

REPORT ON EXAMINATION
OF
SEVEN SEAS INSURANCE COMPANY,
INC.

RIVIERA BEACH, FLORIDA

AS OF
DECEMBER 31, 2013

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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March 16, 2015

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2013, of the financial condition and corporate affairs of:

**SEVEN SEAS INSURANCE COMPANY, INC.
5 EAST 11TH STREET
RIVIERA BEACH, FLORIDA 33404**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2009 through December 31, 2013. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office from November 4, 2014 to November 7, 2014. The fieldwork commenced on November 10, 2014 and concluded as of March 16, 2015.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and Annual Statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

The findings noted during this examination period have been resolved by the Company subsequent to the examination date. However, the findings or exceptions are discussed in detail in the body of the examination report.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the company for the examination as of December 31, 2008.

SUBSEQUENT EVENTS

The Company and its parent, Birdsall, Inc., a Florida corporation, were purchased by Aqua Acquisition Corp on September 2, 2014, effective August 31, 2014. Aqua Acquisition Corp is owned by Saltchuk Resources, Inc., a Washington domiciled corporation and ultimate parent. Prior to August 31, 2014, Birdsall, Inc. was owned by AGL Resources Inc., a Georgia corporation and publicly traded company. In April 2014, AGL Resources, Inc. and Saltchuk Resources, Inc. entered into a definitive agreement to sell Birdsall, Inc. The transaction closed effective August 31, 2014.

HISTORY

General

The Company was incorporated in Florida on April 21, 1989, under the laws of the State of Florida, as a stock property and casualty insurer and commenced business on May 18, 1989, under the name of Seven Seas Insurance Company, Inc. On December 9, 2011, the Company was acquired from NICOR Inc. by Ottawa Acquisition, LLC, an Illinois limited liability company, wholly owned by AGL Resources, Inc., a publicly traded Georgia corporation. The Company was party to Consent Order 119241-11-CO filed August 9, 2011, regarding the Company's acquisition by Ottawa Acquisition, LLC.

The Company was authorized to transact the following insurance coverages in Florida on May 18, 1989 and December 31, 1999, respectively, and continued to be authorized as of December 31, 2013:

Ocean Marine Inland Marine

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder as follows

YEAR	AMOUNT
2009	\$2,500,000

2010	5,000,000
2011	3,000,000
2012	7,500,000
2013	15,000,000
TOTAL	<u>\$33,000,000</u>

Capital Stock and Capital Contributions

As of December 31, 2013, the Company's capitalization was as follows:

Number of authorized common capital shares	20,000
Number of shares issued and outstanding	10,010
Total common capital stock	\$750,750
Par value per share	\$75.00

Control of the Company was maintained by its immediate parent, Birdsall, Inc., which owned 100% of the outstanding stock issued by the Company. Birdsall, Inc. was 100% owned by Nicor, Inc. which was a publicly traded company. Nicor merged into AGL Resources, Inc. effective December 9, 2011, which in turn owned 100% of Birdsall, Inc.

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales Through Reinsurance

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2013, were:

Directors

Name and Location	Principal Occupation
Alpa Ambalal Patel (a) Atlanta, Georgia	Assistant Treasurer/Director, AGL Resources, Inc.
Bryan Edgar Seas (a) Alpharetta, Georgia	Director, SVP CAO, AGL Resources, Inc.
Gerald Charles Yoshida (a) Honolulu, Hawaii	Shareholder, Director and Officer of Char Hamilton Yoshida & Shimomoto

Henry Philip Linginfelter (a)
Atlanta, Georgia

EVP, AGL Resources

Paul Irvin Wagner, Jr (a)
Powder Springs, Georgia

Executive Risk Management,
AGL Resources, Inc.

Paul Reed Shlanta (a)
Atlanta, Georgia

Executive VP, Chief Ethics Officer, AGL
Resources, Inc.

(a) On August 31, 2014, as a result of the Company's acquisition by Saltchuk Resources, Inc., the entire Board resigned and was replaced on September 2, 2014 by the following Directors: Timothy Brian Engle (Chairman), James Michael Culpepper, Steven Eric Giese, Renee Marie LaGrenade, and Mark Norman Tabbutt. On December 22, 2014, Trevor Parris was appointed to the Board of Directors.

Senior Officers

Name

Title

James Michael Culpepper
Bryan Edgar Seas (a)
Paul Reed Shlanta (a)
Paul Irvin Wagner, Jr. (b)
Renee Marie LaGrenade

President
Vice President and Controller
SVP and Corporate Secretary
Vice President
AVP

(a) Resigned August 31, 2014, and was replaced by Steven Eric Giese on September 2, 2014, as Senior Vice President, Controller, and Secretary.

(b) Resigned August 31, 2014, and was replaced by Mark Norman Tabbutt on September 2, 2014, as Vice President.

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2013:

Audit Committee

Bryan Seas ¹
Gerald C. Yoshida
Alpa Patel

Investment Committee

Alpa Patel ¹
Paul R. Shlanta
Paul I. Wagner

¹ Chairman

The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

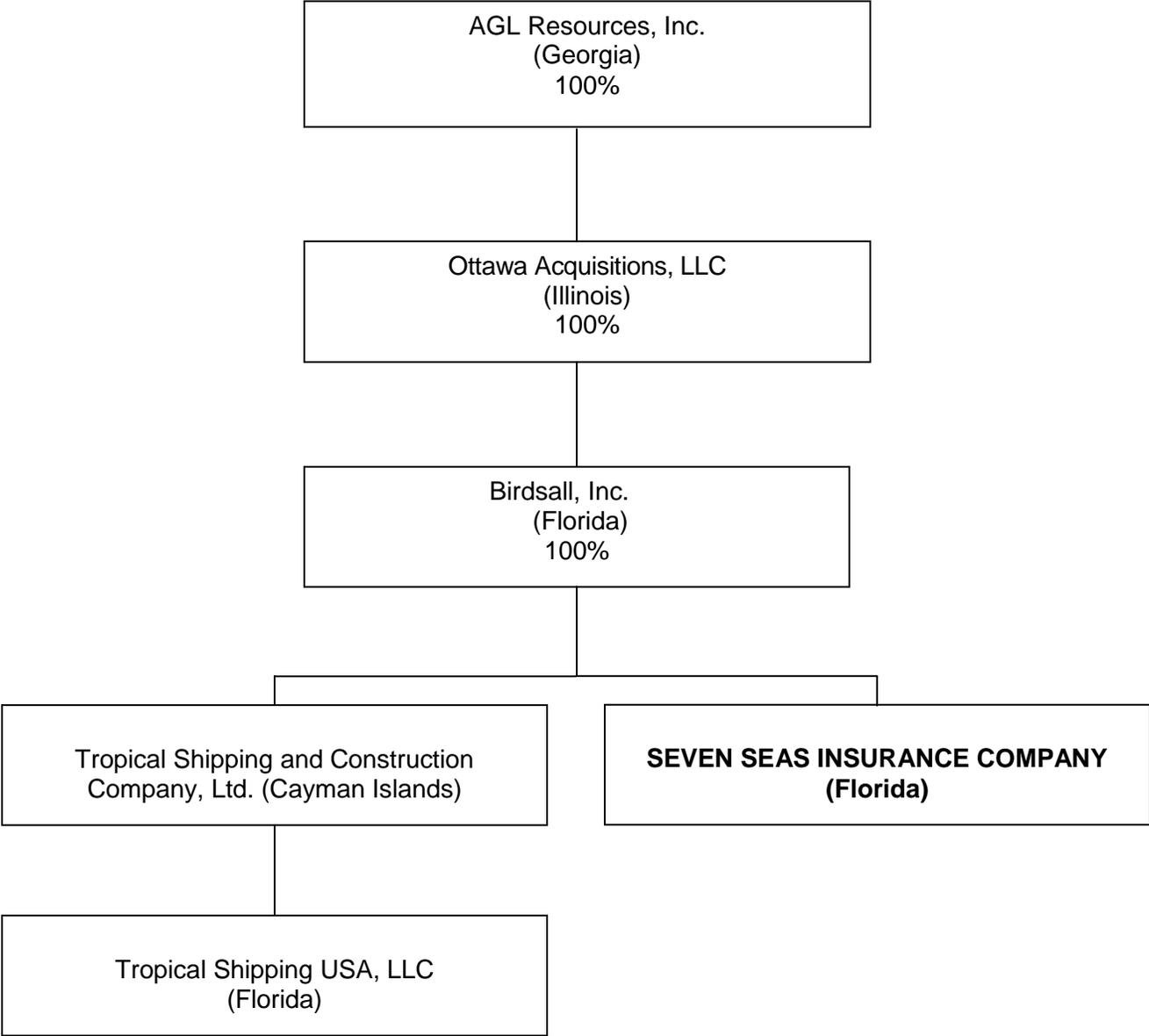
Affiliated Companies

The most recent holding company registration statement was filed with the State of Florida on April 7, 2015, as required by Section 628.801, Florida Statutes.

A simplified organizational chart as of December 31, 2013, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2013 annual statement provided a list of all related companies of the holding company group.

**SEVEN SEAS INSURANCE COMPANY
SIMPLIFIED ORGANIZATIONAL CHART**

DECEMBER 31, 2013



The following agreements were in effect between the Company and its affiliates:

Tax and Cost Sharing Service Contract

The Company, along with its parent, Birdsall, Inc. (Birdsall) d/b/a Tropical Shipping, entered into a tax and cost sharing service contract effective October 1, 1999. According to the terms of the agreement, Birdsall provided administrative services for which the Company agreed to reimburse Birdsall 100% of the costs incurred by Birdsall on behalf of the Company. This agreement also describes the manner in which income taxes on the consolidated federal income tax return will be allocated between Birdsall and the Company. On December 31, 2013, the method of allocation between the Company and its parent was on a separate-entity basis. The Company's monthly tax provision was calculated based on the Company's monthly net income before tax for the current month multiplied by 5.5% for state taxes and 33.075% for federal taxes (35% after state income tax deduction). According to the agreement, the Company and Birdsall agree to settle any inter-company balances quarterly.

Services Agreement

The Company entered into an agreement, effective January 1, 2006, with Tropical Shipping USA, LLC (Tropical). This Agreement was amended on August 28, 2009. According to the terms of the agreement, Tropical provided accounting, auditing, administrative and regulatory filing, financial planning and reporting, and Information System services. For these services (except payroll), the Company paid 100% of costs incurred in providing the services. For payroll services, the compensation paid by the Company was based on the percentage of the number of Company employees to total Tropical and Company employees. Fees incurred under this agreement during 2013 amounted to \$494,688.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2013, the group of companies to which the Company was a member, maintained a crime policy with limits up to \$4,000,000 in excess of a deductible of \$1,000,000, which reached the suggested minimum as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company participates in a Retirement Savings Plan, which is sponsored by Birdsall. The plan contains a 401(k) cash or deferred arrangement with a profit sharing feature. Birdsall allocates amounts to the Company based on salary ratios.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida.

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

COMPANY GROWTH

Throughout the examination period, the Company has experienced steady generation of business with annual net premiums written ranging from \$16.1M to \$17.6M.

The Company has steadily earned an underwriting profit producing net income ranging from \$7.5M to \$8.1M annually over the examination scope period. The underwriting profit is attributable to low loss and expense ratios. The Company attributes the low expense ratio to the direct distribution channel through its sister company, Tropical Shipping. The net loss ratio ranged from 11.7% to 20.4% over the examination period.

Surplus experienced a steady increase from 2009 through 2012, increasing from \$16.2M to \$23.7M. However, in 2013, surplus decreased 32% to \$16.2M, primarily as a result of the \$15M extraordinary dividend paid in 2013.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	2013	2012	2011	2010	2009
Premiums Earned	17,211,885	17,399,406	17,602,629	16,422,391	16,205,112
Net Underwriting Gain/(Loss)	11,402,127	11,330,626	12,204,780	10,899,360	11,757,226
Net Income	7,554,157	7,491,846	8,108,449	7,470,281	7,747,469
Total Assets	28,123,709	30,078,887	25,427,418	20,511,730	18,511,787
Total Liabilities	11,912,130	6,355,991	1,790,403	1,771,205	2,292,065
Surplus As Regards Policyholders	16,211,579	23,722,896	23,637,015	18,740,525	16,219,722

LOSS EXPERIENCE

The Company did not experience significant change to its loss development. The Company's net loss ratio ranged from 11.7% to 20.4% throughout the exam period and ended at 17.8%.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company did not assume any reinsurance during the period of this examination.

Ceded

As of December 31, 2013, the Company ceded risk through a bi-layer excess of loss basis to affiliate Global Energy Resource Insurance Corporation (GERIC). The first layer has a limit of \$500,000 in excess of a Net Loss of \$250,000. The second layer has a limit of \$9,250,000 in excess of a Net Loss of \$750,000.

From January 1, 2009 through December 31, 2012, the Company ceded risk through an excess of loss agreement with Lloyd's of London. The Company's retention was \$750,000 for all losses. Reinsurers' limits were in four layers up to a total loss of \$10,000,000.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Riviera Beach, Florida. The Company's accounting records were maintained on internally developed externally purchased and modified systems.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Bank of America, N. A, for the safekeeping of its securities, effective November 29, 2007. The agreement did not contain the required content of subsections (i) and (o) of Rule 69O-143.042(2), Florida Administrative Code. **Subsequent Event:** The Company provided an amended Custodial Agreement and Addendum to the Office and is now in compliance with subsections (i) and (o) of Rule 69O-143.042(2), Florida Administrative Code.

Reinsurance Intermediary Broker Agreement

The Company utilized Willis Re Inc. as its reinsurance intermediary broker. The Company's reinsurance intermediary broker agreement did not contain the required provisions of Section 626.7492 (4), (5), Florida Statutes. **Subsequent Event:** Upon its acquisition in 2014 by Saltchuk Resources, Inc., the Company changed its reinsurance intermediary broker to Aon Risk Services Northeast, Inc., whose existing agreement contained all required provisions.

Independent Auditor Agreement

An independent CPA audited the Company's statutory basis financial statements annually, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Andy Wittig, CISA, CIA of Baker Tilly Virchow Krause, LLP, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes.

STATE	Description	Par Value	Market Value
FL	CD – Bank of America	<u>\$ 150,000</u>	<u>\$ 150,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 150,000</u>	<u>\$ 150,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$150,000</u>	<u>\$150,000</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2013, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

SEVEN SEAS INSURANCE COMPANY
Assets

DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Bonds	\$4,262,993		\$4,262,993
Stocks:			
Common			0
Real Estate:			
Properties			
occupied by Company			0
Other properties			0
Cash and Short-Term Investments	23,031,238		23,031,238
Other investments			0
Aggregate write-in for invested assets			0
Agents' Balances:			
Uncollected premium	709,750		709,750
Deferred premium			0
Reinsurance recoverable			0
EDP Equipment			0
Interest and dividend income due & accrued	51,348		51,348
Net deferred tax asset	68,380		68,380
Receivable from parents, subsidiaries and affiliates			0
Equities and deposits in pools and associations			0
Aggregate write-in for other than invested assets			0
<hr/>			
Totals	<u>\$28,123,709</u>	<u>\$0</u>	<u>\$28,123,709</u>

SEVEN SEAS INSURANCE COMPANY

Liabilities, Surplus and Other Funds

DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Losses	\$615,279		\$615,279
Loss adjustment expenses	64,578		64,578
Other expenses	183,880		183,880
Taxes, licenses and fees	930,348		930,348
Current federal and foreign income taxes	4,310,578		4,310,578
Unearned premium	52,830		52,830
Payable to parent, subsidiaries and affiliates	5,584,253		5,584,253
Aggregate write-ins for liabilities	170,384		170,384
Total Liabilities	\$11,912,130		\$11,912,130
Common capital stock	\$750,750		\$750,750
Gross paid in and contributed surplus	1,000,000		1,000,000
Unassigned funds (surplus)	14,460,829		14,460,829
Surplus as regards policyholders	\$16,211,579		\$16,211,579
Total liabilities, surplus and other funds	\$28,123,709		\$28,123,709

SEVEN SEAS INSURANCE COMPANY

Statement of Income

DECEMBER 31, 2013

Premiums earned		\$17,211,885
	Deductions:	
Losses incurred		\$2,601,801
Loss expenses incurred		455,177
Other underwriting expenses incurred		2,752,780
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$5,809,758</u>
Net underwriting gain or (loss)		\$11,402,127
	Investment Income	
Net investment income earned		\$138,252
Net realized capital gains or (losses)		0
Net investment gain or (loss)		<u>\$138,252</u>
	Other Income	
Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		<u>\$0</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$11,540,379
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$11,540,379
Federal & foreign income taxes		<u>3,986,222</u>
Net Income		<u><u>\$7,554,157</u></u>
	Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year		\$23,722,896
Net Income		\$7,554,157
Net unrealized capital gains or losses		12,979
Change in non-admitted assets		(100,246)
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Dividends to stockholders		(15,000,000)
Aggregate write-ins for gains and losses in surplus		21,793
Examination Adjustment		
Change in surplus as regards policyholders for the year		<u>(\$7,511,317)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$16,211,579</u></u>

A comparative analysis of changes in surplus is shown below.

SEVEN SEAS INSURANCE COMPANY
Comparative Analysis of Changes in Surplus
DECEMBER 31, 2013

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2013, per Annual Statement	\$16,211,579
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2013, Per Examination			\$16,211,579

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$679,857

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2013, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Rusty Kuehn FCAS, MAAA, CERA, CPCU, ARM, FCA, and Todd H. Dashoff, ACAS, MAAA, ARM, of Huggins Actuarial Services, Inc, reviewed the loss and loss adjustment expense work papers provided by the Company and they were in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$16,211,579, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Seven Seas Insurance Company as of December 31, 2013, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$16,211,579, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John Romano, CPA, CFE, Examiner-In-Charge, Andrew Wittig, CISA, CIA, IT Manager, Emily Cheng, CPA, CFE, IT Specialist, Bonnie Casella and Jon Kelly, Participating Examiners, of Baker Tilly Virchow Krause, LLP participated in the examination. Additionally, Rusty Kuehn, FCAS, MAAA, and Todd H. Dashoff, ACAS, MAAA, consulting actuary of Huggins Actuarial Services, Inc., and Jonathan Frisard, Exam Manager of the Office participated in the examination.

Respectfully submitted,

Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation