

**EXAMINATION REPORT  
OF  
CATLIN INDEMNITY COMPANY  
AS OF  
DECEMBER 31, 2015**

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify  
that the attached REPORT ON EXAMINATION, made as of December 31, 2015 of the

**CATLIN INDEMNITY COMPANY**

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

Attest By: Rufeyun Brown

Date: May 24, 2017

In Witness Whereof, I have hereunto set my hand and  
affixed the official seal of this Department at the City of  
Dover, this 24<sup>th</sup> day of May, 2017.



Trinidad Navarro  
Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
CATLIN INDEMNITY COMPANY  
AS OF  
DECEMBER 31, 2015

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.

  
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Trinidad Navarro  
Insurance Commissioner

Dated this 24<sup>th</sup> day of May, 2017

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**SALUTATION**

May 10, 2017

Honorable Trinidad Navarro  
Commissioner of Insurance  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 16.021, dated May 31, 2016, an examination has been made of the affairs, financial condition and management of

**CATLIN INDEMNITY COMPANY**

hereinafter referred to as the Company or CIND and incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the administrative office of the Company located at Two Harbor Point, 100 Washington Boulevard, Stamford, CT. 06902. The report of examination thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The last examination was conducted as of December 31, 2012, by the Department. This examination covered the period of January 1, 2013 through December 31, 2015, 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, 2015. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of the multi-state coordinated examination of the XL America group of companies as of December 31, 2015. The New York Department of Financial Services (DFS) was the lead state. The examination was conducted concurrently with that of its Delaware domiciled subsidiaries, XL Insurance America, Inc. (XLIA), XL Select Insurance Company (Select), XL Specialty Insurance Company (XL Specialty), Indian Harbor Insurance Company (IHIC) and Catlin Specialty Insurance Company, (CSIC). To the fullest extent, the efforts, resources, project materials and findings were coordinated and made available to all examination participants.

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 Code and Regulations of the State of Delaware. The *NAIC Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to

mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, PricewaterhouseCoopers, LLP, (PwC). Certain auditor work papers of their 2015 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.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material changes in financial statements as a result of this examination.

## **COMPANY HISTORY**

The Company was established in 1845 as Mutual Insurance Company of Washington County, Maryland. It was reorganized as a stock company on June 6, 1928. The Company underwent a series of name changes through April 22, 1964, at which time the company changed its name to Blue Ridge Insurance Company (BRIC). Over 70% of the outstanding stock of the Company was purchased by Republic Insurance Company (RIC) in July 1963. RIC continued to increase its ownership in BRIC and by the end of 1973 it owned 100% of the capital stock of the company. On December 9, 1982, all of the outstanding stock of Republic Financial Services, Inc. (RFSI), RIC's parent, was acquired by Winterthur U.S. Holdings, Inc. (Winterthur US). Winterthur US was a wholly owned subsidiary of Winterthur Swiss Insurance Company. A series of restructuring and acquisitions were held, and as a result, BRIC re-domesticated to Connecticut in 1995. Winterthur US became BRIC's immediate parent in 1997 and Credit Suisse Group became BRIC's indirect wholly owning parent.

On April 1, 2001, Winterthur US contributed 100% of the capital stock of BRIC to general Casualty Company of Wisconsin (GCWI). On August 11, 2003, the company re-domesticated from Connecticut to Wisconsin.

Effective December 22, 2006, Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company to AXA. Subsequently, effective May 31, 2007, AXA finalized the sale of Winterthur US and its consolidated subsidiaries to QBE Holdings, Inc., a subsidiary of Australian-based QBE Insurance Group Limited (QBE Limited). Winterthur US was renamed QBE Regional Companies (N.A.), Inc. (QBE Regional).

On January 1, 2011, Catlin, Inc. purchased BRIC from GCWI. Effective February 28, 2011, Blue Ridge Insurance Company's name was changed to Catlin Indemnity Company, and was re-domesticated from Wisconsin to Delaware.

On December 31, 2011, CIND acquired Catlin Insurance Company, Inc. (CICI) from Catlin, Inc. The acquisition was completed as a capital contribution and was approved by the Delaware and Texas Departments of Insurance.

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

On May 1, 2015, the Company was part of the merger of XL Group, Catlin Group Limited (CGL) and Green Holdings Limited, a Bermuda company (Green Holdings), CGL merged with and into Green Holdings, with Green Holdings being the surviving entity. Thereafter, Green Holdings was contributed to XL Insurance Ltd (XLIB), which is an indirect subsidiary of XL Group, thereby making Green Holdings a direct subsidiary of XLIB, and an indirect subsidiary of XL Group. As a result of the merger, the Company and CSIC, both of which are Delaware domiciled property and casualty insurers, became indirect subsidiaries of Green Holdings, and the Company an indirect subsidiary of Catlin, Inc., a Delaware corporation.

On September 28, 2015, following the approval of the Exemption from the Form A filing by the Delaware Commissioner of Insurance dated August 12, 2015, XL Group effected an internal reorganization in order to better align the newly acquired insurance operations of CGL with XL Group's existing operations by transferring the ownership of CGL's U.S. insurance operations to X.L. America, which is the holding company for XL Group's U.S. insurance operations (the Internal Reorganization). As a result of the Internal Reorganization, Catlin, Inc.

Catlin Indemnity Company

converted to Catlin, LLC, a Delaware limited liability company, with Catlin, LLC becoming a direct wholly-owned subsidiary of X.L. America, with CSIC becoming a direct subsidiary of Catlin, LLC and the Company remaining as a direct subsidiary of CSIC. X.L. America, Inc. remains the ultimate controlling person of the Delaware insurers following the Internal Reorganization.

The Company is authorized as a stock insurer to transact the business of property, surety, casualty, and marine and transportation “wet marine” insurance, as defined in 18 Del. C. §903, §904, § 905, § 906, and §907. The business of the Company includes property and casualty insurance, primarily providing commercial liability and property coverage.

Capitalization

The Company’s Certificate of Incorporation authorizes the issue of 1,800,000 shares of common stock with a \$2.33 1/3 par value. As of December 31, 2015, the Company had 1,800,000 common shares issued and outstanding totaling \$4,200,000. All outstanding common shares of the Company are owned by CSIC, a Delaware domiciled company. As of December 31, 2015, the Company reported gross paid in and contributed surplus of \$70,168,137.

Dividends

No dividends were declared or paid by the Company during the examination period.

**MANAGEMENT AND CONTROL**

Directors

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 affairs of the Company must be managed by or under the direction of its Board of Directors. The Company’s bylaws

require its Board of Directors consist of not less than three or more than fifteen members, except that in the absence of any such delegation, the number shall be six.

Each Director is elected annually by the stockholder and holds office until the next annual election and until their successors are elected and qualify except as removed for cause and the successor elected by a special meeting of the stockholder. Directors duly elected and serving as of December 31, 2015, are as follows:

| <u>Name</u>              | <u>Business Affiliation</u>           |
|--------------------------|---------------------------------------|
| Joseph Anthony Tocco     | President and Chief Executive Officer |
| Nicholas James Greggains | Executive Vice President              |
| Donna Marie Nadeau       | Executive Vice President              |
| Robert Michael Shine     | Executive Vice President              |
| David Douglas Brooks     | Senior Vice President                 |
| James Michael DiVirgilio | Senior Vice President                 |
| James Michael Norris     | Senior Vice President                 |
| Todd David Zimmerman     | Senior Vice President                 |

#### Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, a Secretary and a Treasurer, and may, at the discretion of the Board of Directors, include one or more Executive Vice Presidents and a Chief Executive Officer (CEO), collectively, the Senior Officers. The Senior Officers shall be elected by the Board of Directors. Additional other officers (Subordinate Officers), may be elected by the Board of Directors or appointed by the CEO. Any number of offices may be held by the same person. The primary officers serving as of December 31, 2015, were as follows:

| <u>Name</u>               | <u>Title</u>                          |
|---------------------------|---------------------------------------|
| Joseph Anthony Tocco      | President and Chief Executive Officer |
| Andrew Robert Will        | Vice President and Controller         |
| Gabriel George Carino III | Vice President and Treasurer          |
| Toni Ann Perkins          | Vice President and Secretary          |

Corporate Records

The recorded minutes of the shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board of Directors adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 Del. C. §1304.

Insurance Holding Company System

The Company is a member of an insurance holding company system known as XL Group plc., (XL Group Ireland) as defined under 18 Del. C. §5001 of the Delaware Insurance Code. The Company is a wholly owned subsidiary of CSIC. CSIC is a wholly owned subsidiary of Catlin, LLC which is a wholly owned subsidiary of X.L. America, Inc., whose ultimate parent is XL Group Ireland.

XL Group Ireland, through its subsidiaries, is a global insurance and reinsurance company providing property, casualty and specialty products to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis. It is traded on the NYSE under the ticker symbol XL.

On September 28, 2015, XL Group Ireland effected an internal reorganization to align the newly acquired insurance operations of Catlin Group Limited (CGL) with XL Group's existing operations by transferring the ownership of CGL's U.S. insurance operations to X.L. America, Inc., which is the holding company for XL Group Ireland's U.S. insurance operations (Internal

Reorganization). As a result of the Internal Reorganization, Catlin, LLC is now a wholly-owned subsidiary of X.L. America, Inc., with CSIC remaining as a wholly-owned subsidiary of Catlin, LLC. X.L. America, Inc. remains the ultimate controlling parent of the Delaware insurers following the Internal Reorganization and the Company remains an indirect subsidiary of Catlin, LLC.

During 2016, XL Group Ireland re-domesticated from Ireland to Bermuda and changed its legal name from XL Group plc to XL Group Ltd.

An abbreviated organizational chart of XL Group Ireland as of December 31, 2015, is as follows (ownership of subsidiaries is 100% unless otherwise noted):

```
XL Group plc (Ireland)*
  XL Financial Holdings Limited (Ireland)
    X.L. America, Inc. (DE)**
      XL Financial Solutions, Inc. (DE)
      Catlin, LLC (DE)
        Catlin Insurance Services Inc. (LA)
        Catlin Specialty Insurance Company (DE)
        Catlin Indemnity Company (DE)
        Catlin Insurance Company Inc. (TX)
        Catlin Underwriting, Inc. (DE)
      XL Reinsurance America Inc. (NY)
        Greenwich Insurance Company (DE)
        XL Insurance America, Inc. (DE)
        XL Select Insurance Company (DE)
        XL Insurance Company of New York, Inc. (NY)
      XL Group Investments LLC (DE)
        XL Group Investments Ltd
        XL Specialty Insurance Company (DE)
        Indian Harbor Insurance Company (DE)
```

\* Redomesticated to Bermuda in 2016. Named changed to XL Group Ltd.

\*\* X.L. America, Inc. – General Partner  
Garrison Investments Inc. – Limited Partner

## **AGREEMENTS WITH AFFILIATES**

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

### **Intercompany Services and Cost Allocation Agreement**

Effective April 1, 2011, this agreement is between Catlin, Inc. and its subsidiaries. Under the 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. This agreement is no longer active as the Company entered into two Service Agreements listed below post acquisition.

### **Investment Management Services Agreement**

The Investment Management Services Agreement dated April 1, 2012 between CIND and Catlin Group Limited was novated with an effective date of May 1, 2015. Under this novation agreement, Catlin Group Limited, was replaced with XL Group Investment Group Ltd, which agrees to be the Investment Manager for CIND and accepts the investment guidelines and investment framework as set forth in the agreement.

### **Expense Sharing Agreement**

The Company recently entered into the Sixth Amended and Restated General Services Agreement, effective May 1, 2015, with X.L. America, Inc. and X.L. Global Services, Inc., and certain other affiliated companies. The agreement calls for X.L. Global Services, Inc. to provide information and technology services, planning, expense management and budget support, project management and application development support, reinsurance services, actuarial services, human resource services and other services. The services are charged on a cost basis. A report

Catlin Indemnity Company

covering all the items and incurred charges and/or credits is furnished quarterly with the final payment being remitted within thirty days upon receipt of the quarterly report.

General Services Agreement

The Company recently entered into the Seventh Amended and Restated General Services Agreement, effective May 1, 2015, with X. L. America, Inc.(XLAI); XL Reinsurance America Inc.; and certain other affiliated companies (individually and collectively the "Subsidiaries") and Catlin, LLC; CSIC; CIND; Catlin Insurance Company, Inc.; Catlin Insurance Services, Inc.; and Catlin Underwriting, Inc. (individually and collectively the "Affiliates") whereby XLAI will perform services for the Subsidiaries and Affiliates and the Subsidiaries and Affiliates will provide services for XLAI. The parties to the agreement agree to pay on a cost basis all in-house and out-of-pocket third party costs and fees incurred by the other party.

Tax Sharing and Payment Agreement

Effective September 1, 2001, and most recently amended May 1, 2015, XLAI maintains a Tax Sharing Agreement with its subsidiaries, including the Company, whereby the members of the group agree to pay an amount equal to the federal income tax liability which such member would have incurred if such member had filed a separate federal income tax return. For each estimated tax period of any year, the estimated federal income tax liability of each member shall be determined and shall be paid within 10 days of receipt of notice. The final amount required to be paid for any taxable year shall be paid on or before the date on which the consolidated return of the group is required to be filed without regard to any extension of time to file.

Cash Management Agreement

Effective April 1, 2015, CIND became one of the participants of this agreement with Catlin, Inc. Under the terms of this agreement, Catlin, Inc. will centralize and streamline the

participant's cash management process. Catlin, Inc. is authorized to receive and process funds on behalf of the participants in a custodial account. This agreement was approved by the Delaware Department on April 29, 2015. Due to the acquisition of Catlin, LLC by X.L. America, Inc., the agreement was not implemented and will be terminated. The reasons for this are that the cash pool would have a limited lifespan given the fact new business will be written on the XL America group of companies paper; there is still source system programming and other implementation costs that would need to be incurred; and the current interest rate environment does not enable the Company to achieve an investment return that would justify the costs of the cash pool.

## **TERRITORY AND PLAN OF OPERATION**

### **Territory**

As of December 31, 2015, the Company was licensed to transact the business of insurance in all 50 states, including the District of Columbia. The principal office facilities of the Company are located in Atlanta, Georgia.

### **Plan of Operation**

XL Group operates in the insurance and reinsurance markets. Effective January 1, 2017, the Property and Casualty Operating Model includes three Business Groups in the Insurance segment:

**Global Lines:** Includes the majority of business lines with products which are available globally, including their Specialty and energy businesses.

**International:** Includes Property, Casualty and Professional/ Financial Lines businesses operating in markets outside of North America.

**North America:** Includes the Property, Casualty and Professional businesses.

The Company operates in the North America business group and is a Delaware domiciled stock insurance company that is licensed to write business in all 50 states and the District of Columbia. The Company provides various forms of property and casualty insurance coverage and its principle products protect against commercial property, inland marine, ocean marine and general liability.

Where proper licensing and approved policies are available, the Company's business is currently being renewed on legacy XL legal entities and there are no current plans to write a material amount of new business on the Company's paper.

The Company has agreements with unaffiliated managing general agents (MGAs) to produce business on its behalf. Direct premiums by MGAs in 2015 which exceeded 5% of the Company's policyholder surplus were produced by the following MGAs:

|  | <u>Total Direct Premium Written</u> |
|--|-------------------------------------|
| Wright Specialty Insurance Agency, LLC. (WSIA) | \$ 94,610,445                       |

WSIA is a MGA as defined in 18 Del. C. §1802(3) "Managing general agent" and was properly disclosed in the 2015 annual statement Notes to the Financial Statements.

### **REINSURANCE**

The Company reported the following distribution of premiums written for the years ended December 31, 2015, and the prior examination date of December 31, 2012:

|   | <u>2015</u>                | <u>% GPW</u>       | <u>2012</u>                | <u>% GPW</u>        |
|---|----------------------------|--------------------|----------------------------|---------------------|
| Direct business                         | \$ 139,583,882             | 95.6%              | \$ 34,382,454              | 67.0%               |
| Reinsurance assumed from affiliates     | 6,395,980                  | 4.4%               | 5,304,803                  | 10.3%               |
| Reinsurance assumed from non-affiliates | -                          | 0.0%               | 11,634,863                 | 22.7%               |
| Gross premiums written                  | <u>\$ 145,979,862</u>      | <u>100%</u>        | <u>\$ 51,322,120</u>       | <u>100%</u>         |
| Reinsurance ceded to affiliates         | \$ 139,583,339             | 95.6%              | \$ 46,017,177              | 89.7%               |
| Reinsurance ceded to non-affiliates     | 543                        | 0.0%               | 142                        | 0.0%                |
| Total ceded                             | <u>\$ 139,583,882</u>      | <u>95.6%</u>       | <u>\$ 46,017,319</u>       | <u>89.7%</u>        |
| Net premiums written                    | <u><u>\$ 6,395,980</u></u> | <u><u>4.4%</u></u> | <u><u>\$ 5,304,801</u></u> | <u><u>10.3%</u></u> |

**Catlin Pool**

The Company is a participant in the Catlin U.S. Intercompany Pooling Agreement (the Pooling Agreement) with its insurance company affiliates as follows: CSIC (Pool Leader) and Catlin Insurance Company, Inc. (together, the Pool Members). The Pooling Agreement covers all lines of business that the Pool Members are eligible to write and the pooling percentages are as follows:

Catlin Specialty Insurance Company - 60%  
 Catlin Insurance Company, Inc. - 35%  
 Catlin Indemnity Company - 5%

Under the Pooling Agreement, 100% of all Pool Members' gross premiums, losses, insurance expenses and other related underwriting activity of the Pool Members are ceded to the Pool Leader. The Pool Leader purchases reinsurance on behalf of itself and the Pool Members for business written by it and the other Pool Members. The net, after reinsurance, is then pooled and a retrocession is made to each Pool Member in proportion to its pool participation percentage. The Pool Members collect and allocate certain account balances on a pooled basis. These accounts include agents' balances and uncollected premiums - including non-admitted balances, reinsurance payable on paid losses and loss adjustment expenses, provision for reinsurance, drafts outstanding and certain other underwriting-related receivables and payables with parents, subsidiaries and affiliates.

As of December 31, 2015, the Company reported total gross reinsurance recoverables of \$184.5 million. Gross reinsurance recoverables consisted of paid losses and LAE of \$20.2 million and \$48.1 million in recoverables for known case and case LAE. Gross reinsurance recoverables also consisted of \$56.0 million pertaining to IBNR losses and LAE reserves. The remaining \$60.1 million in gross reinsurance recoverables pertained to unearned premiums. The Company's reinsurance recoverables have a nominal collateral amount.

Below is an overview of the sequence of premium movement associated with the Company's ceded reinsurance program:

| <u>Reinsurance Ceded (in 000's)</u> |    |              |
|-------------------------------------|----|--------------|
| Gross Premiums                      | \$ | 145,980      |
| Ceded Premiums:                     |    |              |
| Internal - Pooling                  | \$ | 139,583      |
| External                            |    | 1            |
| Total Ceded                         | \$ | 139,584      |
| Net Premiums                        | \$ | <u>6,396</u> |

#### External Reinsurance

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 2015.

**General Aviation Hull and Liability Risk Excess, General Aviation Hull and Liability Excess of Loss, General Aviation Hull and Liability Quota Share - Effective April 1, 2015,** the agreements are between Catlin Specialty Insurance Company as Pool Leader on behalf of itself and its Pool Members and various reinsurers. The contracts are to indemnify the Pool companies in respect of excess liability which accrues under all hull and hull war policies issued

by the Pool companies 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.

External Reinsurance - Corporate

**Americas Casualty Quota Share** - Effective July 1, 2015, the agreement is between Catlin Specialty Insurance Company as Pool Leader on behalf of itself and its Pool Members and various reinsurers. The contract provides 40% quota share casualty coverage, risks attaching, for designated cost centers. The coverage is for program and non-program business and has a limit of \$75 million.

**Aggregate Catastrophe Excess of Loss** - Effective January 1, 2015, the agreement is between Catlin Specialty Insurance Company as Pool Leader on behalf of itself and its Pool Members and various reinsurers. The Company is providing pro-rata coverage for the following layers:

- \$200 million excess of \$500 million
- \$150 million excess of \$700 million
- \$150 million excess of \$850 million

**Non-Marine Catastrophe Property Excess of Loss** - Effective January 1, 2015, the agreement is between Catlin Specialty Insurance Company as Pool Leader on behalf of itself and its Pool Members and various reinsurers. The contract provides coverage of \$200 million excess of \$1.1 billion after various option triggers in the contract have been satisfied.

**Combined Casualty** - Effective January 1, 2015, the agreement is between Catlin Specialty Insurance Company as Pool Leader on behalf of itself and its Pool Members and various reinsurers. The contract is a 25% quota share for various kinds of casualty lines. Limits and retention vary by line and class coding. Clash coverage is provided in Section 29 of the coverage, limit and retention is \$25 million and \$10 million, respectively. All other sections of

coverage inure to the benefit of Clash coverage. Notwithstanding, reinsurers are not liable for the first \$39.5 million (inner aggregate deductible) of ultimate loss.

**General Marine Excess of Loss** - Effective January 1, 2015, the agreement is between Catlin Specialty Insurance Company as Pool Leader on behalf of itself and its Pool Members and various reinsurers. The contract is an excess of loss contract for \$150 million excess of \$25 million. The contract covers business classified as Energy, Non-Marine liability, Hull, Cargo, Specie, Marine War and US Ocean Marine. The contract excludes Aviation, Satellite and Space business.

**Global Casualty Excess of Loss** - Effective January 1, 2015, the agreement is between Catlin Specialty Insurance Company as Pool Leader on behalf of itself and its Pool Members and various reinsurers. The contract is an excess of loss contract for casualty lines. Coverage is provided in two layers:

First Layer -

Section a - \$18 million, excess of \$2 million for financial and professional lines.  
Section b - \$15 million excess of \$5 million for all other lines.

Second Layer - \$30 million excess of \$20 million. The limit on the second layer is \$90 million.

**ILW – CA EQ** - Effective April 1, 2015, the agreement is between Catlin Specialty Insurance Company as Pool Leader on behalf of itself and its Pool Members and various reinsurers. The contract is an excess of loss contract for all losses arising from policies issued in California. The contract pays \$64.3 million excess of \$10 thousand, and the coverage will only trigger if there is a \$37 billion loss reported by the Property Claims Service (PCS) for an earthquake in California. Reinsurer participation will increase proportionally from zero to 100%, as the losses increase from \$37 billion to \$52 billion.

**Risk CUS/WUI NM Property** - Effective April 1, 2015, the agreement is between Catlin Specialty Insurance Company as Pool Leader on behalf of itself and its Pool Members and various reinsurers. The contract provides coverage in several layers, and U.S. coverage is limited to the WRM account only and excludes California earthquake losses and NOAA named storms in tier 1 and 2 counties in Florida and other Gulf states.

First Layer - \$25 million excess of \$25 million  
Second Layer - \$25 million excess of \$50 million

**Risk Retro** - Effective July 1, 2015, the agreement is between Catlin Specialty Insurance Company as Pool Leader on behalf of itself and its Pool Members and XLRA as Pool Leader on behalf of itself and its Pool Members and various reinsurers. The contract provides property coverage for specifically identified legacy accounts. The contract provides \$70 million excess of \$70 million coverage and has various per risk sub-limits by legal entity and accounts. Reinsurers have the benefit of an inuring schedule of reinsurance.

**Property Per Risk Excess of Loss** - Effective July 1, 2015, the agreement is between Catlin Specialty Insurance Company as Pool Leader on behalf of itself and its Pool Members and XLRA as Pool Leader on behalf of itself and its Pool Members and various reinsurers. The contract provides property coverage for specifically identified legacy accounts. The contract provides \$250 million excess of \$750 million coverage for property risks.

**Construction Quota Share** - Effective January 1, 2015 the agreement is between Catlin Specialty Insurance Company as Pool Leader on behalf of itself and its Pool Members and XLRA as Pool Leader on behalf of itself and its Pool Members and various reinsurers. The contract provides a 50% quota share coverage for Contractors and Erectors risks, for U.S. based risks up to \$75 million.

Internal Reinsurance

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

**Wet Marine excess of loss Agreement** - This agreement originally went into effect January 1, 2009, but was renewed annually. The reinsurer will pay losses in excess of \$5 million for every loss occurrence, up to \$25 million for cargo, \$5 million excess of \$5 million for Hull and Liability, up to \$30 million per occurrence.

The Company cedes a portion of its 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.

**FINANCIAL STATEMENTS**

The following financial statements, as reported and filed by the Company with the Delaware Department of Insurance, are reflected in the following:

- Statement of Assets as of December 31, 2015
- State of Liabilities, Surplus and Other Funds as of December 31, 2015
- Statement of Income for the year ended December 31, 2015
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2012 to December 31, 2015

**STATEMENT OF ASSETS**  
**as of December 31, 2015**

|   | <b>Assets</b>                | <b>Non admitted<br/>Assets</b> | <b>Net Admitted<br/>Assets</b> | <b>Notes</b> |
|---|------------------------------|--------------------------------|--------------------------------|--------------|
| Bonds   | \$ 17,360,436                |                                | \$ 17,360,436                  | 1            |
| Common stocks   | 52,476,918                   |                                | 52,476,918                     | 2            |
| Cash, Cash Equivalents and Short-term Investments                       | 8,341,153                    |                                | 8,341,153                      |              |
| Other invested assets   | 0                            |                                | 0                              |              |
| Receivables for securities  | 1,992                        |                                | 1,992                          |              |
| Subtotals, cash and invested assets                                     | <u>\$ 78,180,499</u>         | <u>\$ -</u>                    | <u>\$ 78,180,499</u>           |              |
| Investment income due and accrued                                       | 33,443                       |                                | 33,443                         |              |
| Uncollected premiums and agents' balances in the course of collection   | 4,964,238                    | 867,092                        | 4,097,146                      |              |
| Deferred Premiums, Agents' Balances booked but not due                  | 1,587,447                    |                                | 1,587,447                      |              |
| Amounts recoverable from reinsurers                                     | 20,194,573                   |                                | 20,194,573                     |              |
| Current federal and foreign income tax recoverable and interest thereon | 116,898                      |                                | 116,898                        |              |
| Net deferred tax asset  | 1,883,086                    | 1,255,086                      | 628,000                        |              |
| Receivable from parent, subsidiaries and affiliates                     | 17,420,371                   |                                | 17,420,371                     |              |
| Claims recoveries   | 66,379                       |                                | 66,379                         |              |
| <b>Totals</b>   | <b><u>\$ 124,446,934</u></b> | <b><u>\$ 2,122,178</u></b>     | <b><u>\$ 122,324,756</u></b>   |              |

**STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS**  
**as of December 31, 2015**

|   | \$                    | Notes |
|---|-----------------------|-------|
| Losses  | 7,292,717             | 3     |
| Reinsurance payable on paid losses and LAE          | 1,201,022             |       |
| Loss adjustment expenses                            | 4,088,239             | 3     |
| Commissions payable, contingent commissions         | 0                     |       |
| Other expenses                                      | 82,956                |       |
| Taxes, licenses and fees                            | 1,652,456             |       |
| Current federal and foreign income taxes            | 0                     |       |
| Borrowed money                                      | 20,005,000            |       |
| Unearned premiums                                   | 3,439,924             |       |
| Ceded reinsurance premiums payable                  | 13,457,314            |       |
| Funds held by company under reinsurance treaties    | 6,821,829             |       |
| Payable to parent, subsidiaries, and affiliates     | 70,577                |       |
| Payable for securities                              | -                     |       |
| Provisions for reinsurance assumed from pool leader | 578,698               |       |
| Other liabilities                                   | 259                   |       |
| Retroactive reinsurance                             | 40,767                |       |
| Rounding  | 1                     |       |
| Total liabilities                                   | <u>\$ 58,731,759</u>  |       |
|   |                       |       |
| Common capital stock                                | \$ 4,200,000          |       |
| Gross paid in and contributed surplus               | 70,168,137            |       |
| Unassigned funds (surplus)                          | (10,775,140)          |       |
| Surplus as regards policyholders                    | <u>\$ 63,592,997</u>  |       |
| Totals  | <u>\$ 122,324,756</u> |       |

**STATEMENT OF INCOME  
For the Year Ended December 31, 2015**

|   | Notes                  |
|---|------------------------|
| Premiums earned   | \$ 6,940,699           |
| Losses incurred   | \$ 4,374,666           |
| Loss adjustment expenses incurred                             | 1,936,399              |
| Other underwriting expenses incurred                          | <u>1,707,268</u>       |
| Total underwriting deductions                                 | \$ 8,018,333           |
| Net underwriting gain (loss)                                  | <u>\$ (1,077,634)</u>  |
| Net investment income earned                                  | 124,737                |
| Net realized capital gains or (losses)                        | <u>18,603</u>          |
| Net investment gain (loss)                                    | <u>\$ 143,340</u>      |
| Net gain (loss) from agents' or premiums balances charged off | \$ (5,351)             |
| Miscellaneous income  | <u>17,829</u>          |
| Total other income  | <u>\$ 12,478</u>       |
| Net income before dividends to policyholders                  | (921,816)              |
| Dividends to policyholders                                    | <u>0</u>               |
| Net income, after dividends to policyholders                  | \$ (921,816)           |
| Federal and foreign income taxes incurred                     | <u>(186,524)</u>       |
| Net income  | <u>\$ (735,292)</u>    |
| Surplus as regards policyholders, December 31, 2014           | <u>\$ 76,896,893</u>   |
| Net income (losses)   | (735,292)              |
| Change in net unrealized capital gains (losses)               | (11,208,620)           |
| Change in net unrealized foreign exchange gains (losses)      | 0                      |
| Change in net deferred income tax                             | 369,827                |
| Change in non-admitted assets                                 | (1,200,733)            |
| Dividends to stockholders                                     | 0                      |
| Change in provision for reinsurance ceded to pool members     | (529,078)              |
| Net change in capital and surplus for the year                | <u>\$ (13,303,896)</u> |
| Surplus as regards policyholders, December 31, 2015           | <u>\$ 63,592,997</u>   |

**RECONCILIATION OF CAPITAL AND SURPLUS**  
 For the Period from the Prior Examination  
 as of December 31, 2012 to December 31, 2015

|              | Common<br>Capital Stock | Gross Paid-in and<br>Contributed Surplus | Unassigned<br>Surplus  | Total                |
|--------------|-------------------------|--|------------------------|----------------------|
| 12/31/2012   | \$ 4,200,000            | \$ 70,168,137                            | \$ 2,179,944           | \$ 76,548,081        |
| 12/31/2013 1 |                         |  | 960,976                | 960,976              |
| 12/31/2014 1 |                         |  | (612,164)              | (612,164)            |
| 12/31/2015 1 |                         |  | (13,303,896)           | (13,303,896)         |
|              | <u>\$ 4,200,000</u>     | <u>\$ 70,168,137</u>                     | <u>\$ (10,775,140)</u> | <u>\$ 63,592,997</u> |

(1) Represents net income, change in unrealized capital gains (losses), change in unrealized foreign exchange gains (losses), change in net deferred income tax, change in non-admitted assets, change in reinsurance for unauthorized and certified reinsurers.

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There were no changes made to the Financial Statements as a result of this Examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

**Note 1:**  
**Schedule D - Bonds** \$ 17,360,436

As of December 31, 2015, the Company reported long-term bond investments with book adjusted carrying values in the amount of \$17,360,436 and fair market values of \$17,297,222. The Company reported an additional \$3,515 in Money Market Funds. The Company's long-term bond holdings were comprised entirely of U.S. Treasury Government bonds, with the maturity distribution being: 1 year or less (2.0%) and one to five years (98.0%).

**Note 2:**

**Schedule D – Common Stocks** **\$ 52,476,918**

As of December 31, 2015, the Company reported total common stocks in the amount of \$52,476,918, which was comprised of 5,000,000 shares of stock in its subsidiary company Catlin Insurance Company, Inc. The reported amount was the fair value calculated at \$10.50 per share.

**Note 3:**

**Losses** **\$ 7,292,717**  
**Loss Adjustment Expenses** **\$ 4,088,239**

The Delaware Department contracted INS Consultants, Inc. (INS), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2015. INS' analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The conclusions set forth in INS' Consulting Actuary's report were based on information provided by the Company, including the 2015 Annual Statement. The Statement of Actuarial Opinion and the Actuarial Report for the Company were signed by Kathleen C. Odemirok, FCAS and MAAA, Ernst & Young, LLP.

Based on work performed, INS found the Company's carried net and gross loss and LAE reserves, as of December 31, 2015, to be reasonably stated. No financial adjustment to Company reserves was required for examination purposes.

**SUBSEQUENT EVENTS**

On February 1, 2016, a subsidiary of XL Group completed the acquisition (Allied Acquisition) of Allied International Holdings, Inc. (Allied), pursuant to the agreement reached on August 11, 2015. Allied is the holding company of Allied Specialty Insurance, Inc. and T.H.E. Insurance Company (T.H.E.), a leading insurer of the outdoor entertainment industry in the U.S. T.H.E. is a property and casualty insurer domiciled in the State of Louisiana.

Effective July 25, 2016, the Company's ultimate parent, XL Group plc, re-domesticated from Ireland to Bermuda and changed its name to XL Group Ltd.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations contained in the prior examination report issued by the Delaware Department of Insurance as of December 31, 2012.

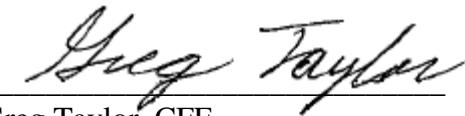
**SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.

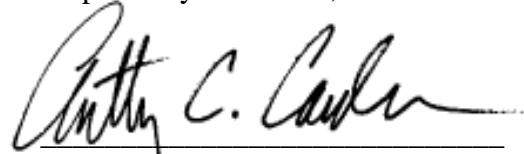
## **CONCLUSION**

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the Company's outside audit firm, PricewaterhouseCoopers LLP, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

  
\_\_\_\_\_  
Greg Taylor, CFE  
Examiner In-Charge  
State of Delaware

Respectfully submitted,

  
\_\_\_\_\_  
Anthony Cardone, CFE  
Supervising Examiner  
State of Delaware