

REPORT ON EXAMINATION AS TO THE CONDITION OF

WATFORD SPECIALTY INSURANCE COMPANY

MORRISTOWN, NJ 07962

AS OF DECEMBER 31, 2024

NAIC GROUP CODE 1279

NAIC COMPANY CODE 15824

FILED

6/8/2026

COMMISSIONER

NEW JERSEY DEPARTMENT

OF

BANKING AND INSURANCE

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE
OFFICE OF SOLVENCY REGULATION
PO BOX 325
TRENTON, NJ 08625-0325

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Governor

DR. DALE G. CALDWELL
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SUSAN OCHS
Acting Commissioner

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May 26, 2026

Honorable Susan Ochs
Acting Commissioner
Department of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625-0325

Acting Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

WATFORD SPECIALTY INSURANCE COMPANY
MORRISTOWN, NEW JERSEY 07962
NAIC GROUP CODE 1279
NAIC COMPANY CODE 15824

a domestic surplus lines insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, Watford Specialty Insurance Company, will be referred to in this report as the "Company" or "WSIC."

SCOPE OF EXAMINATION

The New Jersey Department of Banking and Insurance (“NJDOBI”) conducted a risk focused examination of WSIC for the period January 1, 2020, through December 31, 2024, and transactions occurring subsequent to that period were reviewed where deemed appropriate by the examiners. The examination was conducted pursuant to the authority granted by N.J.S.A. 26:2J-18.1. The statutory examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (“the Handbook” or “FCEH”).

The Company’s financial statements are audited annually by PricewaterhouseCoopers, LLP (“PwC”). PwC performed its most recent annual audit of the Company as of December 31, 2024.

The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. This is accomplished 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, 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. The examiners relied upon the audit work prepared by the independent auditors when appropriate.

This examination is part of the coordinated examination of Arch Insurance Group (“Arch”) being conducted by the Missouri Department of Commerce and Insurance (“DCI”). The examination was conducted in accordance with the proposed risk focused procedures and guidelines prescribed by the National Association of Insurance Commissioners (“NAIC”). This examination, for common subject matter, relied upon the DCI to identify risk classifications and inherent risks of key functional activities. DCI was also responsible for the preparation of matrices that identify controls and risk mitigation strategies. Finally, DCI determined residual risk and prepared substantive test procedures when deemed necessary.

The NJDOBI examiners were responsible for identifying significant deviations from New Jersey laws and regulations. Additional substantive procedures were performed where deemed necessary.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Compliance with the Prior Report Exam Recommendations
- History and Kind of Business
- Territory and Plan of Operation
- Reinsurance
- Parent, Subsidiaries and Affiliates
- Intercompany Agreements
- Management

- Policy on Conflicts of Interest
- Fidelity Bond and Other Insurance Coverages
- Accounts and Records
- Treatment of Policyholders
- Statutory Deposits
- Financial Statements and Other Exhibits
- Subsequent Events
- Examination Recommendations

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations, or rules, or which are deemed to require explanation or description.

COMPLIANCE WITH PRIOR REPORT ON EXAMINATION RECOMMENDATIONS

There were no comments and/or recommendations deemed necessary for the prior examination report.

HISTORY AND KIND OF BUSINESS

The Company is a New Jersey domestic stock property and casualty insurance company designated as a “domestic surplus lines insurer” pursuant to N.J.S.A. 17:22-6.69b. The Company’s principal business is to insure property, casualty and specialty risks throughout the United States on an excess and surplus lines basis. WSIC is a direct, wholly owned subsidiary of Watford Holdings (U.S.) Inc. (“Parent” or “WHUS”), which is in turn a direct, wholly owned subsidiary of Watford Holdings (UK) Limited, itself a direct, wholly owned subsidiary of Somers Re Ltd. (“Somers Re”). Somers Re is a “Class 4” Bermuda insurance company. Somers Re is a direct, wholly owned subsidiary of Somers Group Holdings Ltd. (“Somers Group”), a Bermuda-exempted company with limited liability. Arch Capital Group, Ltd. has been designated as the ultimate controlling person (“UCP”) with respect to WSIC for purposes of ongoing reporting applicable to UCPs.

On July 13, 2015, pursuant to N.J.S.A. 11:1-28.5 a feasibility study was presented to the NJDOBI to propose formation of a property and casualty surplus lines insurer to provide coverage throughout the United States on an excess and surplus lines basis. A Certificate of Incorporation (“COI”) dated August 21, 2015, was filed with the NJDOBI and was approved by the Acting Commissioner on September 17, 2015. The COI was recorded by the Morris County Clerk as filed by the NJDOBI on September 8, 2015. WSIC received its New Jersey Certificate of Authority on September 30, 2015.

Under the Fourth and Fifth Articles of its COI, WSIC is organized as a stock company and is authorized to issue capital stock of \$10,000,000 divided into 100,000 shares of common stock having a par value of \$100 per share. At December 31, 2024, there were 42,000 shares of common stock issued and outstanding, with all shares held by parent Watford Holdings (U.S.) Inc. On September 24, 2015, the Company received an additional capital contribution of \$55,800,000 from its parent. The Company received an additional capital contribution of \$7,650,000 from its parent during 2016. On October 8, 2020, the Company received a capital contribution from its parent, WHUS. of \$1,200,000. There were no dividends paid to the Company’s stockholder during the examination period.

The Company purchased Watford Insurance Company (“WIC”), on August 1, 2016, from Hanover Insurance Company. WIC is a New Jersey domiciled property and casualty insurance company that holds admitted insurance licenses in all 50 states and the District of Columbia. The Company carried the investment in this subsidiary at statutory surplus in accordance with SSAP No. 97. Changes in unrealized gains and losses on this investment are reported directly in the Company’s unassigned surplus and do not affect income. Effective January 3, 2024, WIC redomesticated to the State of Missouri.

On July 1, 2024, the Company’s affiliate, Arch Insurance Company, purchased all of the outstanding shares of its subsidiary, WIC. The transaction has a valuation date of June 30, 2024, and the Company realized a loss of \$7,347,837 offset by an unrealized gain of \$15,587,225.

WSIC’s statutory home office is located at 445 South Street, Suite 220, P.O. Box 1950, Morristown, NJ 07962. Operational activities for WSIC are completed primarily at Harborside 3, 210 Hudson Street, Suite 600, Jersey City, NJ 07311.

TERRITORY AND PLAN OF OPERATION

WSIC is domiciled in the State of New Jersey and has a Certificate of Authority to operate as a surplus lines writer in the State of New Jersey for the purpose of providing the kinds of insurance authorized by paragraphs (a), (b), (e), (f), (g), (i), (j), (k), (l), (m), (n), and various miscellaneous coverages under section (o) of N.J.S.A. 17:17-1, ‘Health Insurance’ as defined in N.J.S.A. 17B:17-4, and ‘Municipal Bond Insurance’ as defined in N.J.A.C. 11:7. WSIC also holds certificates of authority and/or is allowed to write surplus line business either through its license in New Jersey or through licensed surplus lines brokers in all other states and the District of Columbia.

During the period under examination, WSIC generated its direct business through managing general underwriters (“MGUs”) on a program basis and through a coinsurance arrangement with Arch Specialty Insurance Company (“ASIC”). The Company’s program business was primarily written through the following MGUs during the examination period:

- First Indemnity Insurance Agency Inc. – Law firm errors and omissions excess liability
- Breckenridge Insurance Services LLC – Fire suppression and roofing contractors general liability
- Safehold Special Risk, Inc. – Forestry and wood products property liability
- Entertainment Risk, LLC – Entertainment venue general liability and liquor liability
- W.E. Love and Associates, LLC – Trucking business specialty casualty
- International Property & Casualty Insurance Brokers of Nevada, Inc. (IPC) – Food delivery hired and non-owned automobile liability

At year-end 2024, all the Company’s program business was in run-off with the exception of the W.E. Love and Associates, LLC program business that was still active.

The coinsurance business was written with ASIC through a series of service agreements and a Surplus Lines Binding Authority Agreement, effective January 1, 2019, with its affiliates. The coinsurance business includes primary general liability and automobile, umbrella and excess liability, property marine and energy, directors and officers liability professional liability and medical malpractice.

WSIC delegates its claims processing to licensed third-party claims handling firms per terms of written service agreements. The following are the claims service providers utilized during the examination period:

- NAS Insurance Services, LLC
- Triton Claim Management, LLC
- North American Risk Services, Inc.
- Gallagher Basset Services, Inc.
- York Risk Services Group, Inc.
- ESIS, Inc.

The Company does not have any direct employees. Operational and administrative services for WSIC are completed per terms of written agreements as outlined below at the “Intercompany Agreements / Related Party Transactions” section of this report.

Marketing and advertising are targeted and limited primarily to program administrators and brokers through trade shows, conferences, and related events.

REINSURANCE

At December 31, 2024, the Company had the following reinsurance in effect with unaffiliated reinsurers:

Cyber Liability

100% Quota Share

Reinsurers: Lloyd’s Syndicates 510, 4121, 1880

Policy Limit: \$5 million

Treaty Retention: 0% as Company cedes 100% of gross liability

Treaty Limit: None

Property Liability

Facultative Excess of Loss

Reinsurers: Munich Reinsurance America, Inc., Swiss Reinsurance America Corporation, Hannover Re

Business Covered: Forestry and wood products business

Policy Limit: \$20 million

Treaty Retention Layer 1: \$1 million

Treaty Retention Layer 2: \$10 million

Treaty Limit Layer 1: \$9 million each risk and \$18 million per occurrence 77.5% placement

Treaty Limit Layer 2: \$10 million each loss and \$20 million per occurrence 100% placement

Follow Form Excess Liability

60% Quota Share

Reinsurance: Everest Reinsurance Company

Policy Limit: \$5 million per occurrence

Treaty Retention: \$2 million per occurrence

Treaty Limit: \$3 million per occurrence

Directors and Officers Liability

100% Quota Share

Reinsurers: Lancashire Insurance Company Limited, QBE Reinsurance Corporation, SiriusPoint America Insurance Company, The Cincinnati Insurance Company, and Transatlantic Reinsurance Company

Policy Limit: \$5 million

Treaty Retention: 25% as the reinsurers participate in 75% of the business

Treaty Limit: total liability shall not exceed the greater of \$80 million or 350% of the Company's Net Written Premium.

At December 31, 2024, the Company had the following reinsurance in effect with affiliated reinsurers:

Net Retained Liability Quota Share

Quota Share – Varying Percentages

Reinsurer: Arch Reinsurance Company

Business Covered: Individual underwriting programs

Policy Limit: N/A

Treaty Retention: The reinsurer assumes a 15% to 90% quota share for each program

Treaty Limit: N/A

Net Retained Liability Quota Share

85% Quota Share

Reinsurer: Somers Re Ltd.

Business Covered: All business net of other ceded reinsurance

Policy Limit: N/A

Treaty Retention: 15% quota share

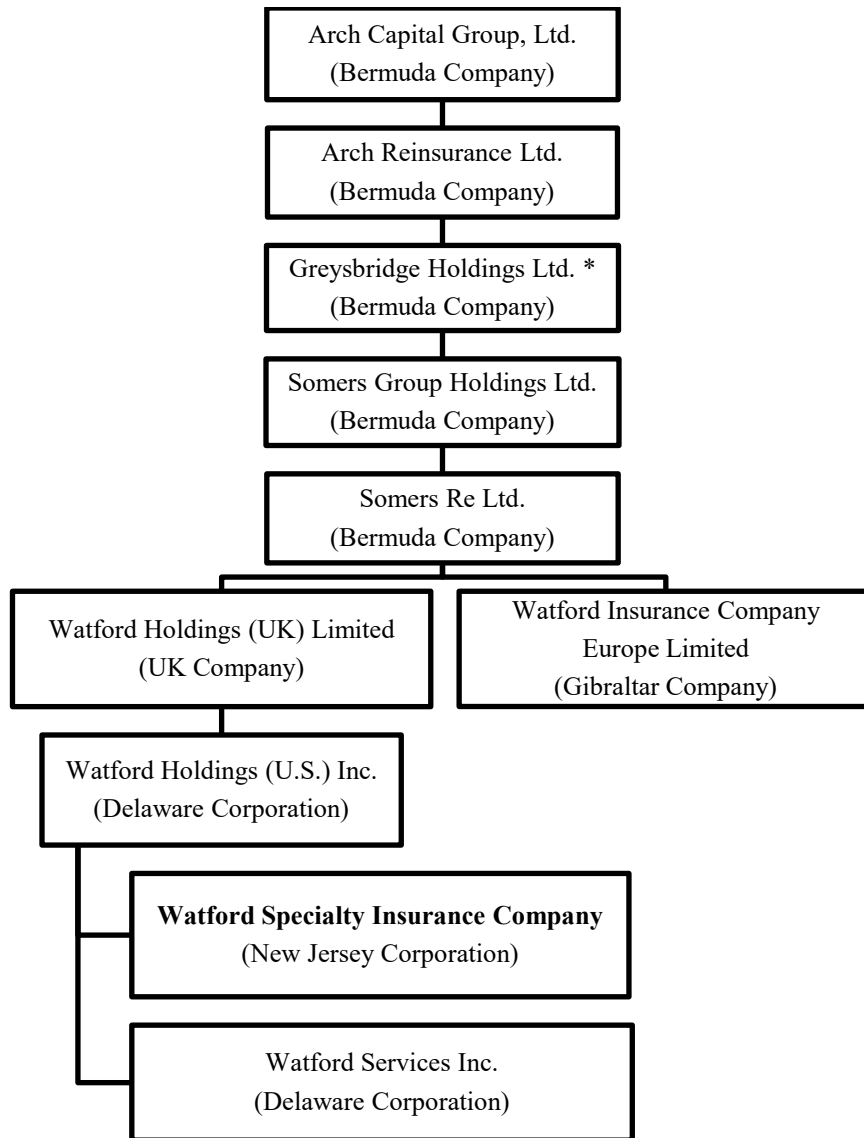
Treaty Limit: N/A

PARENT, SUBSIDIARIES AND AFFILIATES

The Company is a member of an insurance holding company registration system as defined by N.J.S.A. 17:27A-1 and is subject to the registration requirements of N.J.S.A. 17:27A-3. The Company is a wholly owned subsidiary of Watford Holdings (U.S.) Inc., which is owned by Watford Holdings (UK) Limited, which in turn is owned by Somers Re Ltd, which in turn is owned by Somers Group Holdings Ltd., which in turn is owned by Greysbridge Holdings Ltd., which in turn is partially owned by Arch Reinsurance Ltd., which in turn is owned by Arch Capital Group, Ltd. a holding company domiciled in Bermuda.

A review of the Company's holding company registration statement indicated that the Company was in compliance with N.J.S.A. 17:27A-3, Sections a-j, requiring registration of those insurers who qualify as determined by N.J.S.A. 17 27A-1.

A simplified organizational chart as of December 31, 2024, reflecting the holding company system, is shown on the following page. Schedule Y of the Company’s 2024 annual statement provided a list of all related companies of the holding company group.



* Arch Reinsurance Ltd. holds a 40% interest in Greysbridge Holdings Ltd.

During the period under examination, there were no dividends declared or paid to its parent company.

On October 8, 2020, WSIC accepted a \$1,200,000 capital contribution from its parent, Watford Holdings (U.S.) Inc. The capital contribution did not meet the materiality threshold for prior notification and approval as set forth in N.J.S.A 17:27A-4(a)(2)(a).

INTERCOMPANY AGREEMENTS

The examination determined that the Company was a named party to the following affiliated agreements as of December 31, 2024:

1. Services Agreement
2. Investment Management Agreement
3. Reimbursement Agreement
4. Tax Sharing Agreement
5. Employee Leasing Agreement
6. Commitment Agreement
7. Surplus Lines Binding Authority Agreement
8. Guarantee Agreement
9. Quota Share Reinsurance Agreements
10. Stock Purchase Agreement

Services Agreement

Effective October 1, 2015, WSIC entered into a Services Agreement with Arch Underwriters Inc. (“AUI”), an affiliate, and a non-affiliate, Highbridge Principal Strategies, LLC (“Highbridge”). Under this agreement, AUI/Highbridge formulates WSIC’s overall portfolio of insurance and has full discretion in soliciting, negotiating, supervising the underwriting of and administrating, but not binding, contracts providing insurance coverage by WSIC. The agreement is subject to the terms and conditions of a Business Framework and separate Underwriting Guidelines established within this agreement. The agreement was non-disapproved by the NJDOBI on February 6, 2016.

Effective October 1, 2016, WSIC entered into the Amended and Restated Services Agreement with AUI and Highbridge, which was non-disapproved by the NJDOBI on February 9, 2017.

Effective January 1, 2019, WSIC entered into the Second Amended and Restated Services Agreement with AUI and Highbridge, which was non-disapproved by the NJDOBI on July 26, 2019. Effective July 1, 2021, Highbridge’s participation in the Second and Amended Restated Agreement was terminated.

Fees incurred under the agreement during 2024 were \$833,743.

Investment Management Agreement

Effective February 1, 2016, WSIC entered into an Investment Management Agreement with Arch Investment Management Ltd. (“AIM”) whereby AIM provides investment management services. AIM’s service level requirements, reporting responsibility, and investment guidelines are established within this agreement. The agreement was non-disapproved by the NJDOBI on February 17, 2016.

Fees incurred under the agreement during 2024 were \$47,299.

Investment Management Agreement

Effective August 1, 2016, WSIC entered into an Investment Management agreement with its affiliate, AUI, and a non-affiliate, Highbridge. Under the terms of the agreement, Highbridge is engaged as WSIC's investment manager with full investment authority for the investment and reinvestment of WSIC's non-investment grade assets. The agreement was non-disapproved by the NJDOBI on February 16, 2016.

Effective August 1, 2016, the Investment Management Agreement between WSIC, AUI, and Highbridge was amended. The amended agreement was non-disapproved by the NJDOBI on September 20, 2016.

Effective January 1, 2018, an Amended and Restated Investment Management Agreement was entered into between WSIC, AUI, and Highbridge. The Amended and Restated Investment Management Agreement was non-disapproved by the NJDOBI on October 15, 2018. Effective July 1, 2021, Highbridge's participation in the Amended and Restated Investment Management Agreement was terminated.

Reimbursement Agreement

Effective July 1, 2016, WSIC entered into a Reimbursement Agreement with WHL and its affiliates whereby WSIC shall reimburse WHL any fees or expenses paid for the primary benefit of WSIC, including fees and expenses of counsel, third party service providers, and registration fees. The agreement was non-disapproved by the NJDOBI on August 10, 2016.

Tax Sharing Agreement

Effective October 1, 2015, and as amended September 15, 2017, WSIC entered into a tax sharing agreement with Watford Holdings (U.S.) Inc. and affiliate Watford Services Inc. ("WSI"), for all taxable periods ending after December 31, 2014. Under this agreement, U.S. federal income tax expense is computed as if each company within the group filed a separate tax return. Intercompany tax balances are to be settled no later than three days prior to the date the parent is required to make a tax payment. WIC was added to this agreement effective August 1, 2016. Effective July 1, 2024, pursuant to the Acquisition, WIC was terminated as a party to the Tax Sharing Agreement.

Employee Leasing Agreement

Effective October 1, 2015, WSIC entered into an Employee Leasing Agreement with WSI, whereby WSI shall furnish designated employees to provide such services as are usual and customary for WSIC's operation as an insurance company. Designated employees are compensated and obtained benefits in accordance with terms of an employment agreement. The NJDOBI issued its non-disapproval of the transaction on December 22, 2015. As of year-end 2024, there were no employees designated under the Leasing Agreement.

Commitment Agreement

Effective October 15, 2015, WSIC entered into an agreement with Watford Holdings (U.S.) Inc. whereby Watford Holding (U.S.) Inc. commits that if surplus as regards to policyholders as reported on WSIC's quarterly or annual statements filed with the NJDOBI falls below \$50M for two consecutive

calendar quarters, Watford Holdings (U.S.) Inc. shall contribute capital and surplus to enable WSIC to maintain policyholders' surplus equal to at least \$50M.

On October 19, 2021, WSIC filed a Form D with the NJDOBI to terminate the Commitment Agreement. Having met the conditions of the agreement, the NJDOBI issued its approval to terminate the agreement on or after November 18, 2021. The agreement was terminated on December 15, 2021.

Surplus Lines Binding Authority Agreement

Effective January 1, 2019, WSIC entered into a Surplus Lines Binding Authority Agreement with Arch Specialty Insurance Agency, Inc. ("ASIA"). Under the terms of the agreement, ASIA has excess and surplus lines binding authority on behalf of WSIC for certain lines of business within the State of California, subject to specified lines of business and underwriting guidelines specified within this agreement. The agreement was non-disapproved by the NJDOBI on July 26, 2019.

Guarantee Agreement

Effective January 1, 2017, WSIC entered into a Guarantee Agreement with Arch Capital Group (U.S.) Inc. ("Arch Capital"). Under this agreement, Arch Capital guarantees the full and punctual performance by AUI of its obligations under the Services Agreement with WSIC.

Quota Share Reinsurance Agreements

Effective January 1, 2016, WSIC entered into an 85% Quota Share Reinsurance Agreement with its affiliate Somers Re Ltd. ("SRL"), a Bermuda reinsurance company. The Quota Share Reinsurance Agreement was non-disapproved by the NJ DOBI on February 16, 2016.

Effective January 1, 2016, WSIC entered into a Quota Share Reinsurance Agreement with Arch Reinsurance Company ("Arch Re"). Pursuant to the reinsurance agreement, WSIC cedes and Arch Re will reinsure certain contracts written by the WSIC. Under the terms of the agreement, the cession percentage varies from 15% to 50%. The Quota Share Reinsurance Agreement with Arch Re was non-disapproved by the NJDOBI on February 5, 2016.

Effective October 15, 2018, WSIC and Arch Re-entered into Addendum No. 1 to the Quota Share Reinsurance Agreement, which was non-disapproved by the NJDOBI on December 13, 2018.

See the "Reinsurance" section of this report for additional details.

Stock Purchase Agreement

Effective July 1, 2024, the Company entered into a Stock Purchase Agreement, whereby the Company sold all of the issued and outstanding shares of WIC, to Arch Insurance Company. The transaction was non-disapproved by the NJDOBI on June 14, 2024. The transaction had a valuation date of June 30, 2024, and the Company realized a loss of \$7.3 million offset by an unrealized gain of \$15.6 million.

MANAGEMENT

The business, property and affairs of the Company are managed by a single President/Chief Executive Officer and delegated officers under the guidance and direction of the Board of Directors. In accordance with the bylaws, the Board of Directors shall consist of not less than five or more than fifteen members. The following directors were elected and serving as of December 31, 2024:

<u>Name</u>	<u>Principal Occupation</u>
Elizabeth Anne Cunningham	Chief Executive Officer Somers Re Ltd.
Brian Dann First	President Arch Insurance Group Inc.
Barry Eric Golub	President & Chief Financial Officer Watford Specialty Insurance Company
Kristi Marie Kayser	Controller, Reinsurance Accounting Arch Reinsurance Company
Jonathan Andrew Schriber	President Arch Reinsurance Company

N.J.S.A. 17:27A-4d(3) states as follows: “Not less than one-third of the directors of a domestic insurer, and not less than one-third of the members of each committee of the board of directors of any domestic insurer, shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with, that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity. At least one such person shall be included in any quorum for the transaction of business at any meeting of the board of directors or any committee thereof.”

N.J.S.A. 17:27A-4d(4) states as follows: “The board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer or any such entity. The committee shall be responsible for recommending the selection of independent certified public accountants, reviewing the insurer’s financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation, including bonuses or other special payments, of the principal officers.”

N.J.S.A. 17:27A-4d(5) states as follows: “The provisions of paragraphs (3) and (4) of this subsection shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors and committees thereof that substantially meet the requirements of those paragraphs.”

The WSIC Board does not have its own committees. The Somers Re Ltd. (formerly Watford Holdings Ltd.) Board and its committees act on behalf of the Company. Those committees include an Audit Committee, Compensation Committee, Nominating and Governance Committee, Investment Committee, Risk Committee, Strategy Committee, and Underwriting Committee.

The Somers Re Ltd Audit Committee consists entirely of members that are considered independent and therefore the Company is considered in compliance with N.J.S.A. 17:27A paragraph (5).

A review of resolutions made by the Company's directors indicates that they adequately approve of and support the Company's business transactions and events.

The officers of the Company perform duties as designated by the Company's bylaws with respect to the offices they hold, or as otherwise indicated by the Board. The Chief Executive Officer, President, Treasurer, and Secretary shall be elected by majority vote of the Board. Other officers, if any, may be elected by the Board. Any two or more offices may be held by the same person apart from the President and Secretary. Any officer may be required by the directors to give bond for the faithful performance of their duties to the corporation in such amount and with such sureties as the directors may determine.

The following officers were elected and serving the Company at December 31, 2024:

<u>Name</u>	<u>Title</u>
Barry Eric Golub	President & Chief Executive Officer
Thomas James Ahern	Chief Financial Officer & Treasurer
Regan Abby Shulman	Corporate Secretary

POLICY ON CONFLICTS OF INTEREST

On an annual basis, the Company's officers attest to an affirmation of ethical standards and a disclosure of possible activities which could construe as a conflict of interest. Beginning in 2021, the Company's directors attest annually to an affirmation of ethical standards and a disclosure of possible activities which could construe as a conflict of interest. Prior to 2021, the directors informally reviewed the policy.

No apparent or potential conflicts of interest were noted during the review of the Conflict of Interest Disclosure forms.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

WSIC is a party to the Greysbridge Holdings Ltd. fidelity and other insurance policies, such as cyber, market trade and other. The fidelity coverage at year-end 2024 was \$5,000,000, which was the maximum recommended coverage recommended by the NAIC FCEH.

ACCOUNTS AND RECORDS

The Company shares in a centralized IT operation of Arch Insurance Group, Inc. (“AIGI”), which delivers a common control framework, people, processes, and technology for processing financial transactions. The Company’s business is processed electronically on a networked infrastructure. The Company’s general ledger is the final repository for its financial information and is administered on Great Plains. The automated general ledger system stores and processes this information to produce financial and management reports.

The Company’s systems were reviewed at the service company level and as part of the AIGI IT examination. The IT examination team’s procedures considered a customized range of IT risks contained within the NAIC Exhibit C Part 2 Work Program, focusing on both IT governance and IT operational controls. Overall, the IT examination team concluded that IT General Controls (ITGCs) are effective. IT review conclusions were based on inquiry, inspection of documentation, observation, independent research and a review of third-party workpapers. The IT examination team’s conclusion regarding control strength was discussed with, and accepted by, the Examiner-in-Charge at the conclusion of the IT review.

TREATMENT OF POLICYHOLDERS

N.J.S.A. 17:29B-4(10) requires an insurance company to establish and maintain a complaint system to provide reasonable procedures for the resolution of written complaints initiated by insureds regarding their policy coverage. A review of the Company’s records indicated that the Company was in compliance with this statute.

STATUTORY DEPOSIT

The examination determined that the Company had securities with a total carrying value of \$131,345 on deposit with the NJDOBI at December 31, 2024. All statutory deposits were verified by direct confirmation with the NJDOBI and the custodial financial institution.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

- Exhibit A – Comparative Statement of Assets, Liabilities, Surplus, and Other Funds at December 31, 2024
- Exhibit B – Statement of Revenue and Expenses for the Five-Year Period Ended December 31, 2024
- Exhibit C – Capital and Surplus Account for Five-Year Period Ended December 31, 2024

EXHIBIT A

WATFORD SPECIALTY INSURANCE COMPANY
COMPARATIVE STATEMENT OF ASSETS, LIABILITIES, SURPLUS, AND OTHER FUNDS
AT DECEMBER 31, 2024

Bonds	\$ 10,392,304	\$ 10,392,304	\$0	1
Cash, Cash Equivalents and Short-Term Investments	57,069,668	57,069,668	0	
Investment Income Due and Accrued	44,871	44,871	0	
Amounts Recoverable from Reinsurers	752,885	752,885	0	
Advance Claim Payments	4,837,104	4,837,104	0	
Claim Deposits	112,000	112,000	0	
Other Assets	139,104	139,104	0	
	<u>\$ 73,347,936</u>	<u>\$ 73,347,936</u>	<u>\$0</u>	
<u>LIABILITIES, CAPITAL AND SURPLUS</u>				
Losses	\$ 6,648,668	\$ 6,648,668	\$0	2
Loss Adjustment Expenses	1,053,756	1,053,756	0	
Commissions Payable, Contingent Commissions and Other Similar Charges	(104,780)	(104,780)	0	2
Other Expenses	146,900	146,900	0	
Unearned Premiums	904	904	0	
Ceded Reinsurance Premiums Payable	131,480	131,480	0	
Payable to Parent, Subsidiaries and Affiliates	4,784,750	4,784,750	0	
Deferred Ceding Commission Liability	980	980	0	
Claims Payable	1,180,011	1,180,011	0	
	<u>\$ 13,842,669</u>	<u>\$ 13,842,669</u>	<u>\$0</u>	
<u>SURPLUS AND OTHER FUNDS</u>				
Common Capital Stock	\$ 4,200,000	\$ 4,200,000	0	3
Gross Paid In and Contributed Surplus	64,650,000	64,650,000	0	3
Unassigned Funds (Surplus)	(9,344,733)	(9,344,733)	0	3
	<u>\$ 59,505,267</u>	<u>\$ 59,505,267</u>	<u>\$0</u>	3
Total Capital and Surplus	<u>\$ 59,505,267</u>	<u>\$ 59,505,267</u>	<u>\$0</u>	
Total Liabilities, Surplus and Other Funds	<u>\$ 73,347,936</u>	<u>\$ 73,347,936</u>	<u>\$0</u>	

EXHIBIT B

WATFORD SPECIALTY INSURANCE COMPANY
STATEMENT OF REVENUE AND EXPENSES
FOR THE FIVE-YEAR PERIOD ENDED DECEMBER 31, 2024

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Net Premium Income	\$ 63,508	\$ 165,247	\$ 2,113,613	\$ 8,344,368	\$ 9,463,577
Deductions:					
Losses Incurred	762,194	1,670,196	1,761,204	5,944,578	5,950,736
Loss Adjustment Expenses Incurred	45,174	165,035	463,983	1,340,575	1,478,399
Other Underwriting Expenses Incurred	<u>1,402,094</u>	<u>984,620</u>	<u>794,368</u>	<u>72,675</u>	<u>(29,173)</u>
Total Underwriting Deductions	<u>2,209,462</u>	<u>2,819,851</u>	<u>3,019,555</u>	<u>7,357,828</u>	<u>7,399,962</u>
Net Underwriting Gain/(Loss)	<u>\$ (2,145,954)</u>	<u>\$ (2,654,604)</u>	<u>\$ (905,942)</u>	<u>\$ 986,540</u>	<u>\$ 2,063,615</u>
Investment Income					
Net Investment Income Earned	1,591,503	674,313	472,433	381,902	639,970
Net Realized Capital Gains (Losses)	<u>(7,508,348)</u>	<u>(233,963)</u>	<u>(918,583)</u>	<u>71,251</u>	<u>(23,125)</u>
Net Investment Gain/(Loss)	<u>\$ (5,916,845)</u>	<u>\$ 440,350</u>	<u>\$ (446,150)</u>	<u>\$ 453,153</u>	<u>\$ 616,845</u>
Other Income					
Net Gain/(Loss) from Agents' or Premium Balances Charged Off	470	59	0	0	0
Miscellaneous Income	<u>0</u>	<u>0</u>	<u>6</u>	<u>0</u>	<u>0</u>
Total Other Income	<u>\$ 470</u>	<u>\$ 59</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ -</u>
Net Income Before Dividends to Policyholders and Before Federal and Foreign Income Taxes	<u>\$ (8,062,329)</u>	<u>\$ (2,214,195)</u>	<u>\$ (1,352,086)</u>	<u>\$ 1,439,693</u>	<u>\$ 2,680,460</u>
Dividends to Policyholders	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Income Befo Federal Income Taxes	<u>\$ (8,062,329)</u>	<u>\$ (2,214,195)</u>	<u>\$ (1,352,086)</u>	<u>\$ 1,439,693</u>	<u>\$ 2,680,460</u>
Federal and Foreign Income Taxes Incurred	<u>0</u>	<u>0</u>	<u>0</u>	<u>(72,273)</u>	<u>563,197</u>
Net Income (Loss)	<u><u>\$ (8,062,329)</u></u>	<u><u>\$ (2,214,195)</u></u>	<u><u>\$ (1,352,086)</u></u>	<u><u>\$ 1,511,966</u></u>	<u><u>\$ 2,117,263</u></u>

EXHIBIT C

WATFORD SPECIALTY INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
FOR FIVE YEAR PERIOD ENDED DECEMBER 31, 2024

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Surplus as Regards Policyholders December 31, Prior Year	<u>\$ 53,242,140</u>	<u>\$ 58,846,156</u>	<u>\$ 60,631,771</u>	<u>\$ 57,636,052</u>	<u>\$ 59,762,969</u>
Net Income/(Loss)	\$ (8,062,329)	\$ (2,214,195)	\$ (1,352,085)	\$ 1,511,965	\$ 2,117,264
Change in Net Unrealized Capital Gains	15,587,225	(3,460,765)	(1,282,114)	(1,198,406)	(2,296,215)
Change in Net Deferred Income Tax					
Change in Nonadmitted Assets	(1,261,768)	70,944	848,585	2,682,159	(3,147,965)
Surplus Adjustments: Paid In Dividends to Stockholders					1,200,000
Net Change in Capital and Surplus	<u>\$ 6,263,128</u>	<u>\$ (5,604,016)</u>	<u>\$ (1,785,614)</u>	<u>\$ 2,995,718</u>	<u>\$ (2,126,916)</u>
Capital and Surplus, Current Year	<u>\$ 59,505,268</u>	<u>\$ 53,242,140</u>	<u>\$ 58,846,157</u>	<u>\$ 60,631,770</u>	<u>\$ 57,636,053</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Invested Assets

As of December 31, 2024, WSIC held 15.4% of its invested assets in bonds in the amount of \$10,392,304 and approximately 84.6% in cash, cash equivalents, and short-term investments in the amount of \$57,069,668. The Company's bond holdings consisted of 100% investment grade NAIC 1 securities represented entirely by U.S. Government securities. The maturity of the Company's bond portfolio was represented by 85.3% of the portfolio maturing in 1 year or less and 14.7% of the portfolio maturing in 1 to 5 years as of December 31, 2024. The Company's invested assets are in compliance with the New Jersey laws and regulations and the SVO Purposes and Procedures Manual.

Note 2: Claims Unpaid and Unpaid Claims Adjustment Expenses

The Company's reported liabilities at December 31, 2024, for losses and loss adjustment expenses, net of reinsurance, amounted to \$6,648,668 and \$1,053,756, respectively.

Jonathan R. Sappington, FCAS, MAAA, of Willis Towers Watson, appointed by the Board of Directors, rendered an opinion that loss and loss adjustment expense reserves recorded as of December 31, 2024, made a reasonable provision for all unpaid loss and loss adjustment expenses of the Company under the terms of its contracts and agreements.

The Arch Insurance Group examination contracted with Examination Resources, LLC to review the loss and loss adjustment expense liabilities of each examined member of the group, including the Company. The actuarial consultants determined that the recorded amounts were reasonably stated. The Property & Casualty Actuarial Division of the NJDOBI reviewed the Report on the Actuarial Examination. This review determined that the year-end loss provisions established by the Company were reasonably stated.

Note 3: Capital and Surplus

The Company reported surplus as regards policyholders at in the amount of \$59,505,267 at December 31, 2024, as summarized below:

Common Capital Stock	\$4,200,000
Gross Paid In and Contributed Surplus	64,650,000
Unassigned Funds (Surplus)	<u>(9,344,733)</u>
 Total Capital and Surplus	 <u>\$59,505,267</u>

The Company's common capital stock consisted of 42,000 shares issued and outstanding each with a \$100 par value. The shares of the Company are owned by its parent, Watford Holdings (U.S.) Inc. The examination resulted in no material findings affecting the Company's surplus as stated.

The Company was determined to be in compliance with the minimum capital and surplus requirements of the State of New Jersey at December 31, 2024.

SUBSEQUENT EVENTS

No events or transactions of a significant nature were noted during the review of WSIC's operating activities occurring or recorded after the examination date.

SUMMARY OF EXAMINATION RECOMMENDATIONS

The full scope risk-focused examination of the Company did not yield any reportable recommendations.

CONCLUSION

The courteous cooperation and assistance extended during the course of this examination by the officers of the Company and members of the office staff is hereby acknowledged.

Respectfully Submitted,



Sigurd Kenneth Proudfit, CFE, MCM
Examiner-In-Charge
Examination Resources, LLC
Representing the State of New Jersey
Department of Banking and Insurance

Under the supervision of:



Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examination
New Jersey Department of Banking and Insurance

AFFIDAVIT

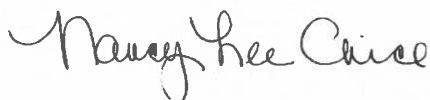
I, Sigurd Kenneth Proudfit, the undersigned, hereby certify that the foregoing Report of Examination accurately discloses, to the best of my knowledge, all material and relevant information related to the financial condition of Watford Specialty Insurance Company, in accordance with the Handbook and New Jersey State Regulations.

Respectfully submitted,



Sigurd Kenneth Proudfit, CFE, MCM
Examiner-In-Charge
Examination Resources, LLC
Representing the State of New Jersey
Department of Banking and Insurance

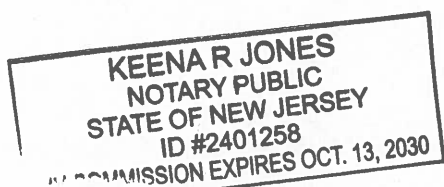
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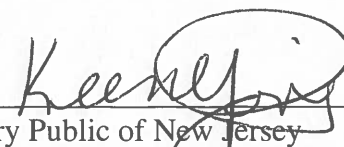


Nancy Lee Chice, CFE
CFE Reviewer – Supervising Examination
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Keena Jones on
this 27 day of May, 2026.





Notary Public of New Jersey

My commission expires: 10/13/2030

