for purposes of this report, represents 97.9% of the admitted assets. The balance is comprised of 100,002 shares of common stock in Pavonia Life Insurance Company of Arizona (\$29,979,365) and 250,000 shares of common stock in Pavonia Life Insurance Company of Michigan (\$99,800,907), which represents the equity ownership of the two affiliates by the Company. The Company also reported \$100,000 in Vista US Government Money Market Fund which is maintained as a special deposit per regulatory requirement by the Delaware Department of Insurance.

(2) Contract Claims - Life \$85,005

The above-captioned amount reported by the Company in its Annual Statement, which has been accepted for purposes of this report, represents the Company's estimate for incurred but not reported claims associated with group life and credit life insurance.

(3) Interest Maintenance Reserve (IMR) \$2,209,196

The above-captioned amount reported by the Company in its Annual Statement, which has been accepted for purposes of this report, is required by the National Association of Insurance Commissioners (NAIC) for the purpose of accumulating realized capital gains and losses resulting from fluctuations in the interest rate. These gains and losses in the IMR are amortized and shown as an adjustment to the net investment income over the remaining life of the sold assets.

(4) Asset Valuation Reserve \$7,675

The above-captioned amount reported by the Company in its Annual Statement, which has been accepted for purposes of this report, is required by the NAIC for all investment asset classes. This reserve provides a back-up sum for potential equity and credit losses. To accomplish this objective, reserves are maintained for various asset classes owned by the Company. Realized and unrealized equity and credit capital gains and losses are credited to or debited against this reserve. The amount of reserves required to be maintained for each invested asset is determined by an actuarial formula.

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.

SUBSEQUENT EVENTS

Agreements

Intercompany Services Agreement

The intercompany services agreement with Enstar US effective April 1, 2013, was terminated and replaced with a similar agreement with affiliate Enstar Life (US), Inc. effective March 26, 2014.

Investment Accounting Service Agreement

The investment accounting service agreement with State Street effective July 1, 2009, was replaced with a similar agreement with Clearwater Analytics, LLC (Clearwater) effective July 1, 2014. The actual agreement between Clearwater and the Enstar Group was dated November 28, 2013, however, the Pavonia Life group of companies, did not switch over to Clearwater from State Street until July 1, 2014.

Dividends

The Company received dividend income totaling \$37.0 million from subsidiaries PLIC-MI (\$33.0 million) and PLIC-AZ (\$4.0 million) during the second quarter of 2014 and paid a \$37.0 million dividend to its shareholder on June 24, 2014. The \$37 million dividend paid to its shareholder was considered an extraordinary dividend and was approved by both the Company's Board and the Delaware Department of Insurance.

PLIC-MI was approved by the Michigan Department of Insurance on November 7, 2014, to pay a \$1.0 million extraordinary dividend to the Company, which would bring the Company in compliance with the subsidiary investment limitations specified in 18 Del. C. §1313(b)(1)a. The \$1,000,000 dividend was paid on November 11, 2014.

Certificate of Authority

In August 2014, the Board of Directors authorized management to obtain a certificate of authority in the State of Michigan for the purpose of merging the Company into PLIC-MI whereby PLIC-MI will be the surviving entity and PLIC-DE will cease to exist.

Compliance with Bylaws

The Board of Directors elected three U.S. citizen-residents to the Board on August 21, 2014, bringing the total number of Directors to eight, six of whom are U.S. citizens (now 75% of the total, a majority, three from before and three new ones) and five of whom are U.S. residents (now 62.5% of the total, a majority, two from before and three new ones). The Company is now in compliance with its bylaws.

CONCLUSION

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

<u>Description</u>	<u>December 31, 2009</u>	<u>December 31, 2013</u>	<u>Increase (Decrease)</u>
Assets	\$ 563,815,990	\$ 132,631,560	\$ (431,184,430)
Liabilities	\$ 865,914	\$ 2,585,110	\$ 1,719,196
Common Capital Stock	1,000,010	1,000,010	-
Gross Paid In and Contributed Surplus	332,613,074	332,613,074	-
Unassigned Funds (Surplus)	229,336,992	(203,566,634)	(432,903,626)
Total Surplus as Regards Policyholders	<u>\$ 562,950,076</u>	<u>\$ 130,046,450</u>	<u>\$ (432,903,626)</u>
Totals	<u>\$ 563,815,990</u>	<u>\$ 132,631,560</u>	<u>\$ (431,184,430)</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