

**REPORT ON EXAMINATION**  
**OF**  
**CATLIN SPECIALTY INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2020**

TRINIDAD NAVARRO  
COMMISSIONER



STATE OF DELAWARE  
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION  
OF  
CATLIN SPECIALTY INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2020

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 blue ink, reading "Trinidad Navarro", is positioned above a horizontal line.

Trinidad Navarro  
Insurance Commissioner

Dated this 29th day of June, 2022

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May 11, 2022

Honorable Trinidad Navarro  
Commissioner of Insurance  
Delaware Department of Insurance  
1351 West North Street  
Suite 101  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Examination Certification No. 21.017, dated February 18, 2021, an examination has been made of the affairs, financial condition and management of

**CATLIN SPECIALTY INSURANCE COMPANY**

hereinafter referred to as the Company or CSIC. CSIC was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1209 Orange Street, Wilmington, Delaware. Due to the COVID-19 Pandemic, the examination was conducted offsite. The administrative office of the Company is located at 70 Seaview Avenue, Stamford, Connecticut, 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 previous regulatory examination of the Company covered the three-year period from January 1, 2013 through December 31, 2015. This examination will cover the five-year period from January 1, 2016 through December 31, 2020.

The examination of the Company was performed as part of the multi-state coordinated examination of the XL America Group of United States regulated property and casualty insurance companies (XL America Group) as of December 31, 2020. New York was the lead state for the XL America Group examination.

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, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* § 321, 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 LLC (PwC). Certain auditor work papers of the 2020 PwC audit of the Company 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 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 re-domesticated 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. 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's 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.

On May 1, 2015, the Company was part of the merger of XL Group, 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 became an indirect subsidiary of Green Holdings and a direct 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 XL America, Inc. (XL 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. converted to Catlin, LLC, a Delaware limited liability company, with Catlin, LLC becoming a direct wholly-owned subsidiary of XL America, with the Company becoming a direct subsidiary of Catlin, LLC. XL America remains the ultimate controlling person following the Internal Reorganization.

Effective September 12, 2018, AXA S.A., a French société anonyme (AXA), became the ultimate parent of AXA XL Group and its insurer and non-insurer affiliates. AXA acquired XL Group by means of a merger of Camelot Holdings Ltd., a Bermuda exempted company, with and into XL Group Ltd., a Bermuda exempted company and the indirect parent of AXA XL Group.

XL Reinsurance America Inc. (XLRA) is the direct parent and owns 100% of the outstanding shares of XL Specialty Insurance Company (XL Specialty), Greenwich Insurance Company (GIC), Indian Harbor Insurance Company (IHIC) and CSIC. GIC is the direct parent of XL Insurance America, Inc. (XLIA), which owns 100% of the shares of XL Select Insurance Company (XL Select) and XL Insurance Company of New York, Inc., (XLNY).

AXA XL Group, 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.

#### Capitalization

The Company's Certificate of Incorporation authorizes the issue of 3,000,000 shares of common stock with a \$1.00 par value. As of December 31, 2020, the Company had 3,000,000 common shares issued and outstanding totaling \$3,000,000. All outstanding common shares of the Company are owned by XLRA. As of December 31, 2020, the Company reported gross paid in and contributed surplus of \$117,884,554.

During the examination period, the Company received/paid the following capital contributions:

- On December 22, 2020, the Company paid \$130,000,000 as a return of capital to its parent, XLRA.
- On December 27, 2017, the Company received a \$20,000,000 capital contribution from its previous parent, Catlin LLC.



Dividends

Dividends approved by the Department and paid to the sole stockholder during the examination period was as follows:

- During 2020, the Company paid a dividend of \$44,133,698 to its parent, XLRA.

**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, business and affairs of the Company shall be managed by the Board of Directors (Board). The bylaws require that the Board consist of not less than three directors but not more than fifteen.

The Directors are elected annually by the stockholder and hold office until the next annual election and until their successors are elected. Directors duly elected and serving as of December 31, 2020, are as follows:

<u>Name</u>	<u>Title</u>
Joseph Anthony Tocco	President & CEO
Donna Marie Nadeau	Executive Vice President
James Michael DiVirgilio	Senior Vice President
James Michael Norris	Senior Vice President
Todd David Zimmerman	Senior Vice President
David Douglas Brooks	Senior Vice President

Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, and may elect one or more Vice Presidents, a Treasurer, a Secretary and one or more Assistant Vice Presidents and Assistant Secretaries. The Board may also elect a Chairman of the Board and a Chief Executive Officer at its discretion. The primary officers serving as of December 31, 2020, were as follows:

<u>Name</u>	<u>Title</u>
Joseph Anthony Tocco	President & CEO
Gabriel George Carino III	Treasurer
Toni Ann Perkins	Secretary
Andrew Robert Will	Controller

### Corporate Records

The recorded minutes of the Shareholder and Board 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 approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, the review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

### Insurance Holding Company System

The Company is a member of an insurance holding company system known as AXA as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. AXA, a component of the Euro Stoxx 50 stock market index, is a publicly traded holding company domiciled in France. AXA is the ultimate controlling entity of the AXA XL Group. Through its operations in Bermuda, Europe, Asia and the United States, AXA writes insurance and reinsurance on a worldwide basis.

An abbreviated organizational chart of the AXA holding company system as of December 31, 2020, is as follows (ownership of subsidiaries is 100% unless otherwise noted):

AXA SA (France)  
    XL Group Ltd (Bermuda)  
        XLIT Ltd. (Cayman Island)  
            EXEL Holdings Limited (Cayman Island)  
                XL Bermuda Ltd. (Bermuda)  
                    X.L. America, Inc. (DE)  
                        XL Reinsurance America Inc. (NY)  
                            XL Group Investments LLC (DE)  
                                **Catlin Specialty Insurance Company (DE)**  
                                    XL Specialty Insurance Company (DE)

Catlin Insurance Company, Inc. (TX)  
Indian Harbor Insurance Company (DE)  
Greenwich Insurance Company (DE)  
XL Insurance America, Inc. (DE)  
XL Select Insurance Company (DE)  
XL Insurance Company of New York, Inc. (NY)

Agreements with Affiliates

The AXA XL Group was party to several affiliated agreements and transactions. The following significant intercompany agreements were in effect as of December 31, 2020:

*General Services Agreement*

Effective May 15, 2020, the Tenth Amended and Restated General Services Agreement by and between X.L. Global Services, Inc. (XLGS) and XL America on behalf of its subsidiaries, including all AXA XL US insurance Companies and various non-insurance US Companies. The parties to the agreement agree to provide services to one another XLGS for XL America and the affiliates and XL America and affiliates for XLGS. The parties agree to pay on a cost basis, all in-house and out-of-pocket third-party costs and fees incurred by the other party.

Effective May 15, 2020, the Eleventh Amended and Restated General Services Agreement by and between XL America and its subsidiaries, including on behalf of its subsidiaries, including all AXA XL US insurance Companies and various non-insurance US Companies. The parties to the agreement agree to provided services to one another: XL America for its's subsidiaries and affiliates, and the subsidiaries and affiliates for XL America. The parties 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, 2020, XLRA maintains a tax sharing agreement with its subsidiaries, 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 determined without regard to any extension of time to file.

*Investment Management Agreement*

Effective January 1, 2017, the Investment Management Agreement by and between all AXA XL US insurance Companies and XL Group Investments Ltd (Investment Manager), replaced the original Investment Management Agreement, and all amendments thereto. CSIC designates and appoints the Investment Manager as its agent and attorney-in-fact, with full power and authority and without further approval of CSIC (except as expressly provided for herein or as may be required by law and subject always to CSIC Investment Guideline), in the name of and on behalf of CSIC: (i) to invest CSIC's portfolio of investment assets and enter into investment transactions; (ii) to appoint and terminate Third Party Managers and Third Party Service Providers and (iii) to enter any agreements, instruments and other documents and to take such other steps necessary in furtherance of this Agreement (including arranging for payments of all taxes, fees and expenses related to investment activity, Third Party Managers and Third Party Service Providers, as may be applicable), all as the Investment Manager shall deem reasonable and prudent to enable it to fulfil its obligations under this Agreement.

## **TERRITORY AND PLAN OF OPERATION**

### **Territory**

As of December 31, 2020, the Company was licensed to transact the business of insurance only in Delaware. The Company was eligible to write surplus lines in all other states including the District of Columbia.

### **Plan of Operation**

As of December 31, 2020, the Company was no longer writing business and was a shell Company. The Company is currently in the process of being sold to an unaffiliated third party and redomesticating to the State of Oklahoma.

## **REINSURANCE**

Effective January 1, 2020, the Catlin U.S. Intercompany Pooling Agreement was terminated. Effective the same day, the three participating legal entities joined the Sixth Amended XL America Group Pooling Agreement (Amended XLA Pooling Agreement). As a result of this reorganization, the Company was contributed to XLRA, who is now the Company's direct parent.

On January 1, 2020, the Company entered into a Transfer and Assumption Reinsurance Agreement with its affiliate, IHIC. IHIC assumed all remaining reserves from the Company and indemnified the Company of any future liability.

On October 1, 2020, all cessions previously ceded to Catlin Re Switzerland Ltd., which include the losses ceded from the former Catlin entities, as well as the accident date-related pool results from January 1, 2016 through December 31, 2017, were novated to XL Bermuda, Ltd.

## **FINANCIAL STATEMENTS**

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

- Statement of Assets as of December 31, 2020
- Statement of Liabilities and Surplus as of December 31, 2020
- Statement of Income for the year ended December 31, 2020
- Statement of Capital and Surplus Account for the year ended December 31, 2020
- Reconciliation of Capital and Surplus for the Period December 31, 2015 to December 31, 2020

STATEMENT OF ASSETS  
As of December 31, 2020

	<u>Ledger Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 58,397,960	\$ -	\$ 58,397,960
Cash	15,100,491	-	15,100,491
Cash equivalents	3,884,234	-	3,884,234
Receivable for securities	1,897,620	-	1,897,620
Subtotals, cash and invested assets	<u>\$ 79,280,305</u>	<u>\$ -</u>	<u>\$ 79,280,305</u>
Investment income due and accrued	374,619	-	374,619
Current federal and foreign income tax recoverable and interest thereon	4,102,463	-	4,102,463
Electronic data processing equipment and software	173	173	-
Receivable from parent; subsidiaries and affiliates	<u>2,820,599</u>	<u>-</u>	<u>2,820,599</u>
Total Assets	<u>\$ 86,578,159</u>	<u>\$ 173</u>	<u>\$ 86,577,986</u>

STATEMENT OF LIABILITIES AND SURPLUS  
As of December 31, 2020

Losses	\$	-
Reinsurance payable on paid losses and loss adjustment expenses		-
Loss adjustment expenses		-
Commissions payable; contingent commissions and other similar charges		-
Other expenses (excluding taxes; licenses and fees)		-
Taxes, licenses, and fees (excluding federal and foreign income tax)		-
Net deferred tax liability		2,352,511
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$0 and including warranty reserves of \$0)		-
Advance Premium		-
Dividends declared and unpaid: Policyholders		-
Ceded reinsurance premiums payable (net of ceding commissions)		-
Funds held by company under reinsurance treaties		18,854,712
Amounts withheld or retained by company for account of others		-
Remittances and items not allocated		-
Provision for reinsurance (Including \$0 certified)		-
Drafts outstanding		-
Payable to parent; subsidiaries and affiliates		-
Derivatives		-
Payable for securities		1,983,958
Aggregate write-ins for liabilities		104,867
Total liabilities	\$	<u>23,296,048</u>
Aggregate write-ins for special surplus funds	\$	-
Common capital stock		3,000,000
Preferred capital stock		-
Gross paid in and contributed surplus		117,884,554
Unassigned funds (surplus)		<u>(57,602,616)</u>
Surplus as regards policyholders	\$	<u>63,281,938</u>
Totals of liabilities & surplus	\$	<u><u>86,577,986</u></u>



STATEMENT OF INCOME  
For the Year Ended December 31, 2020

<b>Underwriting Income</b>	
Premiums earned	\$ -
<b>Deductions</b>	
Losses incurred	\$ -
Loss adjustment expenses incurred	-
Other underwriting expenses incurred	-
<b>Total underwriting deductions</b>	
Net underwriting gain (loss)	\$ -
<b>Investment Income</b>	
Net investment income earned	\$ 7,319,668
Net realized capital gains (losses) less capital gains tax of \$487,484	(14,536,438)
Net investment gain (loss)	\$ (7,216,770)
<b>Other Income</b>	
Net gain (loss) from agents' or premium balances charged off	\$ -
Finance and service charges not included in premium	-
Aggregate write-ins for miscellaneous income	46,878
Total other income	\$ 46,878
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ (7,169,892)
Dividends to policyholders	-
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ (7,169,892)
Federal and foreign income taxes incurred	(3,011,597)
<b>Net Income</b>	<b>\$ (4,158,295)</b>

CAPITAL & SURPLUS ACCOUNT  
For the Year Ended December 31, 2020

Surplus as regards to policyholders; December 31, 2019	\$ 193,024,573
Net income	(4,158,295)
Change in net unrealized capital gains (losses) less capital gains tax of \$	33,417,022
Change in net unrealized foreign exchange capital gain (loss)	-
Change in net deferred income tax	(9,278,036)
Change in nonadmitted assets	8,771,372
Change in provision for reinsurance	26,065,000
Capital Changes: Paid in	-
Surplus adjustment: Paid in	(130,000,000)
Transferred to Capital (Stock Dividend)	-
Dividends to stockholders	(44,133,698)
Aggregate write-ins for gains and losses in surplus	<u>(10,426,000)</u>
Net change in capital and surplus for the year	<u>\$ (129,742,635)</u>
Capital and surplus; December 31, 2020	<u><u>\$ 63,281,938</u></u>

**RECONCILIATION OF CAPITAL AND SURPLUS**  
As of December 31, 2015 to December 31, 2020

	Common Capital Stock	Gross Paid In Capital	Unassigned Surplus	Total
12/31/2015	\$ 3,000,000	\$ 227,884,554	\$ (17,745,967)	\$ 213,138,587
12/31/2016			3,508,160 (1)	3,508,160
12/31/2016			17,597,848 (2)	17,597,848
12/31/2017		20,000,000	(4)	20,000,000
12/31/2017			(7,753,514) (1)	(7,753,514)
12/31/2017			(2,505,009) (2)	(2,505,009)
12/31/2018			(2,889,773) (1)	(2,889,773)
12/31/2018			(8,322,002) (2)	(8,322,002)
12/31/2019			(8,733,592) (1)	(8,733,592)
12/31/2019			(31,016,132) (2)	(31,016,132)
12/31/2020		(130,000,000)	(5)	(130,000,000)
12/31/2020			(4,158,295) (1)	(4,158,295)
12/31/2020			48,549,358 (2)	48,549,358
12/31/2020			(44,133,698) (3)	(44,133,698)
	<u>\$ 3,000,000</u>	<u>\$ 117,884,554</u>	<u>\$ (57,602,616)</u>	<u>\$ 63,281,938</u>

(1) Represents net income (loss)

(2) Change in non-admitted assets, Change in unrealized gain(loss), Change in net deferred tax and Change in provision for reinsurance

(3) Dividends to stockholder

(4) Capital infusion

(5) An extraordinary dividend classified as a return of capital was approved by the Department on December 17, 2020

**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.

**SUBSEQUENT EVENTS**

The following material subsequent events occurred, requiring disclosure in this examination report.

Effective March 1, 2021, by Amendment No. 2 to the Sub-Investment Management Agreement and Amendment No. 1 to the Fee Adhesion Agreement arranged for XL Global

Investments Ltd. (XLGIL), on behalf of the AXA XL Insurers and AXA Investment Managers, Inc, to align the fees paid by each of the AXA XL Insurers with the fees paid by the other entities in the AXA Group.

Effective September 15, 2021, by Amendment No. 4 (including Amendment Schedule No. 2) to the Investment Management Services Agreement, changed the terms of the overall Legal Entity Investment Guidelines and Legal Entity benchmarks, entered into between CSIC, GIC, IHIC, XLIA, XL Specialty and XL Select (collectively, the Domestic Insurers) with XLGIL.

Effective September 30, 2021, a Form A Exemption was filed for an internal merger of EXEL Holdings Limited and XLIT Ltd. with and into XL Group which had no direct impact to any Domestic Insurers.

Effective October 1, 2021, by the First Amendment to the Sixth Amended and Restated Intercompany Reinsurance Pooling Agreement between and among the Domestic Insurers, XLRA, XLNY and CICI added T.H.E Insurance Company to the Pool with a 0% Pool Year Participation Percentage.

Effective January 1, 2022, by the Seventh Amendment and Restated Intercompany Reinsurance Pooling Agreement, AXA XL de-pooled the current X.L. America U.S. Pool and re-pooled under GIC as Pool Leader, with XLRA no longer Pool Leader and no longer part of the reconstituted pool. GIC will have a pooling percentage of 80%, XL Specialty will have a pooling percentage of 20% and all other pool members will have pooling percentages of 0%. Transfer and Novation agreements were included for the transition of assets, liabilities and reinsurance as needed in conjunction with the restructuring and de-pooling with the parties XL America, XLRA, GIC and other Domestic Insurers and effective January 1, 2022.

All the aforementioned agreements have been reviewed and approved by the Department.

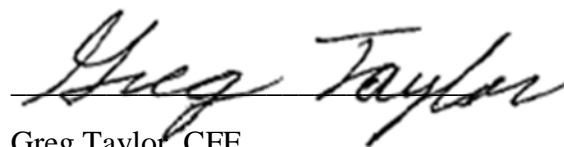
There were no other material subsequent events noted.

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.

The assistance and cooperation of Company's outside audit firm, PwC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

A handwritten signature in cursive script that reads "Greg Taylor". The signature is written in black ink and is positioned above a horizontal line.

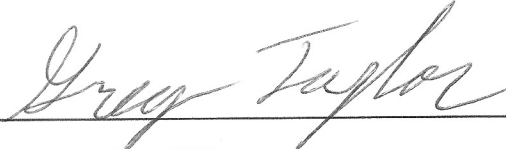
Greg Taylor, CFE  
Examiner In-Charge  
State of Delaware

A handwritten signature in cursive script that reads "Anthony C. Cardone". The signature is written in black ink and is positioned above a horizontal line.

Anthony Cardone, CPA, CFE  
Supervising Examiner  
State of Delaware

Catlin Specialty Insurance Company

I, Greg Taylor, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to Examination Certification No. 21.017.



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Greg Taylor, CFE