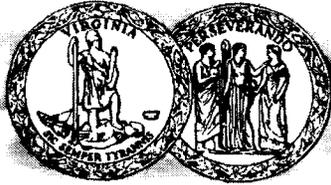


EXAMINATION REPORT
of the
ELEPHANT INSURANCE COMPANY
Glen Allen, Virginia
as of
December 31, 2012

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Elephant Insurance Company as of December 31, 2012, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 17th day of December, 2013

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
September 24, 2013

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of § 38.2 - 1317 of the Code of Virginia, a financial condition examination of the records and affairs of the

ELEPHANT INSURANCE COMPANY

Glen Allen, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Company is a stock property and casualty insurer and was last examined by representatives of the Commonwealth of Virginia State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2009. The current examination, which was called and conducted under the auspices of the NAIC, was made by Examiners from the Bureau. This examination covers the period from January 1, 2010 through December 31, 2012.

HISTORY

The Company was incorporated under the laws of the Commonwealth of Virginia on June 5, 2009, under the name of AIUS Insurance Company. The name of the Company was subsequently changed to Elephant Insurance Company on September 16, 2009. The Company was licensed by the Virginia State Corporation Commission on September 24, 2009 and commenced business on October 2, 2009.

The initial capital of the Company was provided by the Company's parent, Admiral Group plc (Admiral), a publicly-traded insurance-industry holding company headquartered in Cardiff, Wales, U.K. The Company received a capital contribution of \$14,000,000 in September 2009 from Admiral, of which \$1,400,000 represented an

equity purchase of 140 shares of \$10,000 par value common stock and \$12,600,000 represented an additional paid-in surplus contribution. This equity issuance was effective June 5, 2009.

During the period of this examination, the Company received the following capital and surplus contributions from Admiral:

	<u>Additional Paid In Capital</u>	<u>Additional Paid In Surplus</u>
2010	\$600,000	\$5,400,000
2011	\$1,700,000	\$15,300,000
2012	\$4,250,000	\$38,250,000

At December 31, 2012, the Company has 5,000 shares of \$10,000 par value common stock authorized and 795 shares issued and outstanding.

MANAGEMENT AND CONTROL

Management is vested in a board of directors consisting of four members. A quorum shall consist of three directors. Directors will act only by the assent of at least three directors. The bylaws provide that the board shall elect a president, a secretary, and a treasurer. The board may elect other officers as needed.

At December 31, 2012, the directors and officers of the Company were as follows:

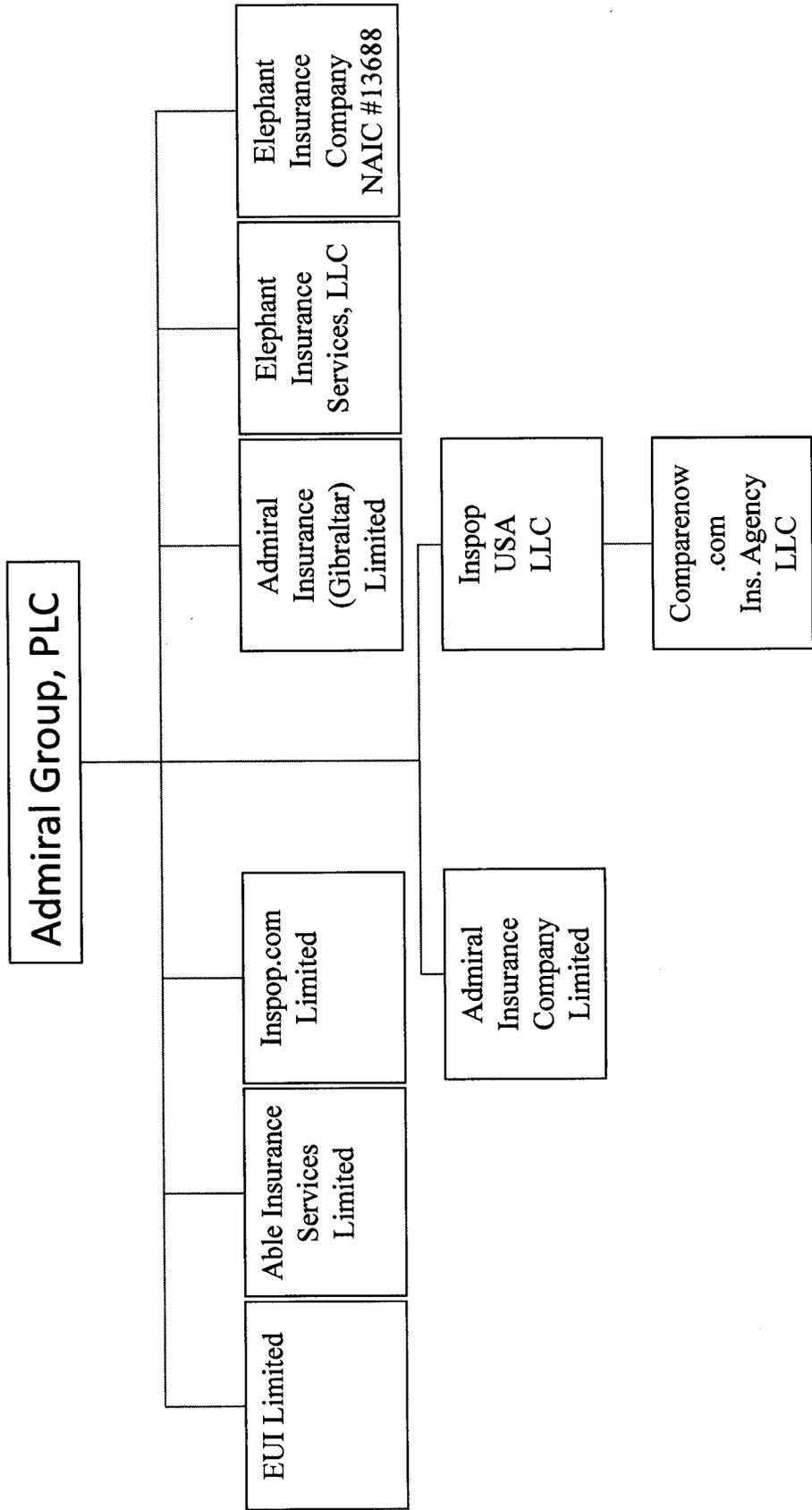
<u>Directors</u>	<u>Principal Business Affiliation</u>
Kevin D. Chidwick	Finance Director Admiral Group, plc Cardiff, UK
Henry A. Engelhardt	Chief Executive Officer Admiral Group, plc Cardiff, UK
Timothy S. MacAleese	Deputy Director Elephant Insurance Services LLC Glen Allen, Virginia

Elected Officers

Kevin D. Chidwick
Tim MacAleese

President and Chairman of the Board
Secretary & Treasurer

The Company is a wholly owned subsidiary of Admiral. The following chart illustrates this insurance holding company system at December 31, 2012:



RELATED PARTY TRANSACTIONS

General Agent and Shared Services and Expenses Agreements

The Company has a General Agent Agreement and a Shared Services and Expenses Agreement with its affiliate, Elephant Insurance Services, LLC, a Delaware Limited Liability Company (EIS), to provide marketing, sales, pricing, product management, underwriting, claims handling, financial, administrative, and other services to the Company with respect to producing and servicing private passenger auto insurance business.

In exchange for these services, the Company reimburses EIS on an actual cost basis within 30 days after the end of each month. For the period under review, the Company paid to EIS \$10,952,574, \$15,919,697 and \$43,464,825, respectively.

Trade Mark and Domain Name License Agreement

The Company has a Trade Mark and Domain Name License Agreement with its affiliate, EUI Limited, a company incorporated in England and Wales (EUI) that provides the Company with a non-exclusive, non-transferable license to use certain intellectual property owned by EUI for the purpose of producing and servicing private passenger auto insurance business in the United States. In exchange for this license, EUI is compensated 0.5% of the gross premiums written generated by the Company. Such compensation shall be payable quarterly, within 30 days of the end of each calendar quarter.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2012, the Company had fidelity coverage of \$500,000 in force, subject to a single loss deductible of \$50,000. The Company also had the following coverages in place at December 31, 2012: workers' compensation, insurance company errors and omissions, business owners policy and a commercial umbrella policy.

TERRITORY AND PLAN OF OPERATION

At December 31, 2012, the Company was licensed to transact the following lines of business of insurance in Virginia.

Auto Liability
Auto Physical Damage
Liability Other than Auto

At December 31, 2012, the Company was also licensed in the District of Columbia, Illinois, Maryland, Pennsylvania and Texas. The Company writes the majority of its business in Texas and Virginia. The Company does not currently write business in the District of Columbia or Pennsylvania.

The Company writes business on a direct basis to its policyholders, utilizing telephone and internet access. The Company does not use a traditional underwriting approach, but relies instead on an automated rating and underwriting process.

Control over underwriting and settlement of claims is maintained at the Company's home office.

GROWTH OF THE COMPANY

The following data, obtained from Annual Statements filed with the Bureau and from examination reports, indicates the growth of the Company since inception:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Common Capital Stock</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>
2009	\$14,116,865	\$140,398	\$1,400,000	\$12,600,000	(\$23,533)
2010	18,586,741	5,563,212	2,000,000	18,000,000	(6,976,471)
2011	43,020,674	18,000,042	3,700,000	33,300,000	(11,979,368)
2012	82,402,616	36,005,021	7,950,000	71,550,000	(33,102,405)

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gains or (Loss)</u>
2009	\$14,558	\$6,997	\$4,047	\$3,514
2010	1,156,538	937,739	6,675,668	(6,456,869)
2011	3,563,708	3,122,283	6,768,514	(6,327,089)
2012	11,142,842	11,314,964	23,285,715	(23,457,837)

REINSURANCE

Effective January 1, 2010, the Company entered into the following long-term reinsurance agreements:

The Company has a quota share agreement with Munich Re whereby the Company will cede 33.33% of its net written premium. This agreement may be terminated in January 2015 with the reinsurer's option to extend it until 2020 and again until 2025.

The Company has a quota share agreement with Hannover Reinsurance (Ireland) LTD whereby the Company will cede 33.3% of its subject net written premium. This agreement may be terminated December 31, 2014 subject to the required prior written notice. Furthermore, the agreement may be terminated December 31, 2019 subject to the required prior written notice.

In order to secure credit for reinsurance, the agreements provide for letters of credit to be provided by each of the reinsurers. The above agreements were determined to have appropriate risk transfer.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2010 through December 31, 2012. Assets were verified and liabilities were established at December 31, 2012.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate 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, management's compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

The services of Merlinos & Associates, Inc. were employed to provide an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves reported as of December 31, 2012.

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

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2012, a statement of income for the period ending December 31, 2012, a reconciliation of surplus for the period under review and a statement of cash flow for the period ending December 31, 2012. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Cash and short-term investments	\$45,997,212		\$45,997,212
Investment income due and accrued	5,716		5,716
Uncollected premiums and agents' balances in course of collection	1,584,099	313,746	1,270,353
Deferred premiums, agents' balances and installments booked but deferred and not yet due	18,832,683		18,832,683
Amounts recoverable from reinsurers	6,525,331		6,525,331
Other amounts receivable under reinsurance contracts	5,633,936		5,633,936
Receivable from parent, subsidiaries, and affiliates	4,192,829	55,444	4,137,385
Aggregate write-ins for other than invested assets	10,731	10,731	
Totals	<u>\$82,782,537</u>	<u>\$379,921</u>	<u>\$82,402,616</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$3,914,360
Loss adjustment expenses		198,041
Taxes, licenses and fees		637,002
Unearned premiums		8,582,033
Advance premium		61,756
Ceded reinsurance premiums payable		20,608,460
Provision for reinsurance		1,988,450
Payable to parent, subsidiaries and affiliates		<u>14,919</u>
Total liabilities		\$36,005,021
Common capital stock	\$7,950,000	
Gross paid in and contributed surplus	71,550,000	
Unassigned funds (surplus)	<u>(33,102,405)</u>	
Surplus as regards policyholders		<u>46,397,595</u>
Totals		<u><u>\$82,402,616</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$11,142,842</u>
Deductions:	
Losses incurred	\$9,938,422
Loss expenses incurred	1,376,542
Other underwriting expenses incurred	<u>23,285,715</u>
Total underwriting deductions	<u>\$34,600,679</u>
Net underwriting gain	<u>(\$23,457,837)</u>

INVESTMENT INCOME

Net investment income earned	<u>\$30,522</u>
Net investment gain	<u>\$30,522</u>

OTHER INCOME

Net loss from agents' balances charged off	(\$307,041)
Finance and service charges not included in premiums	2,007,483
Aggregate write-ins for miscellaneous income	<u>1,765,378</u>
Total other income	<u>\$3,465,820</u>
Net income before federal income taxes	(\$19,961,495)
Federal income taxes incurred	
Net income	<u>(\$19,961,495)</u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Surplus as regards policyholders, December 31, previous year	<u>\$13,976,467</u>	<u>\$13,023,529</u>	<u>\$25,020,632</u>
Net income	(\$6,004,407)	(\$4,933,239)	(\$19,961,495)
Change in net deferred income tax	(5,764)		
Change in nonadmitted assets	(127,179)	(106,839)	(96,564)
Change in provision for reinsurance	(805,116)	(118,357)	(1,064,978)
Paid in capital	600,000	1,700,000	4,250,000
Paid in surplus	5,400,000	15,300,000	38,250,000
Aggregate write-ins for gains and losses in surplus	<u>(10,472)</u>	<u>155,538</u>	
Change in surplus as regards policyholders for the year	<u>(\$952,938)</u>	<u>\$11,997,103</u>	<u>\$21,376,963</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$13,023,529</u></u>	<u><u>\$25,020,632</u></u>	<u><u>\$46,397,595</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$15,990,409
Net investment income	30,437
Miscellaneous income	3,465,820
Total	<u>\$19,486,666</u>
Benefit and loss related payments	\$13,269,253
Commissions, expenses paid and aggregate write-ins for deductions	24,029,260
Federal income taxes paid	(5,956)
Total	<u>\$37,292,557</u>
Net cash from operations	<u>(\$17,805,891)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Capital and paid in surplus	\$42,500,000
Other cash applied	(4,198,669)
Net cash from financing and miscellaneous sources	<u>\$38,301,331</u>
Net change in cash and short-term investments	<u>\$20,495,440</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$25,501,772
End of year	45,997,212
Net change in cash and short-term investments	<u>\$20,495,440</u>

SUBSEQUENT EVENTS

1. In April 2013, the Company received a capital contribution of \$10,000,000 from Admiral. This represented a \$1,000,000 purchase of common capital stock and additional paid-in surplus of \$9,000,000. This equity issuance was effective April 2, 2013.
2. As reported in the Company's June 30, 2013 Quarterly Statement, the Company reported assets of \$88,980,106 and liabilities of \$38,266,607 and surplus of \$50,713,499. Furthermore, the Company reported an underwriting loss of \$7,943,334 and a net loss of \$5,973,414.
3. In August 2013, the Company received a capital contribution of \$10,000,000 from Admiral. This represented a \$1,000,000 purchase of common capital stock and additional paid-in surplus of \$9,000,000. This equity issuance was effective August 1, 2013.

CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Jennifer K. Blizzard, CFE, Allison Bohrer, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T. Bradford Earley, Jr.', written in a cursive style.

T. Bradford Earley, Jr., CFE, CPCU, AIAF
Insurance Principal Financial Analyst
Commonwealth of Virginia



PO Box 5005
Glen Allen, VA 23058
www.elephant.com

December 9, 2013

Mr. David Smith
Chief Examiner
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

Mr. Smith:

As requested, this letter acknowledges the receipt of the Elephant Insurance Company Examination Report as of December 31, 2012. We take no issue with any matter contained in the Examination Report and will not be submitting a request for a hearing before the Commission. Please provide one copy of the Examination Report, as this will be sufficient for our present and future needs.

The Elephant Insurance Company gratefully appreciates the Bureau of Insurance's diligence and counsel in conducting the examination.

Should any question or concerns arise, please feel free to contact me at any time.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim MacAleese", written over a horizontal line.

Tim MacAleese
Secretary & Treasurer
804-955-1700, Ext. 2002
Tim.macaleese@elephant.com