

Report on Examination
of
SEATON INSURANCE COMPANY
Providence, Rhode Island
as of
December 31, 2013



State of Rhode Island and Providence Plantations
Department of Business Regulation
Insurance Division



State of Rhode Island and Providence Plantations
DEPARTMENT OF BUSINESS REGULATION
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Insurance Division

DIRECTOR'S ORDER

The attached Report of Examination as of December 31, 2013, of the condition and affairs of SEATON INSURANCE COMPANY, was recently completed by duly qualified examiners, pursuant to the provisions of the Rhode Island General Laws.

Due consideration has been given to the comments of the examiners regarding the operation of the Company and its financial condition, as reflected in the report.

It is therefore ORDERED that said Report be, and it is hereby, adopted and filed and made an official record of this Department as of this date.

DEPARTMENT OF BUSINESS REGULATION

Macky McCleary
Director / Insurance Commissioner

ORDER # 15-24

DATED: 6-10-15

TABLE OF CONTENTS

	<u>Page</u>
SALUTATION	1
SCOPE OF EXAMINATION	2
COMPANY HISTORY	4
MANAGEMENT AND CONTROL	5
Shareholders	5
Board of Directors	6
Investment Committee	8
Other Committees	9
Officers	10
Organizational Structure	11
Intercompany Agreements	11
TERRITORY AND PLAN OF OPERATION	12
REINSURANCE	13
Assumed Reinsurance	13
Ceded Reinsurance	13
Retroactive Reinsurance	15
FINANCIAL STATEMENTS	17
Comparative Statement of Assets	18
Comparative Statement of Liabilities and Surplus and Other Funds	19
Statement of Income	20
Capital and Surplus Account	21
Reconciliation of Capital and Surplus	22
Analysis of Examination Adjustments	23
COMMENTS ON FINANCIAL STATEMENTS	24
ASSETS	24
Bonds	24
LIABILITIES	25
Losses and Loss Adjustment Expenses	25

TABLE OF CONTENTS (Cont.)

	<u>Page</u>
SUBSEQUENT EVENTS	26
CONCLUSION	27

April 27, 2015

Honorable Macky McCleary
Insurance Commissioner
State of Rhode Island and Providence Plantations
Department of Business Regulation
1511 Pontiac Avenue, Bldg. 68-2
Cranston, Rhode Island 02920

Dear Commissioner McCleary:

In accordance with your instructions and pursuant to Chapters 13.1 and 35 of Title 27 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2013, of the financial condition and affairs of

SEATON INSURANCE COMPANY

at its home office located at 475 Kilvert St., Suite 330, Warwick, Rhode Island. The report of such examination is herewith submitted.

Seaton Insurance Company, also referred to within this report as “Seaton,” or “the Company,” was previously examined as of December 31, 2008. Both the current and prior examinations have been conducted by the Insurance Division of the State of Rhode Island (“Insurance Division”) representing the Northeast Zone of the National Association of Insurance Commissioners (“NAIC”).

SCOPE OF EXAMINATION

The last examination of the Company covered the four-year period of January 1, 2005 through December 31, 2008. The current examination covered the five-year period of January 1, 2009 through December 31, 2013 and was performed in compliance with the above mentioned sections of the General Laws of the State of Rhode Island, as amended. We conducted our examination in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”), and it was performed in conjunction with the full scope coordinated multi-state risk-focused examination (“Coordinated Exam”) of the Enstar Group. The Coordinated Exam consisted of a property and casualty sub-group and a life sub-group. The lead states for the Coordinated Exam were New Jersey (property and casualty insurance sub-group) and Delaware (life insurance sub-group). The states of California, Illinois, New York and Rhode Island participated in the Coordinated Exam, which included the following insurers.

Name of Insurer	State of Domicile
Property and Casualty Sub-Group	
Seabright Insurance Company	Illinois
Clarendon American Insurance Company	New Jersey
Clarendon National Insurance Company	New Jersey
Harbor Specialty Insurance Company	New Jersey
Claremont Liability Insurance Company	California
Constellation Reinsurance Company	New York
Providence Washington Insurance Company	Rhode Island
Seaton Insurance Company	Rhode Island
York Insurance Company	Rhode Island
Life Sub-Group	
Pavonia Life Insurance Company of Delaware	Delaware
Pavonia Life Insurance Company of New York	New York
Pavonia Life Insurance Company of Arizona	Arizona
Pavonia Life Insurance Company of Michigan	Michigan

The 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, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.) are not included within the examination report but separately communicated to other regulators and/or the Company.

The examination was performed concurrently with the examination of the Company's affiliates, Providence Washington Insurance Company ("PWIC") and York Insurance Company ("York").

COMPANY HISTORY

The Company's original Articles of Incorporation were filed with The Secretary of the State of Washington on April 6, 1901 under the corporate name Northwestern Fire Association ("Association"). The original Certificate of Authority to write fire insurance on a mutual assessment plan was issued on April 18, 1901 by the Insurance Commissioner of the State of Washington. Following the enactment of multiple line underwriting legislation by all 50 states in 1955, the name of the Association was changed to Northwestern Mutual Insurance Company.

On May 3, 1971, the company adopted the name "Unigard Mutual Insurance Company."

On September 30, 1984, Unigard Mutual Insurance Company converted from a mutual company to a stock insurance company. All of the outstanding preferred and common stock of the company was purchased by Hansco Insurance Company, a subsidiary of John Hancock Mutual Life Insurance Company, in exchange for the infusion of \$75,000,000 in capital. The name of the Company was changed thereafter to Unigard Security Insurance Company ("USIC").

On December 10, 1993, USIC sold to Winterthur U.S. Holding, Inc., 100% of the stock of its wholly owned subsidiary, Unigard Inc., and its wholly owned subsidiaries; Unigard Insurance Company ("UIC"), Unigard Indemnity Company ("UID"), Unigard Service Corporation, and Unigard Service Corporation of California, and transferred to UIC as part of the sale, assets and liabilities related to USIC's continuing operations business.

Effective March 31, 1999, John Hancock Property Casualty Holding Company sold 100% of the stock of USIC to Dukes Place Holdings L.P, Bermuda (“Dukes Place”).

Effective July 9, 1999, Unigard Security Insurance Company changed its name to Seaton Insurance Company. Effective January 1, 2004, Seaton Insurance Company redomesticated from Washington to Rhode Island when the Petition for Redomestication was formally approved by the appropriate regulatory agency of both states.

Effective December 31, 2004, Dukes Place contributed all of its issued and outstanding stock of Seaton to Duke’s Place wholly owned subsidiary, Stonewall Acquisition Corporation (“Stonewall Acquisition”). On June 13, 2008, Virginia Holdings Limited, an indirect wholly owned subsidiary of Enstar Group Limited, acquired a 44.4% interest in the common stock of Stonewall Acquisition, the direct parent of both Seaton Insurance Company and Stonewall Insurance Company.

On August 3, 2010, Virginia Holdings Ltd acquired 100% of the share capital of Seaton Insurance Company. Virginia Holdings Ltd is ultimately owned by Enstar Group Ltd.

MANAGEMENT AND CONTROL

Shareholders

The Bylaws provide that the annual meeting of the shareholders shall be held on the date and at the time designated by the Board of Directors, for the purpose of electing directors and for

the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting shall be a legal holiday in the state of Rhode Island, such meeting shall be held on the next succeeding business day. If the election of directors shall not be held on the day designated herein for an annual meeting of the shareholders or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as is practicable.

Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by the Rhode Island Business Corporation Act, as amended (the "Act"), may be called by the Chairman of the Board, the President or the Board of Directors, and shall be called by the Secretary at the request of any shareholder of the Company entitled to vote at the meeting.

The holders of a majority of the issued and outstanding shares of capital stock of the Company entitled to vote, represented in person or by proxy, shall constitute a quorum at all meetings of the shareholders, except as otherwise provided by the Act or the articles of incorporation.

Board of Directors

The Bylaws provide that the business and affairs of the Company shall be managed by its board of directors. The Bylaws also stipulate that the number of directors shall be not less than five (5) nor more than nine (9), as established from time to time by resolution of the shareholders. Directors need be neither residents of Rhode Island nor shareholders of the

Company. The directors shall be elected at the annual meeting of the shareholders, and each director elected shall serve until the next succeeding annual meeting or until his or her successor is elected and qualified or until such director's death or resignation or removal in the manner provided in the Bylaws. The number of directors of the Company may from time to time be changed by resolution of the shareholders.

Any vacancy occurring in the board of directors may be filled by the affirmative vote of a majority of the remaining directors though not less than a quorum of the board of directors. A director elected to fill a vacancy shall be elected for the unexpired term of such director's predecessor in office. Any directorship to be filled by reason of an increase in the number of directors may be filled by the board of directors for a term of office continuing only until the next election of directors by the shareholders.

A regular meeting of the board of directors shall be held without notice immediately after, and at the same places as, the annual meeting of the shareholders. The board of directors may provide by resolution the time and place for the holding of additional regular meetings without notice other than such resolution.

Special meetings of the board of directors may be called by or at the request of the chairman of the board, the president or any two (2) directors.

A majority of the number of directors of the Company from time to time shall constitute a quorum for the transaction of business at any meeting of the board of directors, but if less than such a majority is present at a meeting, a majority of the directors then present may adjourn the meeting from time to time without further notice.

The members of the board of directors serving at December 31, 2013 were as follows:

Name	Business Affiliation	Term Expires
Karl J. Wall	Chairman, President Enstar (US) Inc.	#
Steven W. Given	Executive Vice President and Chief Operating Officer Enstar (US) Inc.	#
Thomas Nichols	Executive Vice President and Chief Financial Officer Enstar (US) Inc.	#
Joseph P. Follis	Senior Vice President - Claims Enstar (US) Inc.	#
Andrea J. Giannetta	Senior Vice President, Litigation Counsel Enstar (US) Inc.	#
Teresa M. Reali	Assistant Vice President, Client Manager Enstar (US) Inc.	#

- There is no term limit for directors. The Bylaws stipulate that directors elected at the annual meeting of the shareholders shall serve until the next succeeding annual meeting or until his or her successor shall have been elected and qualified or until such director's death or resignation or removal in the manner provided in the Bylaws.

Investment Committee

The Bylaws also provide that the board of directors, by resolution adopted by a majority of the full board of directors, may designate from among its members an investment committee consisting of not less than three (3) directors. The chairman of the investment committee

shall be determined by the board of directors. The members of the investment committee shall serve for a term of one (1) year and until their successors are elected and qualified.

The investment committee shall have the following powers and duties: (i) to direct and control the financial affairs of the Company on a daily basis; (ii) to authorize and effectuate all investment transactions, including but not limited to, the purchase, sale or exchange of shares, bonds, notes, equipment trust certificates, mortgages, or any other securities or assets of the Company; (iii) to designate banks or trust companies as custodians for shares, bonds, notes or other securities belonging to the Company; and (iv) to authorize and designate the proper individuals to prepare and execute on behalf of the Company, all documents necessary to carry out such transactions and to take any and all other actions as may be necessary or desirable to fully implement the foregoing powers.

At December 31, 2013, the investment committee was comprised of the following individuals:

Thomas J. Nichols
Steven W. Given
Teresa M. Reali

Other Committees

In addition to the executive committee and investment committee, the Bylaws provide that the board of directors may designate from among its members one or more other committees each of which, to the extent provided in such resolution, shall have and may exercise any or all of the authority of the board of directors, provided that no such committee shall have the

authority of the board of directors in reference to any matter set forth in the Bylaws. As of December 31, 2013, the Company has not established any other committees of the board of directors.

Officers

The Bylaws provide that the officers of the Company shall be a chairman of the board, a president, one or more vice-presidents if elected, a secretary, a treasurer, and such other officers as may be deemed necessary by the board of directors. Any two or more offices may be held by the same person. The chairman of the board and president shall be elected from among the board of directors. No other officer need be a director or shareholder of the Company.

The officers of the Company specifically designated above shall be elected annually by the board of directors at its regular meeting held after the annual meeting of shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as is practicable. The president may elect or appoint such other officers, including any number of assistant vice presidents, assistant secretaries, and assistant treasurers, as the President shall deem necessary.

The officers serving, and their respective titles at December 31, 2013, are as follows:

Steven J. Given	President
Teresa M. Reali	Treasurer and Chief Operating Officer
Thomas J. Nichols	Chief Financial Officer
Joseph P. Follis	Vice President
Thomas J. Balkan	Secretary
Nadja Stavenhagen	Assistant Secretary

The records of the meetings of the shareholders, board of directors, and investment committee were reviewed as part of this examination. The meetings appeared to be held in accordance with the Company's Bylaws and did not contain evidence of any actions contrary to the Company's Bylaws, Articles of Incorporation or the Rhode Island General Laws.

Organizational Structure

At December 31, 2013, Virginia Holdings Ltd owned 100% of the issued and outstanding common capital stock of the Company. Virginia Holdings Ltd., a Bermuda Company, is ultimately owned by Enstar Group Ltd., Bermuda.

The following represents an abbreviated organizational chart as of December 31, 2013, which illustrates the identities and interrelationships between the Company, its parent, affiliated insurers and other members of the holding company system:

<u>Company</u>	<u>Domicile</u>	<u>% Owned</u>
Enstar Group Limited	Bermuda	
Kenmare Holdings Ltd.	Bermuda	100%
Virginia Holdings Ltd	Bermuda	100%
Seaton Insurance Company	Rhode Island	100%

Intercompany Agreements

Agreement Relating To Administration of Run-Off Business

Effective January 18, 2006, the Company entered into an ‘Agreement Relating To Administration of Run-Off Business’ (“Administration Agreement”) with Enstar whereby the Company appoints and authorizes Enstar to provide management, processing, accounting and claims handling services relating to the Company’s discontinued run-off business. In consideration for providing the services under the Administration Agreement, for the years 2006 through 2008, the Company paid a predetermined annual fee in equal quarterly installments. In the event there is a substantial change in the nature of the business or the quantity of the services provided by Enstar, then each party at the request of the other party shall in good faith seek to renegotiate the annual fee. For periods subsequent to January 1, 2009, the annual fee shall be mutually agreed to by Enstar and the Company.

Federal Tax Sharing Agreement

As of December 31, 2013, the Company is not a party to a Federal Tax Sharing Agreement (“Tax Agreement”).

TERRITORY AND PLAN OF OPERATION

At December 31, 2013, the Company was licensed to transact business in thirty (30) jurisdictions. Certain jurisdictions have requested Stipulation and Consent Orders not to engage in new business without specific authorization; however; there are no plans to write new business in the future.

The Company's operations are comprised of the following three books of business, all of which are in run-off: Assumed Reinsurance ("RA") written primarily from 1971 through 1984, Facultative and Special Risks business written through Allen/Miller from 1972 through 1974 ("FASR"), and Unigard Security Insurance Company direct business ("USIC"). The USIC business is 100% reinsured through third party reinsurers and there is no net exposure to the Company. The RA and FASR business is 100% reinsured up to \$43,000,000 through an intercompany retroactive reinsurance agreement entered into with Fitzwilliam Insurance Ltd. (Refer to 'Retroactive Reinsurance' caption below for details).

Management has implemented an aggressive claim settlement program including policy buy-backs and the commutation of assumed balances, in an attempt to bring an end to litigation costs, eliminate the development of future claims and minimize the exposure to the future collection risk associated with reinsurance recoverables.

REINSURANCE

Assumed Reinsurance

As discussed under the 'Territory and Plan of Operation' caption, the Company assumed reinsurance under two programs, RA and FASR. The RA book of business was assumed from over 500 ceding companies and included over 7,000 contract periods. A broad range of excess of loss and quota share treaties are included in this book of business and encompasses property, casualty and workers' compensation lines of business. At December 31, 2013, the Company has recorded assumed case reserves from approximately 75 ceding companies. The FASR assumed book of business originates from the issuance of facultative certificates.

Ceded Reinsurance

A summary of the Company's principal ceded treaties relating to the RA and FASR books of business is as follows:

'RA' Book of Business

<u>Contract *</u>	<u>Term</u>	<u>Description</u>
Incare Casualty Assumed Excess of Loss Treaty	7/1/79 - 6/30/84	\$900,000 excess \$100,000
Casualty Excess of Loss Cover (Clash)	7/1/72 - 6/30/74	\$750,000 excess \$250,000
	7/1/74 - 6/30/79	\$1,000,000 excess \$250,000
	7/1/79 - 6/30/85	\$1,250,000 excess \$250,000

'FASR' Book of Business

<u>Contract *</u>	<u>Term</u>	<u>Description</u>
16/26/36/46/76/86	4/1/72 - 12/31/74	Second Casualty Excess of Loss Treaty (\$1,000,000 excess \$1,000,000)
17/27/37/47/77/87	4/1/72 - 12/31/74	Third Casualty Excess of Loss Treaty (\$3,000,000 excess \$2,000,000)
65	1/1/75 - 12/31/76	First Casualty Gap (No Exception) (\$500,000 excess \$500,000)
66	1/1/75 - 12/31/76	Second Casualty Gap (No Exception) (\$1,000,000 excess \$1,000,000)
67	1/1/75 - 12/31/76	Third Casualty Gap (No Exception) (\$3,000,000 excess \$2,000,000)

* List is comprised of significant active treaties. Inactive treaties have been excluded. Also, facultative certificates have also been excluded as they are policy specific.

In addition to the reinsurance contracts summarized above, effective July 1, 1993, the Company entered into a Quota Share Reinsurance Agreement (“Quota Share Agreement”) with Unigard Insurance Company (“UIC”), a former affiliate. Under the Quota Share Agreement, UIC assumed 100% of the Company’s continuing insurance operations business, net premiums written and related losses. The Quota Share Agreement also provided for UIC to convert all of the Company’s continuing insurance operations business to UIC policies as soon as reasonably practicable. In connection with the foregoing, USIC entered into a service agreement with UIC, whereby UIC will service continuing operations policies covered under the Quota Share Agreement. All of this business is currently in run-off.

Retroactive Reinsurance

On December 3, 2009, Columbia Insurance Company, an indirect subsidiary of Berkshire Hathaway Inc. and an affiliate of National Indemnity Company (“NICO”) entered into a stock purchase agreement with Stonewall Acquisition Corporation and certain of its affiliates to acquire all of the outstanding capital stock of Stonewall Insurance Company from Stonewall Acquisition Corporation. Seaton was also owned by Stonewall Acquisition Corp. The sale transaction closed on April 7, 2010. In conjunction with this sale transaction, the aggregate reinsurance agreement between Seaton and NICO was commuted on April 7, 2010. The commutation proceeds were to be paid by NICO to the Company over a five-year period under the terms of a Promissory Note. The final payment under the Promissory Note was made on December 31, 2014. Concurrent with this commutation, the Company entered into a retroactive reinsurance agreement with Fitzwilliam Insurance Ltd. (“Fitzwilliam”), an

affiliate of Enstar Group. The Fitzwilliam agreement provides for \$43,000,000 of coverage in excess of an attachment point, protecting the RA and FASR books of business discussed under the ‘Territory and Plan of Operation’ caption. The Fitzwilliam agreement also provides for capital support payments should the Company’s surplus fall below \$6,000,000. Consistent with the requirements set forth in SSAP No. 62 (*Property and Casualty Reinsurance*) of the NAIC’s Accounting Practices and Procedures Manual, the reinsurance agreement entered into with Fitzwilliam has been accounted for as retroactive reinsurance for statutory reporting purposes.

The reinsurance contract with Fitzwilliam was independently reviewed by Merlinos & Associates, Inc. (“Merlinos”), consultants for the Rhode Island Insurance Division, for compliance with the risk transfer requirements of SSAP No. 62. Merlinos concluded that the reinsurance agreement contains sufficient risk transfer to qualify as reinsurance for statutory reporting purposes.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Rhode Island Department of Business Regulation and present the financial condition of the Company for the period ending December 31, 2013. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements:

Comparative Statements of Assets
December 31, 2013 and December 31, 2008

Comparative Statements of Liabilities and Capital and Surplus and Other funds
December 31, 2013 and December 31, 2008

Statement of Income
Year ended December 31, 2013

Capital and Surplus Account
December 31, 2012 to December 31, 2013

Reconciliation of Capital and Surplus
December 31, 2008 to December 31, 2013

Analysis of Examination Adjustments
December 31, 2013

SEATON INSURANCE COMPANY
Comparative Statement of Assets
December 31, 2013 and 2008

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2008</u>	<u>Increase</u> <u>(Decrease)</u>
Bonds	\$25,923,343	\$40,447,423	(\$14,524,080)
Common stocks	0	5,797	(5,797)
Cash, cash equivalents and short term investments	29,486,570	9,150,865	20,335,705
Receivables for securities	347,018	0	347,018
Investment income due and accrued	155,251	419,854	(264,603)
Amounts recoverable from reinsurers	5,480,865	26,747,719	(21,266,854)
Funds held by or deposited with reinsured companies	97,478	0	97,478
Other amounts receivable under reinsurance contracts	18,200,000	0	18,200,000
Total Assets	<u>\$79,690,525</u>	<u>\$76,771,658</u>	<u>\$2,918,867</u>

SEATON INSURANCE COMPANY
Comparative Statement of Liabilities and Surplus and Other Funds
December 31, 2013 and 2008

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2008</u>	<u>Increase</u> <u>(Decrease)</u>
Losses	\$47,279,101	\$137,865,041	(\$90,585,940)
Reinsurance payable on paid losses and loss adjustment expenses	28,791,779	15,778,731	13,013,048
Loss adjustment expenses	14,949,343	28,224,079	(13,274,736)
Other expenses	231,810	967,168	(735,358)
Current federal and foreign income taxes	0	464,691	(464,691)
Funds held by company under reinsurance treaties	105,359	158,198	(52,839)
Provision for reinsurance	3,733,757	9,571,541	(5,837,784)
Net adjustments in assets and liabilities due to foreign exchange rates	0	1,070,297	(1,070,297)
Payable to parent, subsidiaries and affiliates	676,073	0	676,073
Aggregate write-ins for liabilities	<u>(24,213,720)</u>	<u>(120,229,008)</u>	<u>96,015,288</u>
Total Liabilities	<u>71,553,502</u>	<u>73,870,738</u>	<u>(2,317,236)</u>
Special surplus from retro reinsurance	0	157,999,999	(157,999,999)
Common capital stock	2,600,000	2,600,000	0
Gross paid in and contributed surplus	52,400,000	52,400,000	0
Unassigned funds (surplus)	<u>(46,862,977)</u>	<u>(210,099,079)</u>	<u>163,236,102</u>
Surplus as regards policyholders	<u>8,137,023</u>	<u>2,900,920</u>	<u>5,236,103</u>
Total Liabilities, Surplus and Other Funds	<u>\$79,690,525</u>	<u>\$76,771,658</u>	<u>\$2,918,867</u>

SEATON INSURANCE COMPANY
Statement of Income
Year ending December 31, 2013

UNDERWRITING INCOME

Premiums earned		\$2,426
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DEDUCTIONS

Losses incurred	(3,024,326)	
Loss adjustment expenses incurred	3,937,010	
Other underwriting expenses incurred	702,997	
Total underwriting deductions		1,615,681
Net underwriting gain or (loss)		(1,613,255)

INVESTMENT INCOME

Net investment income earned	450,377	
Net realized capital gains or (losses) less capital gains tax	93,420	
Net investment gain or (loss)		543,797

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	0	
Aggregate write-ins for miscellaneous income	734,117	
Total other income		734,117
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		(335,341)
Less: Federal and foreign income taxes incurred		0
Net Income (loss)		(\$335,341)

SEATON INSURANCE COMPANY
Capital and Surplus Account
December 31, 2012 to December 31, 2013

Surplus as regards policyholders, December 31, 2012	\$8,246,020
Net income or (loss)	(335,341)
Change for provision for reinsurance	<u>226,344</u>
Change in surplus as regards policyholders for the year	<u>(108,997)</u>
Surplus as regards policyholders, December 31, 2013	<u><u>\$8,137,023</u></u>

SEATON INSURANCE COMPANY
Reconciliation of Capital and Surplus
December 31, 2008 to December 31, 2013

Surplus as regards policyholders, December 31, 2008			\$3,328,742
	<u>Gains</u>	<u>Losses</u>	
Net income		4,587,664	
Change in net unrealized capital gains or (losses) less capital gains tax		5,798	
Change in net unrealized foreign exchange capital gain (loss)	1,070,301		
Change in net deferred income tax		15,185,183	
Change in nonadmitted assets	15,886,664		
Change in provision for reinsurance	5,699,931		
Aggregate write-ins for gains and losses in surplus	<u>1,930,030</u>		
Total gains and losses	<u>\$24,586,926</u>	<u>\$19,778,645</u>	
Net increase (decrease) in surplus as regards policyholders			<u>4,808,281</u>
Surplus as regards policyholders, December 31, 2013			<u><u>\$8,137,023</u></u>

SEATON INSURANCE COMPANY
Analysis of Examination Adjustments
December 31, 2013

The examination of the Company, performed as of December 31, 2013, did not disclose any material misstatements to the financial statements contained in its 2013 Annual Statement filing. Accordingly, the amounts reported by the Company have been accepted for purposes of this report.

COMMENTS ON FINANCIAL STATEMENTS

ASSETS

Bonds **\$25,923,343**

The above amount is the net admitted value of bonds held by the Company and is the same as that reported in its 2013 Annual Statement. All of the bonds owned at year-end 2013 are held in accordance with a custodial agreement with a third party. Approximately 13.6% of the Company's bond portfolio, which amounts to \$3,534,870, is held in the form of special deposits (See "Statutory Deposits" section for details).

Eighty-four percent (84%) of all bonds in the Company's portfolio at December 31, 2013, were rated as Class 1 based upon evaluation methods established by the National Association of Insurance Commissioners Securities Valuation Office. All other bonds were rated as Class 2. Class 1 and Class 2 securities are considered "highest" and "high quality" respectively.

The amortized book value of bonds owned at December 31, 2013, represents 32.5% of the Company's total admitted assets. The book value, fair value, actual cost and par value of the bond portfolio at December 31, 2013, are as follows:

<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>	<u>Par Value</u>
<u>\$25,923,343</u>	<u>\$25,847,765</u>	<u>\$26,075,218</u>	<u>\$25,567,951</u>

LIABILITIES

<u>Losses and Loss Adjustment Expenses</u>		<u>\$62,228,444</u>
Losses	\$47,279,101	
Loss Adjustment Expenses	<u>14,949,343</u>	
Total	<u>\$62,228,444</u>	

The reserves for losses and loss adjustment expenses reflected above are the same as those reported by the Company in its 2013 Annual Statement. The reserve calculation prepared by the Company was reviewed by Merlinos & Associates, Inc. (“Merlinos”), consulting actuaries for the Rhode Island Insurance Division. Merlinos relied upon the underlying data reported by the Company, and their analyses included a review of the actuarial assumptions and methods used by the Company in determining the reserves, and such tests of actuarial calculations as deemed necessary.

In assisting Merlinos with the reserve analysis, the examiners either independently performed or relied upon the procedures performed by the Enstar Internal Audit Department to verify the integrity of the underlying claims data, including completeness testing. A combination of subjective and statistical sampling techniques was utilized in testing the claims data, as deemed appropriate.

SUBSEQUENT EVENTS

A review of the minutes of the stockholder's and board of directors' meetings for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Company's operations or financial statements. In addition, an inquiry was made of the Company's management regarding subsequent events. Based upon our review, the following significant events occurred subsequent to the period covered by this examination requiring disclosure:

Change in Management

- Effective March 7, 2014, Karl J. Wall resigned as a member of the Board of Directors.
- Effective December 11, 2014, Steven W. Given resigned his position as President and Chairman of the Board. Paul Brockman was appointed President and Chairman of the Board, also effective December 11, 2014.

Merger

- On December 31, 2014, a Plan and Agreement of Merger ("Plan of Merger") was entered into by and between Seaton Insurance Company and its affiliate, Providence Washington Insurance Company ("PWIC"). Under the Plan of Merger, the two entities were combined with PWIC being the surviving entity. The Plan of Merger which became effective on March 31, 2015 was also approved by the Rhode Island Insurance Division on March 31, 2015.

Commutations and Policy Buybacks

- The Company continues to evaluate commutations with ceding companies and reinsurers, along with direct policy buyback opportunities, seeking to reduce risk and uncertainty. Subsequent to December 31, 2013, the Company has entered into various commutation agreements which effectively eliminated certain assumed liabilities and/or ceded assets. As of the date of this Report on Examination, the Company also has commutation proposals in various stages of completion.

CONCLUSION

We have applied verification procedures to the data and information contained in this report using sampling techniques and other examination procedures as deemed appropriate. While sampling and other examination procedures do not give complete assurance that all errors and irregularities will be detected, had any been detected during the course of this examination, such errors and/or irregularities would have been disclosed in this report. Other than what has been noted in the body of this report, we were not informed of, and did not become aware of any errors or irregularities that could have a material effect on the financial condition of the Company as presented in this report.

Acknowledgment is made of the services rendered by Merlinos & Associates. Inc., the Rhode Island Insurance Division's consulting actuaries.

Assisting in the examination with the undersigned and representing the Rhode Island Insurance Division were David A. Paolantonio, CFE, CFSA, CISA, AES; Insurance Examiner-In-Charge and Louis Gabriele Jr., CPA, CFE; Insurance Examiner-In-Charge.

Respectfully submitted,

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