Best's Rating Report

STARSTONE INSURANCE BERMUDA LIMITED

Hamilton HM 11, Bermuda

A-

Operating Company Non-Life

Ultimate Parent: Enstar Group Limited

STARSTONE INSURANCE BERMUDA LIMITED
Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda
Windsor Place, 3rd Floor, 22 Queen Street, Hamilton HM 11, Bermuda
Web: www.starstone.com
Tel.: 441-295-6722 Fax: 441-279-7475
AMB#: 088985 AIIN#: AA-3190972
Ultimate Parent#: 055579

BEST'S CREDIT RATING

Best's Financial Strength Rating: A- **Outlook**: Stable
Best's Financial Size Category: XI

RATING RATIONALE

Rating Rationale: The ratings reflect A.M. Best's expectation that risk-adjusted capitalisation will remain strong for StarStone Insurance Bermuda Limited (SIBL) and its subsidiaries (StarStone), formerly known as 'Torus', on a consolidated basis and for each operating company within the group. The ratings also factor in the support of Enstar Group Limited (Enstar) and the Trident funds managed by Stone Point Capital LLC (Stone Point) - jointly 98.3% shareholders in StarStone. Enstar and Stone Point completed their acquisition of StarStone on 1 April 2014. Enstar and Stone Point are expected to continue to provide strategic and operational support to StarStone, as well as financial assistance if needed. Both have a proven track record of building strong and profitable insurance businesses, Enstar in insurance run-off and Stone Point in active underwriting.

SIBL operates as the carrier of most of the group's underwriting risk through 65% quota share treaties and aggregate stop loss contracts with StarStone Insurance Plc, StarStone National Insurance Company and StarStone Specialty Insurance Company; a 95% quota share treaty with StarStone Insurance Europe; and an 85% quota share treaty with StarStone's Lloyd's corporate members. SIBL also reinsures 100% of its operating subsidiaries' discontinued lines. The owners are committed to maintaining StarStone's risk-adjusted capitalisation at a level which is supportive of the ratings. In 2014, StarStone entered into a loss portfolio transfer reinsurance agreement (LPT) between SIBL and a cell of Fitzwilliam Insurance Limited (Fitzwilliam), which is a subsidiary of Enstar domiciled in Bermuda. The LPT covers reserves for the group's discontinued lines at 1 January 2014.

An underwriting profit was achieved in 2015, and performance over 2014 and 2015 has broadly been in line with expectations. However StarStone's consolidated historical financial performance previously was weak with underwriting losses made each year from 2010 to 2014. Also the 2014 and 2015 underwriting results benefited from the LPT. Management, supported by the group's new owners, is committed to further improving financial performance. Action has been taken to achieve significant expense savings and underperforming lines have been discontinued. A.M. Best believes that achieving sustainable and sufficiently profitable results remains a challenge given the strong competition in StarStone's main business lines.

StarStone has, since its launch in 2008, built scale through a combination of acquisitions of teams and businesses and organic growth. As a result, StarStone writes a diversified specialist portfolio from operations in London, Bermuda, the United States and Continental Europe.

Positive rating actions could occur if management delivers over time on plans to create a stable platform that delivers sustainable and improved financial performance.

Negative rating actions could occur if the company were to materially underperform against its own plans and A.M. Best's expectations.

Negative rating actions could occur if there is a significant deterioration in risk-adjusted capitalisation.

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
06/10/16	A-	07/11/13	A- u
04/30/15	A-	11/16/12	A-
04/04/14	A-	11/08/11	A-

RATING UNIT MEMBERS

StarStone Insurance Bermuda Limited (AMB# 088985):

AMB#	COMPANY	BEST'S FSR
078515	StarStone Insurance Europe AG	A-
088986	StarStone Insurance plc	A-
002512	StarStone National Ins Co	A-
011432	StarStone Specialty Ins Co	A-

BUSINESS PROFILE

A diversified portfolio has been built through acquisitions, team recruitment and the introduction of business related to Enstar acquisitions. However, despite the scale that has been assembled, it remains a challenge for the company to demonstrate major areas of competitive advantage. Within the subscription business the proportion of business on which the group leads is low, even though there is a high weighting towards distribution through smaller brokers.

On 29 December 2015 StarStone Insurance Holdings Limited and its subsidiary, StarStone Insurance (Bermuda) Limited, merged. The merged company adopted the name StarStone Insurance Bermuda Limited (SIBL) (formerly Torus Insurance (Bermuda) Limited). In this report, 2015 and 2014 numbers relate to the merged company, and 2013 and prior numbers relate to Torus Insurance (Bermuda) Ltd.

SIBL and its subsidiaries (Starstone), were formerly known as Torus. In September 2015 Torus rebranded all its operations under the StarStone banner.

SIBL is an indirect part owned subsidiary of Enstar Group Limited (Enstar). On 1 April 2014, Enstar completed the acquisition of a 60% interest in StarStone, with the other 40% acquired by Stone Point Capital LLC (Stone Point)'s Trident Funds. The transaction was announced in July 2013. Subsequently, Dowling Capital Partners (Dowling) invested in StarStone alongside Enstar and Stone Point. Ownership of StarStone stands at 59%, 39.3% and 1.7% for Enstar, Stone Point and Dowling respectively.

The shareholders control SIBL through their ownership of North Bay Holdings Ltd. (Bermuda) (North Bay). North Bay owns 100% of StarStone Specialty Holdings Limited (SSHL), formerly Bayshore Holdings Limited. SSHL, in turn, owns 100% of SIBL.

StarStone was formed in 2008 with First Reserve, a private equity fund manager, providing the majority of the group's capital. Corsair Capital, LLC (Corsair) became a private shareholder with a USD 150 million contribution as part of a capital raise in 2010.

The group was initially focused on writing energy and large commercial risks where it acted as a lead underwriter for a significant proportion of the risks it underwrote. However, the group's strategy has since evolved. StarStone now underwrites a well-diversified global book of specialty, property and casualty insurance business. Within its subscription market activity it is predominantly a following market underwriter.

SIBL accepts the majority of the group's risk through intra-group reinsurance arrangements. Initially, StarStone Insurance plc (UK) (SIP) was the only other underwriting entity in the group and wrote energy and related property risks primarily in the London market. SIBL assumed the majority of those risks through intra-group reinsurance, and later started to write third-party risks as well.

SIP remains the primary source of the group's offshore energy, construction and other large technical commercial business.

In September 2008 StarStone agreed to acquire Praetorian Insurance Company (Praetorian) from QBE. Praetorian is now StarStone Specialty and provides excess and surplus lines insurance in the US.

StarStone acquired TIG Indemnity Company (TIG) from Fairfax Financial Holdings in July 2010. TIG is now StarStone National. TIG had been in run-off since 2002 when it was acquired by StarStone but had licences across the US.

StarStone Insurance (Europe) AG (StarStone Europe) (formerly Glacier Insurance AG, a subsidiary of Glacier Reinsurance AG) was bought in 2010 to provide the group with better access to European specialty and property business through its underwriting teams and branches across continental

Europe. StarStone Europe is domiciled in Liechtenstein and writes aviation,, marine, D&O, casualty, professional lines and war and terrorism business.

The StarStone group writes Lloyd's market business through Lloyd's Syndicate 1301, which is managed by StarStone Underwriting Limited (SUL). A range of niche short-tail business is written across several product lines, including accident and health, aviation, direct and facultative property, international excess casualty, marine, and war and terrorism business . In addition to underwriting business directly at Lloyd's in London, StarStone provides local access to Lloyd's across Continental Europe - including in France, Germany, Italy, The Netherlands and Switzerland - through StarStone Insurance Services Limited, which holds service company approval from Lloyd's to write business on behalf of Syndicate 1301 in each location. Healthcare and Marine business can be written locally from StarStone's Jersey City office through StarStone U.S. Intermediaries Inc., which also holds Lloyd's approval as a service company.

Syndicate 1301's corporate members, Broadgate Underwriting Limited and Broadgate Underwriting 2010 Limited, were acquired by StarStone in September 2011. The syndicate's corporate member has been renamed StarStone Corporate Capital 1 Limited. From 2015, capital was also provided to Syndicate 1301 from Enstar's corporate member SGL1.

Prior to 2013, StarStone also wrote Lloyd's market business through Syndicate 2243, having taken ownership of StarStone Corporate Capital Limited (SCCL), the corporate member of Lloyd's Syndicate 2243, in November 2009. This was consequent on the contribution of Sideris Re Holdings Ltd (the parent company of SCCL) to StarStone by First Reserve, which was then the majority shareholder of the group.

Syndicate 2243, managed by Starr Managing Agents Limited (Starr), underwrote business in conjunction with Lloyd's Syndicate 1919 (also managed by Starr), and focused on energy and construction risks that were similar to business written by SIP. In December 2011, StarStone reached agreement to purchase the renewal rights to Syndicate 1919's continental European marine and casualty business, effective 1 January, 2012. The majority of Starr's continental European based employees transferred across as part of the transaction. Syndicate 2243 was put into run-off on 1 January 2013 and all StarStone's Lloyd's business is now written by Syndicate 1301. From 1 January 2015, Syndicate 2243 has been reinsured to close into Syndicate 2008 managed by Shelbourne, an affiliated company within the Enstar group.

SIBL is core to StarStone's capital management strategy. The company provides quota share reinsurance protection to SIP (65%), StarStone Specialty (65%) and StarStone National (65%). In addition, SIBL provides an 80% excess 80% aggregate loss ratio stop loss protection to these three entities. SIBL also provides reinsurance support to StarStone Europe through a 95% quota share arrangement. Moreover, StarStone's Lloyd's corporate members, are supported through 85% quota share arrangements and SIBL provides the funds at Lloyd's required to support the group's underwriting through Syndicate 1301 and the run-off of Syndicate 2243.

For 2015, the group reported consolidated GWP of USD 708.0 million, up from USD 702.2 million in 2014. The increase reflected new lines related to Enstar acquisitions offset by rating weakness and withdrawal from unprofitable lines. GWP is expected to increase in 2016 as new business is added relating to Enstar Group acquisitions and the external minority interests participating on Syndicate 1301 have been eliminated.

StarStone Europe's and SIP's GWP was 10% and 21% respectively of the group's GWP (2014: 15% and 22%). These units are active in aviation, marine, professional lines, healthcare, A&H, global property, power and utilities, onshore energy, offshore energy and construction, war and terror and excess casualty. Bloodstock and surety, US retail, wholesale and European retail property business were put into run-off during 2013.

StarStone Specialty and StarStone National are active in US excess casualty (both core and portal based products), professional lines, healthcare and programmes. Starting in 2014, and expanding in 2015, StarStone has been writing a book of US workers' compensation business associated with Enstar's acquisition of Seabright. In 2015 StarStone also began writing both a specialist property book and a general aviation book previously written by Companion Property and Casualty Insurance Company (Companion), which Enstar acquired from Blue Cross Blue Shield of South Carolina in January 2015.

The treaty portfolio written from Bermuda, which was 15% of the group's GWP in 2011 was exited in 2013.

RISK MANAGEMENT

Following the acquisition of the group by Enstar, the risk management function has been integrated into Enstar's enterprise risk management framework. The focus is on live business risk management, which Enstar has limited experience in, although Stone Point, joint owner of StarStone through its Trident Funds, has extensive experience running live businesses.

The Risk Management Group reports quarterly to the Executive Committee. Risk tolerances also are reviewed quarterly. Tolerance for risk is defined in relation to StarStone management's own assessment of A.M. Best measures. In management's view the largest potential risk to the company's solvency is a series of very large CAT events and/or unusually high and persistent levels of attritional losses.

OPERATING PERFORMANCE

Operating Results: StarStone reported a profit in 2015. Results in 2014 and 2015 were a considerable improvement on previous years after overall losses were reported in five of the six years between 2008 and 2013.

Profit before tax in 2015 was USD 15.3 million. The result includes a USD 50 million gain relating to a loss portfolio transfer reinsurance contract (LPT) with a fellow Enstar subsidiary purchased in 2014 and covering discontinued lines for 2013 and prior years. The fellow Enstar subsidiary is liable in respect of StarStone's reserve deterioration on those years.

StarStone reported a pre-tax loss of USD 58.8 million for 2014. However this result excludes part of a gain relating to the LPT as USD 45.3million was deferred under US GAAP (the total gain being USD 72 million). The result also was after share award costs, arising from the acquisition by Enstar, of USD 19.3 million.

In 2016, performance should benefit from considerable expense savings. In addition, actions taken to scale back and discontinue underperforming lines should continue to have a positive effect on the group's loss ratio, and the LPT will, as in 2014 and 2015, remove volatility relating to 2013 and prior years.

New business deriving from Enstar acquisitions and team recruitment also are expected to contribute positively.

Despite these positive influences, generating significant earnings on a sustainable basis is expected to remain challenging in 2016 and beyond, given the competition StarStone faces in its main business lines.

Underwriting Results: StarStone reported an underwriting profit of USD 9 million in 2015 which, though modest, was a considerable improvement on previous years as technical losses were reported each year from 2008 to 2014.

The loss for 2014 of USD 9 million, before deferring revenue relating to the LPT and excluding costs relating to an Enstar group share plan relating to the change of control, was considerably lower than for earlier years but nevertheless represents a weak performance, especially considering the favourable results reported by peers. On the same basis StarStone reported a combined ratio of 101% in 2014.

In 2013, StarStone reported a combined ratio of around 109 %, despite benign catastrophe experience. Performance was affected by adverse development on discontinued lines, although overall a small release was made from prior year reserves.

StarStone has taken actions over recent years to significantly reduce its earnings volatility and improve underlying performance. The group sold or ceased writing property catastrophe treaty and Bermudian excess casualty business in 2011. Other actions taken to mitigate earnings volatility include action to discontinue US property business starting in 2013, exiting all reinsurance treaty business and other selected lines, the implementation of the LPT covering discontinued lines in 2014 and the identification of profitable business available to StarStone through Enstar acquisitions. Despite these positive effects, generating significant and continuing underwriting profit is expected to remain a challenge given the competition StarStone faces in its main business lines.

Investment Results: Investment return in 2015 was low at USD 6.2 million, reflecting a low interest rate environment and fair value losses.

StarStone has a conservative investment strategy, holding primarily cash and investment grade fixed income securities. In addition, the group has an allocation to BBB bonds, non investment grade securities and high yield fixed income funds. At year-end 2015, the credit profile of fixed income securities was approximately: AAA (53%); AA (8%); A (23%); BBB (10%).

BALANCE SHEET STRENGTH

Capitalization: Consolidated risk-adjusted capitalisation is expected to remain strong, helped by the group exiting underperforming lines, the cover available through the LPT for any further deterioration in reserves for discontinued lines and close management of catastrophe exposure. In addition, stand-alone risk-adjusted capitalisation at each StarStone group subsidiary is expected to remain supportive of its respective rating level.

Growth in the years following the company's formation in 2008 was supported by the initial capitalisation of approximately USD 720 million shareholders' funds, a further capital injection in 2009/2010 of approximately USD 265 million and the issuance of USD 80 million of preference shares in 2012. The preference shares were converted into contributed surplus at the close of the acquisition of the group by Enstar and Stone Point Capital. Gross premiums written (GPW) peaked in 2012, declined by some 32% to 2014, and then increased by 1% in 2015. GPW is expected to grow by around 2% in 2016.

Loss Reserves: The LPT has the effect of reducing the maturity of StarStone's reserves making it more difficult to assess their adequacy.

The group's reserving methodology assesses attritional losses and 'large and catastrophe' losses separately (large losses are defined as greater than USD 1 million) for the company's gross share. Attritional loss reserves are assessed using benchmark reporting and internal claims patterns. Large and catastrophe losses are treated on a case basis. StarStone generally reserves at or close to actuarial best estimate with little further margin. Loss reserves are subject to annual independent review by the group's external actuaries.

There was a sizable release on prior years' reserves in 2015 and more modest releases in previous years (2015: 35.8 million, 2014: USD 8.2 million, 2013: USD 10.6 million).

Liquidity: StarStone maintains adequate levels of liquidity. Investments comprise predominantly cash and high quality bonds and the average duration of the bond portfolio is two years.

Summarized Accounts as of December 31, 2015

Data reflected within all tables of this report has been compiled from the financial statements of this company (Source: Company Financial Statement).

ASSETS

	12/31/2015 USD(000)	12/31/2015 % of total	12/31/2014 USD(000)
Cash and equivalents	165,700	6.1	481,400
Long term fixed maturity investments	1,009,700	36.9	836,400
Short term investments	7,400	0.3	21,900
Other investments	344,900	12.6	177,000
Invested assets	1,362,000	49.7	1,035,300
Receivables	383,000	14.0	310,200
Reinsurance recoverable	535,800	19.6	692,000
Deferred policy acquisition cost	58,100	2.1	60,900
Goodwill & other intangibles	84,100	3.1	88,100
Other assets	149,900	5.5	178,400
Total assets	2,738,600	100.0	2,846,300

LIABILITIES & SURPLUS

	12/31/2015 USD(000)	12/31/2015 % of total	12/31/2014 USD(000)
Property / Casualty reserves	1,111,600	40.6	1,196,700
Unearned premium reserves	416,500	15.2	434,600
Total policy reserves	1,528,100	55.8	1,631,300
Other liabilities	428,800	15.7	454,500
Total liabilities	1,956,900	71.5	2,085,800
Equity - common stock	1,000	0.0	1,000
Paid-in capital	1,086,100	39.7	1,086,100
Retained earnings	-305,400	-11.2	-326,600
Total equity	781,700	28.5	760,500
Total liabilities & equity	2,738,600	100.0	2,846,300

STATEMENT OF INCOME

	12/31/2015 USD(000)	12/31/2014 USD(000)
Direct premiums written	557,500	683,700
Reins assumed	150,500	18,500
Gross premiums written	708,000	702,200
Reins ceded	181,000	201,100
Net premiums written	527,000	501,100
Change in unearned premiums	5,800	14,600
Net premiums earned	521,200	486,500
Net investment income	12,500	13,200
Net realized gains/(losses)	19,800	7,700
Net unrealized gains/(losses)	-26,100	-7,300
Other revenue	700	3,400
Non-operating revenue	200	...
Total revenue	528,300	503,500
Benefits & reserves	301,200	332,800
Operating expenses	211,800	227,900
Non-operating expenses	...	1,600
Total benefits & expenses	513,000	562,300
Earnings before interest & taxes (EBIT)	15,300	-58,800
Pre-tax income/(loss) from continuing operations	15,300	-58,800
Total taxes	-5,900	1,400
Net income/(loss) before minority interest	21,200	-60,200
Net income/(loss) from continuing operations	21,200	-60,200
Net income/(loss)	21,200	-60,200

STATEMENT OF CHANGES IN EQUITY

	12/31/2015 USD(000)	12/31/2014 USD(000)
Common shares, beginning balance	1,000	1,000
Common shares, ending balance	1,000	1,000
Paid-in capital - Beg bal	1,086,100	923,400
Paid-in capital - other	...	162,700
Paid-in capital - End bal	1,086,100	1,086,100
AOCI - beginning balance	...	500
AOCI - change in unrealized gains/losses on investments	...	-500
Retained earnings, beginning balance	-326,600	-108,400
Retained earnings, net income	21,200	-60,200
Retained earnings, common dividends	...	4,800
Retained Earnings, other	...	-153,200
Retained earnings, ending balance	-305,400	-326,600
Total shareholder equity	781,700	760,500

STATEMENT OF CASH FLOWS

	12/31/2015 USD(000)	12/31/2014 USD(000)
Net cash provided/(used) in operating activities	32,200	-1,600
Net cash provided/(used) in investment activities	-358,100	199,500
Net cash provided/(used) in financing activities	3,100	-4,800
Effect of exchange rates on cash	7,100	-13,800
Total increase (decrease) in cash	-315,700	179,300
Cash, beginning balance	481,400	302,100
Cash, ending balance	165,700	481,400

MANAGEMENT

Officers: Chairman and Chief Executive Officer, Nicholas A. Packer; Chief Financial Officer, Kathleen Barker; Company Secretary, Codan Services Limited.

Directors: Kathleen Barker (Director), Orla Gregory (Director), Paul O'Shea (Director), Nicholas Packer (Director), Duncan Scott (Director), Mark Smith (Director).

REINSURANCE

StarStone's reinsurance programme primarily comprises risk and catastrophe excess of loss by line of business. Quota shares are also utilised on many lines.

BALANCE SHEET ITEMS

	USD (000) 2015	USD (000) 2014	USD (000) 2013	USD (000) 2012	USD (000) 2011
Invested assets	1,362,000	1,035,300	1,156,300	1,316,000	1,037,000
Total assets	2,738,600	2,846,300	2,493,600	2,643,200	2,326,900
Total liabilities	1,956,900	2,085,800	1,677,100	1,769,800	1,575,100
Total equity	781,700	760,500	816,500	873,400	751,800
Total capital	781,700	760,500	816,500	873,400	751,800

INCOME STATEMENT ITEMS

	USD (000) 2015	USD (000) 2014	USD (000) 2013	USD (000) 2012	USD (000) 2011
Gross premiums written	708,000	702,200	760,900	827,400	814,200
Net premiums written	527,000	501,100	498,300	548,200	506,700
Net investment income	12,500	13,200	26,500	25,000	23,200
Net realized gains/(losses)	19,800	7,700	1,400	4,600	11,300
Net income/(loss)	21,200	-60,200	-25,800	-1,600	-85,200

LIQUIDITY RATIOS (%)

	2015	2014	2013	2012	2011
Total investments to total reserves	100.0	93.0	90.6	95.4	80.5
Liquid assets to total liabilities	60.4	64.2	82.9	86.9	68.2
Total investments to total liabilities	78.1	72.7	83.2	87.7	72.7
Bonds to total reserves	66.1	51.3	74.5	79.9	64.3

PROFITABILITY RATIOS (%)

	2015	2014	2013	2012	2011
Loss ratio	57.8	68.4	64.6	65.1	84.4
Expense ratio	40.6	42.9	40.9	41.4	38.3
Combined ratio	98.4	111.3	105.5	106.5	122.7
Investment income ratio	2.4	2.7	4.5	4.6	4.4
Return on assets	0.8	-2.3	-1.0	-0.1	-3.9
Return on revenues	4.1	-12.4	-4.3	-0.3	-16.3
Return on equity	2.8	-7.6	-3.1	-0.2	-10.7

LEVERAGE & DEBT RATIOS (%)

	2015	2014	2013	2012	2011
Net premiums written to equity	67.4	65.9	61.0	62.8	67.4
Cash and equivalents to total assets	6.3	17.7	9.8	9.0	6.9

Why is this *Best's® Rating Report* important to you?

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899.

A Best's Financial Strength Rating (FSR) is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete AMB Credit Report. You may obtain the complete report by contacting Customer Service at +1(908)439-2200 or customer_service@ambest.com. Please reference the company's identification number (AMB#) listed on this rating report.

For the latest Best's Financial Strength Ratings along with their definitions and A.M. Best's Terms of Use, please visit **www.ambest.com**.

Copyright © 2016 A.M. Best Company, Inc. and/or its affiliates. All rights reserved.

No part of this report may be reproduced, distributed, or stored in a database or retrieval system, or transmitted in any form or by any means without the prior written permission of the A.M. Best Company. While the data in this report was obtained from sources believed to be reliable, its accuracy is not guaranteed.