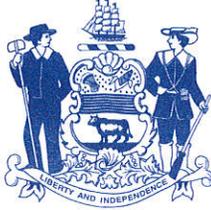


**REPORT ON EXAMINATION**  
**OF THE**  
**CLEARWATER INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2010**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

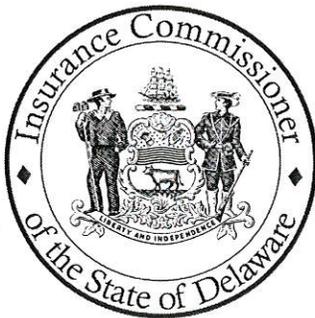
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2010 of the

**CLEARWATER INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: Grant Biddle

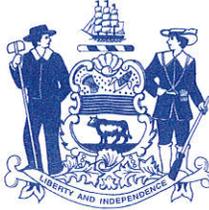
Date: 20 Jun 2012



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 20<sup>th</sup> day of June, 2012.

  
\_\_\_\_\_  
Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
CLEARWATER INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2010

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to be "Karen Weldin Stewart", written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 20<sup>th</sup> day of June, 2012

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## **SALUTATION**

April 25, 2012

Honorable Karen Weldin Stewart, CIR-ML  
Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Blvd.  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No.11-009, dated July 27, 2011, an Association examination has been made of the affairs, financial condition and management of the

### **CLEARWATER INSURANCE COMPANY**

hereinafter referred to as "Company" or "CIC" incorporated under the laws of the State of Delaware, the statutory home office of which was located at The Corporation Trust Center, 1209 Orange St., Wilmington, DE, 19801. The main administrative offices of the Company were the same as that of its upstream parent, Odyssey Re Holdings Corp. ("ORH") located at 300 First Stamford Place, Stamford, Connecticut. The examination of the Company was conducted concurrently with that of its Delaware domestic subsidiaries, Hudson Insurance Company ("HIC") and Clearwater Select Insurance Company ("CSIC"). Separate reports of examination were filed for each company.

The report of this examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

The last financial condition examination of the Company covered the period from January 1, 2005 through December 31, 2007. This examination covered the period from January 1, 2008 through December 31, 2010 and consisted of a general review of the Company's business policies

and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed to the extent deemed necessary.

This examination of the Company was conducted concurrently with the examinations of other members of the Fairfax, Inc. and Odyssey Re Holdings Corp. group (Wyoming and Delaware domestic holding companies, respectively) including: the Company's direct owner, Odyssey America Reinsurance Corporation (Odyssey Re) (Connecticut), the Company's owned subsidiaries, Clearwater Select Insurance Company (DE) and Hudson Insurance Company (DE). Other companies under concurrent examination were, Hudson Specialty Insurance Company (NY), Crum & Forster Indemnity Company (DE), and Crum & Forster Specialty Insurance Company (AZ). We coordinated and regularly communicated our review of Company management and operations with the Connecticut Department of Insurance to the fullest extent possible in order to avoid duplication of efforts and leverage relevant work completed.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The examination followed rules established by the National Association of Insurance Commissioners ("NAIC") Committee on Financial Condition Examiners Handbook (Handbook) as adopted by the Delaware Department of Insurance (DE DOI) under 18 Del. C. §526, and generally accepted statutory insurance examination standards. In planning and conducting the examination, consideration was given to the concepts of materiality and risk, and examination efforts were directed accordingly.

Work papers prepared by the Company's external accounting firm, PricewaterhouseCoopers LLC (PwC), New York, NY, in connection with its annual audit, were extensively reviewed in order to ascertain its analysis, review of controls, audit procedures, and conclusions. We relied upon, and utilized, PwC's work papers to the fullest extent possible. The Company was not required to be Sarbanes Oxley (SOX) section 404 compliant. The Company's direct parent and management services provider, Odyssey Re, is however SOX compliant and we reviewed, relied on and leveraged work completed by the Connecticut examination team to the fullest extent considered applicable to Company's financial reporting, and relevant to its management service providers, overall control environment. Based upon the review of PwC work papers, as well as the performance of other examination planning procedures including: account analysis, the assessment of management and the Odyssey Re organization (as a whole), the assessment of account specific and cycle controls, and the assessment of the Odyssey Re control environment, an overall assessment was made determining: compliance risk, operational risk, financial reporting risk, and risk of material misstatement. In those areas in which a high reliance was placed on controls, and where we determined a low likelihood of material misstatement, limited examination procedures were performed. In other areas, we attempted to identify examination procedures to specifically address those concerns or risk noted, based on professional judgment.

In addition to items noted in this report, the following topics were reviewed without material exception and are included in the work papers of this examination:

- Corporate Records
- Custodial Agreements
- NAIC Ratios
- Legal Actions
- Employee and Agents Welfare
- Regulatory Agency Correspondence
- Compliance with Prior Report Recommendations - None

All Asset and Liability Items not mentioned

The examination was conducted in accordance with the Association Plan of Examination guidelines established by the NAIC. No other states participated in this examination.

**SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings as a result of this examination.

**SUBSEQUENT EVENTS**

On January 1, 2011, ORH transferred ownership of Clearwater Insurance Company to TIG Insurance Group, Inc. ("TIG"), which is a Fairfax, Inc. subsidiary and a shareholder of ORH, in exchange for 5,921 shares of ORH held by TIG. Prior to this transaction, but in 2011, certain Company business (including all of the business ceded by CSIC to the Company) was reinsured with Odyssey Re on January 1, 2011. The Company distributed by means of a dividend, declared by Company's Board of Directors on December 9, 2010, its 100% ownership interest in the common stock of HIC and CSIC to Odyssey Re; Odyssey Re then distributed its ownership interest in the Company to ORH by means of a dividend, which was declared on December 13, 2010. Included in the balance sheet of the Company that was transferred to TIG as of January 1, 2011 were \$5.5 million in preferred shares of CSIC and \$23.8 million in preferred shares of HIC.

Per the Company the reason for the change in ownership was to "take all responsibility for run-off out of the management of the ongoing "Reinsurance Flagship" (Odyssey Re) and place it in a structure with run-off professionals and customized support (TIG).

Due to the ownership change, a new Board of Directors was elected. Individuals elected and serving on the Board of Directors after the transfer of ownership were:

Directors

John Joseph Bator

Nicholas Craig Bentley

Nina Lynn Caroselli

Richard Joseph Fabian

John Michael Parker

Officers substantially remained the same after the transfer of ownership.

Since the Company was no longer under Odyssey Re ownership and its management and administrative services agreements, the Company entered into a Management and Administrative Service Agreement with RiverStone Resources, LLC. This agreement was effective January 11, 2011 and was entered into for RiverStone Resources, LLC to provide similar services that Odyssey Re had provided before the change in ownership.

As a prerequisite to the DE DOI approval for the dividend and restructuring described above, and effective January 1, 2011, the Company entered into a Financial Support Agreement with Fairfax, Inc. Under the agreement Fairfax, Inc. provides funding to the Company to ensure the ratio of losses and LAE reserves of the Company, net of ceded reinsurance, to surplus as regards policyholders of the Company, as reported in any quarterly and annual statement filed by the Company with DE DOI hereafter, will be 3:1 or lower. The total adjusted capital of the Company as of December 31 of each year must be equal to, or greater than, 200% of authorized control level risk-based capital of the Company.

The Company holds an assigned Promissory Note in the amount of \$50 million originally issued by Fairfax (US) Inc. (DE) (formally known as Fairfax, Inc.) to TIG Holdings, Inc. effective December 19, 2011. The note carries an annual 7% interest rate on a 365 day basis and matures December 19, 2021. The promissory note was assigned from TIG Holdings to TIG Insurance Group, Inc. on same date, and then to the Company from TIG Insurance Group also on same date.

Related to the above promissory note, and effective December 22, 2011, the Company's Board of Directors consented to issue 2,986.86 new shares of common stock to its sole shareholder TIG Insurance Group, Inc. in consideration for the \$50 million promissory note (or \$16,740 per

share based on CIC's fair value per share as of its September 30, 2011 quarterly financial statement). The Company originally had 25,000 authorized and issued shares at a par value of \$300 per share with \$7,500,000 reported as paid in capital stock as of December 31, 2010, and in its December 31, 2011 annual statement it reported \$8,396,058 in paid in capital stock. The \$50 million promissory note was reported by the Company as an increase of \$896,058 in paid in capital and an increase of \$49,103,942 in paid in surplus.

The Company has assumed additional asbestos and environmental reinsurance business from affiliates. This reinsurance agreement lists the ceding affiliates to be United States Fire Insurance Company (DE), The North River Insurance Company (NJ), Crum & Forster Indemnity Company (DE), and Crum & Forster Insurance Company (NJ), whereas CIC is the assuming company which will cover substantially all of the ceding companies' liabilities for asbestos, environmental and other latent and non-latent claims. This reinsurance agreement became effective December 31, 2011.

### **COMPANY HISTORY**

Fairfax Inc. (a Wyoming Corporation) purchased the Company (formerly Skandia America Reinsurance Corporation) and its subsidiary, HIC, on May 31, 1996. On April 13, 1999, Fairfax Inc. purchased the TIG Insurance Group, included in that group was TIG Reinsurance Company (TIG Re). Subsequent to its acquisition, the name of TIG Re was changed to Odyssey America Reinsurance Corporation (Odyssey Re). On September 15, 1999, the Delaware Insurance Department approved the Company's request to realign the companies so that the Company became the subsidiary of Odyssey Re. During 1999, the Company stopped accepting new reinsurance business.

On July 19, 1996 the Company's name was changed from Skandia America Reinsurance Corporation to Odyssey Reinsurance Corporation and on December 4, 2003 its name was changed from Odyssey Reinsurance Corporation to its current name, Clearwater Insurance Company. The name was changed to better reflect the change of the Company from a professional reinsurer to a direct writer. The Company began writing direct business in 2004 however during 2010 ceased writing direct business and has committed to facilitate the run off of prior business both direct and reinsurance.

#### Common Capital Stock

The Company's authorized capital was \$7,500,000, consisting of 25,000 issued and outstanding shares of common stock at a par value of \$300 per share.

#### Dividends

On December 9, 2010 the Company's Board of Directors declared an extraordinary dividend, payable on January 1, 2011, whereby 100% of the common stock of its subsidiaries, HIC and CSIC, would be transferred to Odyssey Re. The value of the dividend was based upon the statutory surplus of HIC and CSIC, which as of December 31, 2010 was \$440,996,963.

On December 29, 2010, the Company received, in the form of a dividend, all of Hudson Insurance Company's 23,807 authorized shares of 5.5% Series A preferred stock, with a liquidation preference par value of \$1,000 per share totaling \$23,807,000.

On December 29, 2010, the Company received, in the form of a dividend, all of Clearwater Select Insurance Company's 5,492 authorized shares of 5.5% Series A preferred stock, with a liquidation par value of \$1,000 per share totaling \$5,492,000.

On January 1, 2011, ORH transferred ownership of CIC to TIG Insurance Group, Inc., (TIG) which is a Fairfax subsidiary and shareholder of ORH, in exchange for 5,921 shares of ORH

held by TIG. CIC distributed, by means of a dividend, its ownership interest in the common stock of the HIC and CSIC to Odyssey Re, and Odyssey Re then distributed all of the issued and outstanding shares of CIC to ORH by means of a dividend. As the Company's dividend was declared by its Board of Directors as of December 9, 2010, but was not payable until January 1, 2011, a liability was established as of December 31, 2010 through a reduction of the Company's policyholder surplus. Included in the balance sheet of the Company that was transferred to TIG as of January 1, 2011 was \$29.3 million in preferred shares of HIC and CSIC.

### **MANAGEMENT AND CONTROL**

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business, property and affairs are managed by or under the direction of the Board of Directors.

#### **Stockholder**

In accordance with Article II, Section 1 of the Company's bylaws, the annual shareholder's meeting shall be held each year on a date and time designated by the Board of Directors.

#### **Board of Directors**

The Board of Directors shall consist of no less than three (3) and no more than nine (9) members. Currently the Board is comprised of six (6) members. Directors are elected for one-year terms at the annual meeting of the stockholder. Individuals elected and serving on the Board of Directors at December 31, 2010 were:

#### **Directors**

Andrew Acheson Barnard

Robert Stanley Bennett

#### **Principal Business Affiliation**

President and Chief Executive Officer, Fairfax Insurance Group; Vice Chairman, Odyssey Re Holdings Corp.

Executive Vice President and Chief Actuary, Odyssey Reinsurance Company

Jan Christiansen	Executive Vice President and Chief Financial Officer, Odyssey Re Holdings Corp.
Christopher Liam Gallagher	President and Chief Operating Officer, Hudson Insurance Company
Michael Gerard Wacek	Executive Vice President, Odyssey Re Holdings Corp.
Brian David Young	Director, CEO and President, Odyssey Re Holdings Corp.

The Company's bylaws provide for the Board to designate one or more committees, each committee to consist of at least (3) directors of the corporation. As of December 31, 2010, the Board of Directors had appointed the following committees.

Investment Committee

Andrew A. Barnard  
Jan Christiansen  
Michael G. Wacek

Benefit Committee

Andrew A. Barnard  
Jan Christiansen  
Michael G. Wacek

Compensation Committee

Andrew A. Barnard  
Jan Christiansen  
Michael G. Wacek

Audit Committee\*

Brandon W. Sweitzer - Chairman  
Alan D. Horn  
Anthony F. Griffiths

\* In 2010, Clearwater Insurance Company designated the Audit Committee of Odyssey Re Holdings Corp. (ORH) as its Audit Committee. Notification was sent to the Delaware Insurance Department on December 22, 2010.

A review of Company corporate records showed that regular business of the Shareholder and Board of Directors was conducted via written consents in lieu of regular meetings.

Officers

The bylaws of the Company state that the officers of the Company shall be a Chairman of the Board, a President, one or more Vice Presidents, a Controller, and a Corporate Secretary, or other officers as may be elected or appointed by the Board of Directors. As of December 31, 2010, the Company's principal officers and their respective titles are as follows:

Officer

Andrew Acheson Barnard  
Jan Christiansen  
Peter Hamilton Lovell  
Robert Stanley Bennett  
Christopher Liam Gallagher  
Brian Dalmar Quinn  
Michael Gerard Wacek  
Brian David Young  
James Brian Salvesen  
Richard Frederick Coerver IV  
Gerald Aloysius Dugan  
Patrick Edward Gentile  
Joseph Angelo Guardo  
Kent Alan Peterson  
Jeffery Mark Rubin  
Christopher Thomas Suarez

Office

Chairman, Chief Executive Officer  
President  
Senior VP, General Counsel & Corp Secretary  
Executive Vice President & Chief Actuary  
Executive Vice President  
Executive Vice President  
Executive Vice President  
Executive Vice President  
Senior Vice President & Chief Financial Officer  
Senior Vice President & Controller  
Senior Vice President  
Senior Vice President  
Senior Vice President  
Senior Vice President  
Senior Vice President

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regard to the changes in officers and directors during the period under examination in compliance with 18 Del. C. §4919 “Change in Officer and Director Notice”.

Conflict of Interest

The Company has an established procedure for the disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers, directors, or responsible employees which is in conflict with or is likely to conflict with the official duties of such person. The disclosures are made annually. Conflict of Interest Statements completed by all directors and officers were reviewed and the information contained therein disclosed no evidence of conflicting interests.

Holding Company System

The Company is a member of an Insurance Holding Company System pursuant to 18 Del. C. §5001(4) “Insurance Holding Company System”. The Company’s immediate parent is Odyssey

Re which is ultimately owed by Fairfax Financial Holdings Limited, (Fairfax) a Canadian company.

The following abbreviated organizational chart of which the Company is a part, illustrates the identities and relationships between its parent, affiliates and certain subsidiaries as of December 31, 2010:

Fairfax Financial Holding Limited *	Canada
Hamblin Watsa Investment Counsel Ltd.	Canada
Fairfax, Inc.	Wyoming
United States Fire Insurance Company	Delaware
Crum & Forster Specialty Insurance Company	Arizona
Crum & Forster Indemnity Company	Delaware
The North River Insurance Company	New Jersey
Crum and Forster Insurance Company	New Jersey
TIG Holdings, Inc.	Delaware
TIG Insurance Group, Inc.	Delaware
Odyssey Re Holdings Corp.	Delaware
Odyssey America Reinsurance Corporation	Connecticut
<b>Clearwater Insurance Company</b>	<b>Delaware</b>
Clearwater Select Insurance Company	Delaware
Hudson Insurance Company	Delaware
Hudson Specialty Insurance Company	New York

\* (1) V. Prem Watsa (an individual), through either himself, a Family Trust or, other holding entities controls, 48.7% of the total votes attached to all shares of Fairfax Financial Holding Limited.

### Intercompany Agreements

The Company entered into various agreements with members of its affiliated group, in an effort to obtain efficiencies in operations and limit costs, and therefore had the following intercompany agreements and arrangements in effect as of December 31, 2010:

#### Expense Sharing Agreement

Effective January 1, 2000, Fairfax Inc., Odyssey Re, the Company, and HIC entered into an expense sharing agreement. Under provisions of this agreement, each company is to make available to the others: management, underwriting, claims, accounting, financial, legal, personnel, data processing services and consulting, to be used at times and in amounts

determined necessary or appropriate by the managing officers of each company. The Company reported that \$1,000,000 was paid for services received in 2010.

*Tax Allocation Agreement*

As a result of the 2009 acquisition by Fairfax of all of the issued and outstanding shares of common stock of ORH that it did not already own, effective October 28, 2009, ORH and subsidiaries (including the Company) rejoined the U.S. tax group of Fairfax, Inc., and therefore the Company has rejoined the Intercompany Tax Allocation Agreement among Fairfax and certain of its subsidiaries (the "2000 Tax Allocation Agreement"). The 2000 Tax Allocation Agreement was originally effective January 1, 2000. Under terms of the agreement, the affiliated group exercises the privileges granted under IRS Code Section 1501 to file a consolidated return. Each company's tax liability is calculated based upon its respective share of consolidated income. The agreement further provides that each member shall receive reimbursement to the extent that its losses' and other credits result in a reduction of the current year's consolidated tax liability, not to exceed its liability as if filed on an individual basis.

*Tax Services Agreement*

Effective July 1, 2001, the Company entered into a Tax Services Agreement with Fairfax Inc. Under the provisions of this agreement, Fairfax Inc. provides the Company with tax consulting and compliance services.

*Investment Management Agreement*

Effective January 1, 2003, the Company entered into an investment agreement with Hamblin Watsa Investment Counsel, Ltd (Hamblin Watsa), and Fairfax. Under terms of the agreement, Hamblin Watsa manages, on a continuous basis, the Company's investment account in accordance with investment objectives communicated in writing by Company management. The Company pays a base fee of .20% per annum on marketable securities managed, plus a

graduated incentive fee for equity investment performance greater than the S&P 500, plus 200 basis points.

### **FIDELITY BONDS AND OTHER INSURANCE**

The Company is covered by a Financial Institution Bond (Fidelity Bond) under coverage provided to Odyssey Re and its subsidiaries. The coverage is provided by St. Paul Fire & Marine Insurance Company, with a limit of liability of \$10,000,000, and it exceeded the suggested minimum limits of insurance per the NAIC Handbook.

In addition to the fidelity bond insurance, Odyssey Re provides general insurance coverage for itself and other subsidiary companies.

### **TERRITORY AND PLAN OF OPERATION**

#### **Territory**

The Company is licensed in the District of Columbia, and all states, with the exception of Maine and Massachusetts. The Company is licensed as a reinsurer only in the states of Connecticut, Nevada, and Puerto Rico. The Company is an approved reinsurer in Massachusetts and qualifies for reinsurance credit in Maine. The Company is a qualified or accredited reinsurer in the states of Colorado, Florida and Minnesota.

#### **Plan of Operation**

Prior to December 31, 2010, CIC was part of the Hudson Insurance Group, a group of three primary property-casualty insurance carriers with a shared employment force. The Company was a party to an expense sharing agreement, cost sharing agreement and tax allocation agreement. The Company's role in the Group is to provide a second, widely licensed admitted carrier for the placement of specialty programs as well as for the purpose of branding or name recognition.

During the course of 2010 CIC ceased writing direct business but continued to facilitate the run off of prior assumed business.

Claim handling is performed by employed claims professionals who have direct responsibility for receipt, adjustment and settlement of all claims within a particular program or class of business and by contracted third party administrators (TPA) with specific expertise in certain lines of business. TPA's are provided a written contract that states the authority granted and processes to follow in the adjustment and settlement process.

### **GROWTH OF THE COMPANY**

The Company no longer writes direct business but continues to run-off assumed asbestos and environmental business. Effective January 1, 2011, ownership of the Company was transferred and placed in a structure with run-off professionals and customized support under TIG Insurance Group, Inc. (DE).

Surplus as regards policyholder for the Company decreased from \$696.2 million in 2009 to \$287 million in 2010 due to the Company's dividend to Odyssey Re of its ownership in common stocks in two affiliates (CSIC and HIC) for their reported carrying amount of \$441.0 million.

### **LOSS EXPERIENCE**

CIC's net loss and loss adjustment expense reserves as of December 31, 2009 were \$514,763,074. During 2010, \$81,375,000 was paid for incurred loss and loss adjustment expenses attributable to insured events of prior years. Reserves remaining for the prior years are now \$498,538,000 as a result of re-estimation of unpaid claims and claims adjustment expenses across all lines. Therefore, there has been a \$65,149,926 in unfavorable prior year development since 2009. The increase is generally the result of ongoing analysis of loss development trends.

**REINSURANCE**

A schedule of the Company's premiums written during the exam period is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Direct	\$(130,654)	\$ 16,045,305	\$ 96,612,920	\$ 68,748,505
Assumed from Affiliates	19,302	2,272,165	8,394,811	2,958,296
Assumed from Non-affiliated	(287,532)	479,539	(2,444,991)	(294,048)
Gross Premiums	<u>\$(398,884)</u>	<u>\$ 18,797,009</u>	<u>\$ 102,562,740</u>	<u>\$ 71,412,753</u>
Ceded to Affiliates	\$ 773	\$ 18,074,526	\$ 7,960,893	\$ 7,567
Ceded to Non-affiliated	(97,592)	(276,837)	54,061,935	25,702,013
Net Premiums	<u>\$(302,065)</u>	<u>\$ 999,320</u>	<u>\$ 40,539,912</u>	<u>\$ 45,703,173</u>

Assumed Reinsurance

The Company and CSIC entered into a Novation Agreement, effective November 15, 2004, pursuant to which the Company replaced Overseas Partners Re Limited, CSIC's former parent company, as 75% reinsurer of CSIC. In this agreement, the Company assumes from CSIC losses up to \$10 million on a 75% quota share basis, business relating to environmental losses which has been in run-off since 2002. The Company and this agreement were replaced in a Novation Agreement with Odyssey Re effective January 1, 2011.

The Company's assumed asbestos and environmental business from non-affiliates has been in run-off since 1999.

Ceded Reinsurance

As part of its on-going run-off of asbestos and environmental business, beginning in 1999, the Company still has in effect reinsurance coverage under which recoverables are generated. As of year-end, recoverables related to this business totaled approximately \$45.3 million. A review of these balances showed that no individual balance due from reinsurers was material and that they were being settled.

Effective January 1, 2008, the Company entered into a Net Line Quota Share Reinsurance Agreement with Odyssey Re, pursuant to which the Company cedes to Odyssey Re a 70% quota share of any business written or renewed by the Company on or after the effective date, net of all reinsurance protections ceded to third party reinsurers.

### **ACCOUNTS AND RECORDS**

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure and the processing structure. The Company operates in a computer dominated environment. The Company's general ledger is manually updated from system reports generated by Reinsurance Systems Group (RSG) and Princeton Asset Management (PAM) for reinsurance and investment transactions, respectively. The general ledger account balances were reconciled and traced to amounts reported in the annual statement for the most recent year under review. All balance sheet accounts with a category class of statutory ledger, non-ledger and non-admitted were summarized and traced to the appropriate asset exhibits and liability lines within the annual statement.

PwC audits the statutory financial statements of Odyssey Re, its subsidiaries and certain affiliates (including the Company) annually. PwC reviewed the internal control structure of Odyssey Re in order to establish necessary audit procedures required to express an opinion on the December 31, 2010 financial statements. No material qualifying deficiencies were found to exist in either the design or oversight of the internal control structure of Odyssey Re.

Based on the examination review of the Company's accounts and records related to its filed Annual Statements, observations, discussions with management, and our review of financial reporting processes and controls, the accounting systems, processes, and procedures were found to conform to required insurance accounting practices.

**STATUTORY DEPOSITS**

The Company's state statutory deposits were on file with the following states:

STATE	Deposits For The Benefit of ALL Policyholders		All Other Special Deposits	
	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
California			\$ 12,878,240	\$ 13,542,151
Delaware	\$ 2,926,312	\$ 3,214,620	97,544	107,154
Georgia			107,298	117,869
Kansas			107,298	117,869
Kentucky			97,544	107,154
Massachusetts			187,284	205,736
New Hampshire			487,719	535,770
New Mexico			375,147	391,111
North Carolina			689,574	700,406
Oklahoma			396,834	420,328
Oregon			595,017	653,639
South Dakota			107,298	117,869
Tennessee			204,842	225,023
Texas			107,298	117,869
Virginia			292,631	321,462
Puerto Rico			1,033,906	1,004,861
<b>TOTAL DEPOSITS</b>	<b>\$ 2,926,312</b>	<b>\$ 3,214,620</b>	<b>\$ 17,765,474</b>	<b>\$ 18,686,271</b>

**FINANCIAL STATEMENTS**

The following pages contain the Company's Financial Statements for the year ending December 31, 2010, as determined by this examination, with supporting exhibits as detailed below:

Assets,  
Liabilities, Capital and Surplus,  
Statement of Income and Capital and Surplus Account,  
Reconciliation of Surplus since last Examination

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. Narratives on certain individual accounts have been included in order to provide

the reader with additional supporting information. Based on the results of this examination, no financial adjustments have been made.

**Assets**  
**As of December 31, 2010**

	<u>Assets</u>	<u>Non admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 496,325,329		\$ 496,325,329	1
Preferred stocks	29,299,000		29,299,000	2
Common stocks	541,620,573		541,620,573	3
Cash, Cash Equivalents and Short-term Investments	73,757,855		73,757,855	4
Derivatives	5,792		5,792	
Other invested assets	94,442,686		94,442,686	
Subtotals, cash and invested assets	<u>\$ 1,235,451,235</u>	<u>\$ 0</u>	<u>\$ 1,235,451,235</u>	
Investment income due and accrued	8,765,499		8,765,499	
Uncollected premiums and agents' balances in the course of collection	3,737,979	1,136,352	2,601,627	
Deferred Premiums, Agents' Balance booked but not due	220,595		220,595	
Accrued retrospective premiums	1,404,742		1,404,742	
Amounts recoverable from reinsurers	45,268,502		45,268,502	
Funds held by or deposited with reinsured companies	4,097,868		4,097,868	
Current federal and foreign income tax recoverable and interest thereon	248,338		248,338	
Net deferred tax asset	32,564,624	26,095,252	6,469,372	
Receivable from parent, subsidiaries, and affiliates	2,777,687		2,777,687	
Other assets due from FCIC	879,135		879,135	
Loss clearing	10,339,807		10,339,807	
Totals	<u><u>\$ 1,345,756,011</u></u>	<u><u>\$ 27,231,604</u></u>	<u><u>\$ 1,318,524,407</u></u>	

## Liabilities, Capital and Surplus

As of December 31, 2010

		Notes
Losses	\$ 493,945,849	5
Reinsurance payable on paid losses and LAE	13,556,601	
Loss adjustment expenses	5,774,493	5
Commissions payable, contingent commissions	(71,260)	
Other expenses	819,858	
Taxes, licenses and fees	13,150	
Unearned premiums	1,959	
Dividends declared and unpaid: Stockholders	440,996,963	6
Ceded reinsurance premiums payable	(406,313)	
Funds held by company under reinsurance treaties	5,586,346	
Amounts withheld or retained by company for account of others	47,272	
Provisions for reinsurance	66,394,830	
Payable to parent, subsidiaries, and affiliates	4,904,811	
Total liabilities	\$ 1,031,564,559	
Common capital stock	\$ 7,500,000	
Gross paid in and contributed surplus	258,731,812	
Unassigned funds (surplus)	20,728,036	
Surplus as regards policyholders	\$ 286,959,848	
Totals	\$ 1,318,524,407	

## Statement of Income / Capital and Surplus Account

**As of December 31, 2010**

		Notes
Premiums earned	\$ 420,477	
Losses incurred	\$ 55,169,089	
Loss adjustment expenses incurred	11,162,082	
Other underwriting expenses incurred	3,527,351	
Total underwriting deductions	\$ 69,858,522	
Net underwriting gain (loss)	\$ (69,438,045)	
Net investment income earned	65,248,263	
Net realized capital gains or (losses)	16,393,076	
Net investment gain (loss)	\$ 81,641,339	
Interest on funds held contracts	\$ (62,208)	
Other RSG - FX Expense	(343)	
Total other income	\$ (62,551)	
Net income after dividends to policyholders	12,140,743	
Federal and foreign income taxes incurred	(2,705,128)	
Net income	\$ 14,845,871	
Surplus as regards policyholders, December 31, 2009	\$ 696,196,181	
Net income (losses)	14,845,871	
Change in net unrealized capital gains (losses)		
less capital gains tax of \$ (2,144,620)	(34,427,986)	
Change in net deferred income tax	25,406,695	
Change in non-admitted assets	(25,795,107)	
Change in provision for reinsurance	(7,539,810)	
Dividends to stockholders	(440,996,963)	6
Subsidiary deferred gain	59,270,967	
Net change in capital and surplus for the year	\$ (409,236,333)	
Surplus as regards policyholders, December 31, 2010	\$ 286,959,848	

**Reconciliation of Surplus since last Examination**

		Notes
Capital and Surplus, December 31, 2007	<u>\$ 670,192,304</u>	
Net Income	\$ 22,003,822	
Change in net unrealized capital gains or (losses)	8,697,120	
Change in net unrealized foreign exchange capital gain (loss)	(995,142)	
Change in net deferred income tax	14,723,070	
Change in non-admitted assets and related items	(24,293,981)	
Change in provision for reinsurance	(21,641,349)	
Dividends to stockholders	(440,996,963)	6
Subsidiary deferred gain	<u>59,270,967</u>	6
Change in surplus as regards policyholders for the year	<u>\$ (383,232,456)</u>	
Capital and Surplus, December 31, 2010	<u>\$ 286,959,848</u>	

**NOTES TO FINANCIAL STATEMENTS**Assets

Note 1 - Bonds: \$ 496,325,329

The Company's bond holdings totaled \$496.3 million and were approximately 37.6% of total admitted assets and 40.2% of the Company's total cash and invested assets. Security composition for the year ending 2010 was comprised of the following:

U.S. Governments	\$ 424.5 million
Industrial & Miscellaneous	<u>71.8 million</u>
	<u>\$ 496.3 million</u>

The Company's industrial and miscellaneous bond holdings were made up of 100% Class 4 designation with respect to NAIC credit quality standards.

Note 2 – Preferred Stocks: \$ 29,299,000

HIC paid a dividend of \$23,807,000 to the Company on December 29, 2010, in the form of 23,807 shares of its 5.5% Series 'A' Preferred Stock, with a liquidation preference of \$1,000

per share and is calculated as an ordinary dividend in the amount of \$22,707,107 and an extraordinary dividend in the amount of \$1,099,893.

CSIC paid a dividend of \$5,492,000 to the Company on December 29, 2010, in the form of 5,492 shares of its 5.5% Series 'A' Preferred Stock, with a liquidation preference of \$1,000 per share.

Preferred stocks composition for the year ending 2010 was comprised of the following:

Hudson Insurance Company	\$ 23.8 million
Clearwater Select Insurance Company	<u>5.5 million</u>
	<u>\$ 29.3 million</u>

Note 3 – Common Stocks: \$ 541,620,573

The Company's common stock holdings totaled \$541.6 million and were approximately 41.1% of total admitted assets and 43.8% of the Company's total cash and invested assets. Common stock in affiliates was approximately 95.1% (or \$515.3 million) of total common stock investments. Affiliated common stocks investments for the year ending 2010 were comprised of the following:

Clearwater Select Insurance Company	\$ 93.9 million
Hudson Insurance Company	347.1 million
TRG Holding Corporation	<u>74.3 million</u>
	<u>\$ 515.3 million</u>

Note 4 - Cash: \$ 17,260,926  
Note 4 – Cash Equivalents and Short-Term Investments: 56,496,929  
\$ 73,757,855

The Company's cash holding totaled \$17.3 million and were approximately 1.3% of total admitted assets and 1.4% of the Company's total cash and invested assets. The Company's cash equivalents and short-term holdings, comprised primarily of U.S. Treasury Bills, totaled \$56.5 million and were approximately 4.3% of total admitted assets and 4.6% of the Company's total cash and invested assets.

Liabilities

<u>Note 5 – Losses:</u>	<u>\$ 493,945,849</u>
<u>Note 5 – Loss Adjustment Expenses (LAE):</u>	<u>\$ 5,774,493</u>

The Delaware Insurance Department retained the services of the actuarial firm INS Consultants, Inc. for the purposes of conducting an independent review of the Company's loss and loss adjustment expense reserves as of December 31, 2010. Based on their analysis, the above reported amount for loss and loss adjustment expense reserves were concluded to be reasonably stated. The Company's reported aggregate reserves for losses and LAE represent 48.4% of the Company's liabilities at year-end 2010.

<u>Note 6 – Dividends Declared and Unpaid - Stockholder:</u>	<u>\$ 440,996,963</u>
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The Company distributed, by means of a dividend declared by Company's Board of Directors on December 9, 2010, its ownership interest in common stock of HIC and CSIC to Odyssey Re. The dividend was not paid until January 1, 2011; therefore the \$441.0 million was declared and unpaid as of December 31, 2010. The Company removed the common stock value from surplus and established a liability. This liability for dividends declared and unpaid represented 42.8% of the Company's liabilities at year-end 2010.

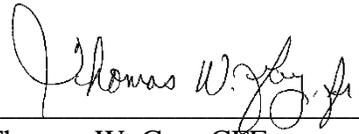
**SUMMARY OF RECOMMENDATIONS**

No recommendations were made as a result of this examination.

**CONCLUSION**

The assistance and cooperation of examiners representing the states of Connecticut in this coordinated examination is acknowledged and was appreciated. In addition, the assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the Company's outside audit firm PricewaterhouseCoopers LLC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

A handwritten signature in cursive script that reads "Thomas W. Gay, Jr." is positioned above a horizontal line.

Thomas W. Gay, CFE  
Examiner-In-Charge  
State of Delaware  
Northeastern Zone, NAIC