

**REPORT ON EXAMINATION**

**OF**

**CRUM & FORSTER INDEMNITY COMPANY**

**AS OF**

**DECEMBER 31, 2014**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

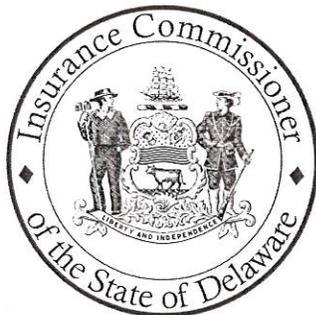
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2014 of the

**CRUM & FORSTER INDEMNITY COMPANY**

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

Attest By: 

Date: June 8, 2016



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 8th day of June, 2016.



Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION  
OF THE  
CRUM & FORSTER INDEMNITY COMPANY  
AS OF  
DECEMBER 31, 2014

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 read "Karen Weldin Stewart".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 8th day of June, 2016

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## **SALUTATION**

May 2, 2016

Honorable Karen Weldin Stewart, CIR-ML  
Delaware Insurance 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. 15.006 dated February 2, 2015, an examination has been made of the affairs, financial condition and management of

### **CRUM & FORSTER INDEMNITY COMPANY**

hereinafter referred to as “Company” or “Indemnity”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware 19801. The examination was conducted at the Company’s administrative office located at 305 Madison Avenue, Morristown, New Jersey 07962. The examination of the Company was conducted concurrently with the Fairfax Financial Holdings Limited (“Fairfax Holdings” or “FFH”), a large international organization. The State of Delaware was assigned lead state status by the National Association of Insurance Commissioners (“NAIC”). The Crum & Forster Insurance Companies sub-group consists of the Company, United States Fire Insurance Company (“USF”) a Delaware domiciled company, Crum & Forster Specialty Insurance Company (“C&F Specialty”), a Delaware domiciled Company, Seneca Specialty Insurance Company (“SSIC”) a Delaware domiciled company, The North River

Crum & Forster Indemnity Company

Insurance Company (“North River”) a New Jersey domiciled company, Crum & Forster Insurance Company (“CFIC”) a New Jersey domiciled company, First Mercury Insurance Company (“FMIC”) an Illinois domiciled company, Seneca Insurance Company (“Seneca”) a New York domiciled company, American Underwriters Insurance Company (“AUIC”) an Arkansas domiciled company and AMC Re, Inc. (“AMC”) an Arkansas domiciled company. Separate reports of examination were filed for each company.

### **SCOPE OF EXAMINATION**

The last examination was as of December 31, 2010. This examination covered the period of January 1, 2011 through December 31, 2014, and encompasses a general review of transactions during the period, the Company’s business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2014. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (“Handbook”) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included 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 examination also included 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 Delaware state regulations. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Laws of the State of Delaware as required by 18 Del. C. §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, PricewaterhouseCoopers LLP ("PwC"). Certain auditor work papers from their 2014 audit have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

## **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, adjustments to the financial statements, or specific recommendations as a result of this examination.

## **COMPANY HISTORY**

The Company was incorporated under the laws of New York on December 2, 1987, as Finmar Reinsurance Corporation and commenced business on December 31, 1987. On June 12, 1995, the Company merged with Premier Insurance Company with Finmar Reinsurance Corporation as the surviving corporation. Effective the same date, Finmar Reinsurance Corporation changed its name to Crum & Forster Indemnity Company.

During 2003, BNM Indemnity Company was incorporated in Delaware as a wholly-owned property and casualty insurance subsidiary of Crum & Forster Indemnity Company. Effective December 31, 2003, Crum & Forster Indemnity Company, a New York domiciled company, was merged with and into BNM Indemnity Company. In connection with the merger, BNM Indemnity Company's name was changed to Crum & Forster Indemnity Company and became the wholly owned subsidiary of Crum & Forster Holding Inc., which is a wholly owned subsidiary of Fairfax (US) Inc.

## **MANAGEMENT AND CONTROL**

### **Management**

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property, business and affairs of the Company shall be managed by a Board of Directors. The bylaws require the Board of Directors consist of three directors but not more than seven.

The Directors are elected annually by the stockholder and hold office until the next annual election and until their successors are elected. Directors duly elected and serving as of December 31, 2014, are as follows:

<u>Name</u>	<u>Business Affiliation</u>
Marc James Adee	Chairman of the Board, President & Chief Executive Officer, US Fire Insurance Company
Paul William Bassaline	Senior Vice President, Chief Financial Officer & Treasurer, US Fire Insurance Company
Stephen Michael Mulready	Executive Vice-President & Chief Operating Officer, US Fire Insurance Company

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, and the board may elect one or more Vice Presidents, a Treasurer, a Secretary, one or more Assistant Vice Presidents and Assistant Secretaries. The Board of Directors may also elect a Chairman of the Board of Directors and a Chief Executive Officer at its discretion. The primary officers serving as of December 31, 2014 were as follows:

<u>Name</u>	<u>Title</u>
Marc James Adee	Chairman of the Board, President & Chief Executive Officer
Paul William Bassaline	Senior Vice President, Chief Financial Officer & Treasurer
James Vincent Kraus	Senior Vice President, Secretary & General Counsel

#### Corporate Records

The minutes of the Stockholder and Board of Directors were reviewed for the period under examination. The recorded minutes documented activities and transactions of the Company.

The bylaws require the Board of Directors to meet annually immediately after the annual stockholder meeting, provided a quorum is present. Other meetings may be held as determined by Board of Director resolution, and special meetings may be called by the Chairman of the Board or President. The minutes of the meetings verified annual meetings took place in each year of the examination period.

All applicable agreements were filed with and approved by the Delaware Department of Insurance in accordance with 18 Del. C. § 5005 (a)(2) of the Delaware Insurance Code.

#### Insurance Holding Company System

The Company is a member of an insurance holding company system known as Fairfax Holdings as defined under 18 Del. C. §5001 of the Delaware Insurance Code. The Company maintains that V. Prem Watsa, a Canadian citizen, is the ultimate controlling entity of Fairfax Holdings. As of December 31, 2014, Fairfax Holdings had consolidated assets of \$36.1 billion and shareholders' equity of \$9.5 billion.

18 Del. C. §5001(3) states that “. . . Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10 percent or more of the voting securities of any other person.” V. Prem Watsa and The Watsa Family Trust, which collectively owned or controlled 10% or more of the voting shares of the Company as of the examination date, are considered ultimate controlling entities of the Company.

A partial organizational chart of Fairfax Holdings as of December 31, 2014, with domicile in brackets along with the control percentages of the upstream affiliates' control of the downstream affiliate is presented below:

		Economic Ownership Control <u>Percent</u>	Voting Control <u>Percent</u>	
V. Prem Watsa and The Watsa Family Trust {1}	{2}	1.51%	43.97%	{3}
All Other Publicly Traded Shares Held {4}	{5}	98.49%	56.03%	{6}
Fairfax Financial Holdings Limited [Canada] (FFH) {7}		100.00%	100.00%	
FFHL Group Ltd. [Canada]		100.00%	100.00%	
Fairfax (US) Inc. [DE]		100.00%	100.00%	
Crum & Forster Holdings Corp. [DE]		100.00%	100.00%	
United States Fire Insurance Company [DE]		100.00%	100.00%	
Crum & Forster Specialty Company [DE]		100.00%	100.00%	
American Underwriters Insurance Company [AR]		100.00%	100.00%	
AMC Re. Inc. [AR]		100.00%	100.00%	
North River Insurance Company [NJ]		100.00%	100.00%	
Seneca Insurance Company [NY]		100.00%	100.00%	
Seneca Specialty Insurance Company [DE]		100.00%	100.00%	
<b>Crum &amp; Forster Indemnity Company [DE]</b>		<b>100.00%</b>	<b>100.00%</b>	
Crum & Forster Insurance Company [NJ]		100.00%	100.00%	
First Mercury Insurance Company [IL]		100.00%	100.00%	

{1} Through voting and economic ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 2771489 Canada Limited, 1109519 Ontario Limited, 810679 Ontario Limited and The Sixty Two Investment Company Limited

{2} V. Prem Watsa, an individual, holds 100% of the preference shares (carrying 2/3 of the votes) and The Watsa Family Trust holds 100% of the common shares of 1109519 Ontario Limited, which holds 50.01% of The Sixty Two Investment Company Limited. 2771489 Canada Limited, which is wholly-owned by Fairfax Financial Holdings Limited, holds 49.99% of The Sixty Two Investment Company Limited. The Sixty Two Investment Company Limited owns 1,548,000 voting shares (100%), entitled to ten votes per share, and 50,620 of the 20,427,398 outstanding subordinate voting shares, entitled to one vote per share, of Fairfax Financial Holdings Limited. V. Prem Watsa personally and beneficially owns 258,115 subordinate voting shares of Fairfax Financial Holdings Limited. Calculated as 308,735 subordinate voting common shares held (258,115 plus 50,620 (see {3})) / 20,427,398 total subordinate voting common shares X \$8,361,000,000 [FFH common stock equity] / \$9,525,700,000 [FFH common stock and preferred stock equity] (see {7})

{3} Including through his control of The Sixty Two Investment Company Limited, V. Prem Watsa's holdings represent 43.97% of the total votes attached to all shares of Fairfax Financial Holdings Limited at December 31, 2014. Calculated as 0.72% through V. Prem Watsa and 43.25% through The Watsa Family Trust and the four entities described in {1}. The 0.72% part is calculated as 139,835 subordinate voting common shares (139,835

votes) through 810679 Ontario Limited + 84,780 subordinate voting common shares (84,780 votes) held personally by Mr. V. Prem Watsa + 33,500 subordinate voting common shares (33,500 votes) held through Prenstin Holdings Ltd. which = 258,115 votes / 35,907,398 total votes. The 43.25% part is calculated as 50,620 subordinate voting common shares (50,620 votes) + 1,548,000 subordinate multiple voting common shares (15,480,000 votes) held through The Watsa Family Trust, 1109519 Ontario Limited, 810679 Ontario Limited and The Sixty Two Investment Company which equals 15,530,620 votes / 35,907,398 total votes (see {7})

{4} No individual or entity owns or controls greater than 10% of FFH as of December 31, 2014

{5} Calculated as  $100.00\% - 1.51\% \{2\} = 98.49\%$

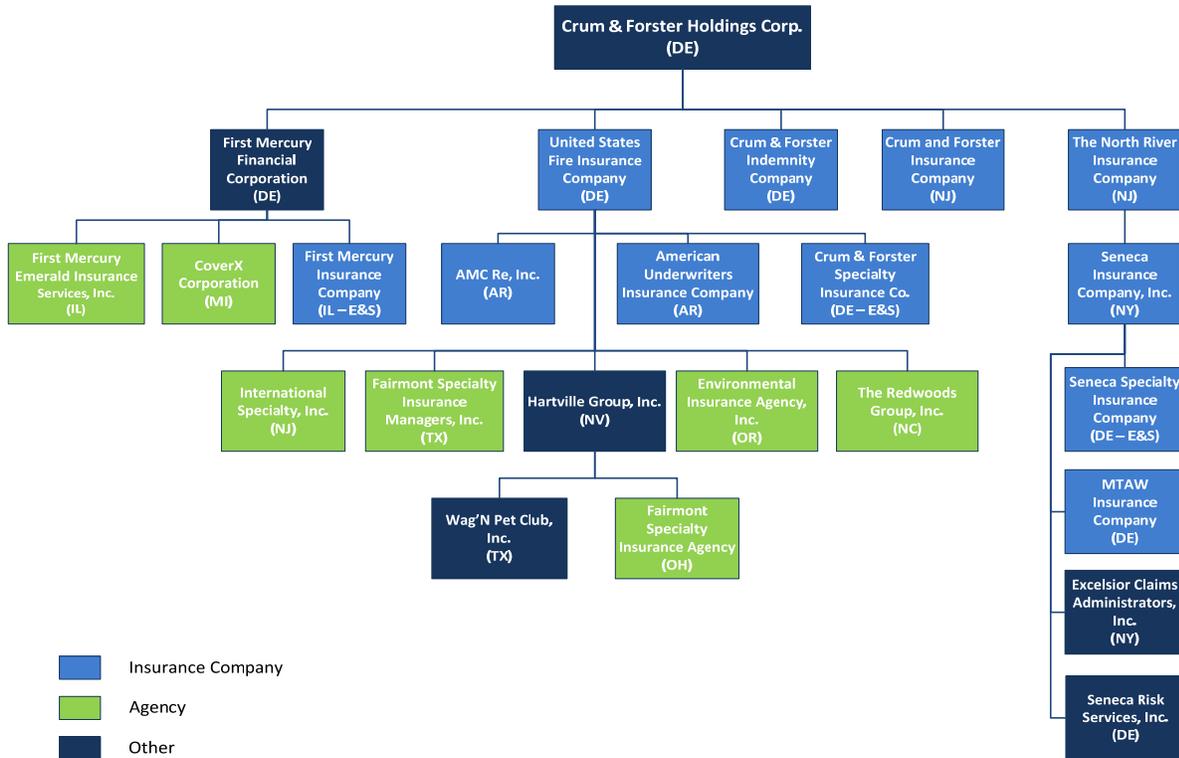
{6} Calculated as  $100.00\% - 43.97\% \{3\} = 56.03\%$

{7} Common shares are publicly traded on the Toronto Stock Exchange under the symbol "FFH" and secondarily on the Over-The-Counter market (OTC, or "pink sheets") in the U.S. under the symbol "FRFHF".

At December 31, 2014, FFH has issued 1,548,000 multiple voting common shares (which carry ten votes per share), 20,865,645 subordinate voting common shares [less 438,247 shares held in treasury for an outstanding balance of 20,427,398 shares] (which carry one vote per share), 6,016,384 non-voting preferred Series C shares, 3,983,616 non-voting preferred Series D shares, 7,924,674 non-voting preferred Series E shares, 10,000,000 non-voting preferred Series G shares, 12,000,000 non-voting preferred Series I shares and 9,500,000 non-voting preferred Series K shares. The total votes then consist of 35,907,398 as follows: 15,480,000 votes attributable to the 1,548,000 subordinate multiple voting common shares and 20,427,398 votes attributable to the 20,427,398 subordinate voting common shares. FFH's non-minority capital account at December 31, 2014, totals \$9,525,700,000 (\$ U.S.) which consists of \$8,361,000,000 related to voting common shares (87.77% of the total) and \$1,164,700,000 related to non-voting preferred shares (12.23% of the total)

As of the date of the prior examination (December 31, 2011), Southeastern Asset Management, Inc. (SAM), beneficially held 2,717,437 of the 19,627,026 subordinate voting shares of Fairfax Financial Holdings Limited then outstanding, which represented 13.85% ownership control and 7.57% voting control of Fairfax Financial Holdings Limited. SAM filed a disclaimer of affiliation with the Delaware Department of Insurance dated November 22, 2004. In the first quarter of 2014, SAM disposed of 887,749 of its subordinate voting shares of Fairfax Financial Holdings Limited, reducing its holdings to 1,829,688 subordinate voting shares. As a result, SAM's ownership and voting control percentages both fell below 10%.

The relationship of each insurance company within the Group is illustrated below:



Affiliated Agreements:

The Company has entered into various agreements with members of the affiliated group in an effort to obtain efficiencies in operations and limit cost. The Company had the following material intercompany agreements in effect as of December 31, 2014:

Administrative Service Agreement

The Company is a party to an administrative service agreement with US Fire effective June 30, 2010. US Fire provides all administrative services such as underwriting, claims handling, reinsurance and premium collections on behalf of the parties. Operating expenses incurred in the performance of services are allocated in accordance with SSAP 70. Pool participants are charged their respective shares of operating expenses.

Tax Allocation Agreement

The Company is a party to a tax allocation agreement with the Parent along with certain of its affiliates effective January 1, 2009. The Parent, the Company and affiliates constitute an affiliated group and have elected to file a consolidated return under the provisions of §1501 of the Internal Revenue Code of 1986. Pursuant to the terms of the tax allocation agreement, no party will be required to pay more in taxes or receive a lesser payment of a refund than it would have paid or received if it computed its taxes independently and filed a separate tax return.

Additionally, the Company has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

Investment Agreement

The Company is a party to an investment management and administrative services agreement among Hamblin Watsa Investment Counsel Ltd. (Hamblin Watsa) and FFH effective October 1, 2002 and amended April 1, 2007. Pursuant to the agreement, Hamblin Watsa is authorized to supervise and direct all investments of the Company and to exercise whatever powers the Company may possess with respect to its invested assets. Investment transactions will be in accordance with investment objectives of the Company and subject to restrictions established by the Company, as communicated to Hamblin Watsa in writing from time to time.

Subject to these limitations, Hamblin Watsa may buy, sell, exchange, convert and otherwise trade and engage in investment transactions of any nature whatsoever involving any stocks, bonds, commercial paper, money market instruments and other securities and assets when it deems appropriate and without prior consultation with the Company.

Master Administrative Service Agreement

The Company is a party to an administrative service agreement with various affiliates, effective November 1, 2014. The agreement allows for the exchange of certain administrative and general services between affiliates.

**TERRITORY AND PLAN OF OPERATION**

Territory

As of December 31, 2014, the Company was licensed to transact multiple property and casualty lines of insurance in all fifty states and the District of Columbia. The Company is a national commercial property and casualty insurance company with a focused underwriting strategy, targeting specialty classes of business and underserved market opportunities. The Company writes business through approximately 2,000 insurance producers nationwide who, on a direct written basis, generally fall into four categories: wholesale brokers 27%, independent regional retail firms 58%, national brokers 14% and Managing General Underwriters ("MGU") / Managing General Agents ("MGA") 1%. The Company generally conducts business on a brokerage basis through their home office and regional branch network, allowing them to control the underwriting process and build close relationships with producers and policyholders. The Company's principal lines of business include workers' compensation, commercial auto liability, and general liability.

The Company's business is diversified in terms of product line, varying policy sizes, and geographic mix, with only three states individually comprising more than 10% of total direct written premiums. The Company anticipates increased net premiums written in 2015 due to continued growth of their diversified portfolio and increased retentions of more profitable

business, these include the Company's longstanding presence in the Hawaii market; and customer group expertise in the areas of propane distributors, explosive contractors, agriculture enterprises and construction contractors.

On the filed Annual Statement for 2014, the Company reported the following distribution of Direct Premiums Written:

	Direct Premiums Written	Percent
Workers' Compensation	\$ 13,898,811	31.3%
Commercial Auto Liability	12,718,576	28.6%
Commercial Multiple Peril	9,410,111	21.2%
Auto Physical Damage	3,856,367	8.7%
Other Liability – Occurrence	1,282,414	2.9%
Surety	1,277,722	2.9%
All Other Lines < \$1,000,000 individually	1,950,720	4.4%
Total	<u>\$ 44,394,721</u>	<u>100.0%</u>

## REINSURANCE

### General

The Company reported the following distribution of net premiums written for 2014:

Direct	\$ 44,394,721
Reinsurance assumed from affiliate	16,194,785
Reinsurance assumed from non-affiliates	<u>28,537</u>
Total gross (direct and assumed)	\$ <u>60,618,043</u>
Reinsurance ceded to affiliates	\$ 44,527,469
Reinsurance ceded to non-affiliates	<u>2,602,511</u>
Total ceded	\$ <u>47,129,980</u>
Net premiums written	\$ <u>13,488,063</u>

The Company retained 22.3% of its gross business in 2014.

Assumed – Non-Pooled

Besides the assumption from the Pool, the Company has no other source of assumed business other than mandatory pools and associations which accounted for less than 1% of the assumed business.

Ceded

Effective January 1, 2000, the Company and certain affiliates (“Pool Participants”) entered into a Reinsurance Participation Agreement (“Pooling Agreement”) by which premiums, losses, dividends to policyholders and other underwriting expenses of each participant are pooled by means of mutual reinsurance on a fixed percentage basis as follows:

Pool Participants

United States Fire Insurance Company	76%
The North River Insurance Company	22%
Crum & Forster Insurance Company	1%
Crum & Forster Indemnity Company	1%

The Pooling Agreement provides that the Company assumes from the Pool Participants 1% of the premiums, losses, dividends to policyholders and other underwriting expenses.

As of December 31, 2014, the Company was a party to the following significant reinsurance contracts on a per risk basis:

<u>Coverage</u>	<u>Limits</u>	<u>Retention</u>
Property catastrophe	\$90 million, excess of	\$30 million
Property per risk	\$48 million, excess of	\$2 million
Consolidated casualty	\$35 million, excess of	\$5 million

During 2014, the Company reviewed its reinsurance programs and modified the coverage and retention levels of certain programs as deemed necessary. In general, the Company’s reinsurance contracts provide coverage for domestic acts of terrorism. The agreements have

additional terrorism coverage under the Terrorism Risk Insurance Program Reauthorization Act of 2007.

Finite

The Pool Participants entered into an adverse development contract, effective September 30, 2001, with North American Specialty Insurance Company, a subsidiary of Swiss Reinsurance America Corporation. This contract provided \$400 million of limit in excess of retention for accident years 2000 and prior, subject to a \$200 million sub-limit on 1998 and prior accident years and an asbestos and environmental sub-limit of \$100 million. Premiums were based on 35% of amounts ceded plus a reinsurer margin of \$8 million. The contract contained provisions that would increase the premium rate to as high as 62% under conditions that Company management considers unlikely. The contract was on a funds held basis with interest credited at 7%. As of December 31, 2014, the Pool had ceded \$334.0 million in cumulative losses, and incurred premium of \$116.9 million and inception to date accrued funds held interest of \$208.1 million for a pretax surplus benefit of \$9.0 million (C&F Indemnity recorded its 1% share under the Pooling Agreement). At December 31, 2014, and December 31, 2013, the Pool Participants had reinsurance recoverable balances of \$334.0 million (for 2014 and 2013) and funds held balances of \$317.0 million and \$296.2 million, respectively, related to this agreement, of which the Company is a 1% participant.

The Company recorded this contract with North American as retroactive reinsurance, in accordance with SSAP 62R.

Subsequent to the examination date, on October 15, 2015, the Company commuted this contract. The funds held by the Company were used to offset the reinsurer's liabilities as full

and final settlement of the agreement. The funds held were determined to be equal to the reinsurer's liabilities which did not require any additional settlement by either party.

The Pool Participants entered into a reinsurance agreement with an affiliate, Clearwater Insurance Company ("Clearwater"), effective December 31, 2011 in which the Companies ceded certain liabilities for asbestos, environmental and other latent claims but exclusive of workers' compensation and surety under insurance and reinsurance contracts covering substantially all of the Companies' liabilities for these lines of business incurred on or prior to December 31, 1998. Effective December 31, 2014, the Companies transferred an additional \$73.0 million, including \$29.6 million of net loss and loss adjustment reserves from assumed retroactive reinsurance, of net reserves related to the New York Branch office and other builders and contractors business. Cash and securities of equal value were transferred resulting in no surplus impact. The Companies had reinsurance recoverables of \$404.5 million and \$391.9 million at December 31, 2014 and 2013 respectively from Clearwater related to this agreement. C&F Indemnity recorded its 1% share as part of the Pooling Agreement.

## **FINANCIAL STATEMENTS**

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2014, as determined by this examination, along with supporting exhibits as detailed below:

- Assets
- Liabilities, Surplus and Other Funds
- Statement of Income
- Capital and Surplus Account
- Reconciliation of Capital and Surplus from the Prior Examination
- Schedule of Examination Adjustments

**Assets**  
**As of December 31, 2014**

	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	\$ 24,017,092		\$ 24,017,092	1
Cash and short-term investments	16,088,032		16,088,032	1
Investment income due and accrued	404,270		404,270	
Uncollected premiums and agents' balances in the course of collection	1,213,567	\$ 41,576	1,171,991	
Deferred premiums, agents' balances & installments booked but deferred and not yet due	604,690	6,577	598,113	
Accrued retrospective premiums	400,000	40,000	360,000	
Amounts recoverable from reinsurers companies	178,309		178,309	
	226,033		226,033	
Current federal and foreign tax recoverable	8,980		8,980	
Net deferred tax asset	2,203,888	274,389	1,929,499	
Electronic data processing equipment & furniture and equipment	176,652	161,038	15,614	
	36,285	36,285	-	
Aggregate write-ins:	624,151	146,793	477,358	
<b>Total Assets</b>	<b>\$ 46,181,949</b>	<b>\$ 706,658</b>	<b>\$ 45,475,291</b>	

**Liabilities, Surplus and Other Funds**  
**As of December 31, 2014**

		<u>Note</u>
Losses	\$ 17,955,611	2
Reinsurance payable on paid losses and LAE	699,761	
Loss adjustment expenses	5,407,770	2
Commissions payable, contingent commissions & other similar charges	63,796	
Other expenses	609,503	
Taxes, licenses and fees	162,321	
Unearned premiums	4,847,062	
Advance premium	72,531	
Ceded reinsurance premiums payable	202,204	
Funds held by company under reinsurance treaties	3,344,591	
Amounts withheld or retained by company for account of others	494,600	
Provision for reinsurance	14,391	
Payable to parent, subsidiaries and affiliates	18,661	
Aggregate write-ins for liabilities:	(3,225,951)	
Total Liabilities	<u>\$ 30,666,851</u>	
Aggregate write-ins for special surplus funds	\$ 1,960,980	
Common capital stock	3,500,000	
Gross paid in and contributed surplus	2,750,000	
Unassigned funds (surplus)	6,597,460	
Surplus as regards policyholders	<u>\$ 14,808,440</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 45,475,291</u></u>	

**Statement of Income**  
**As of December 31, 2014**

**UNDERWRITING INCOME**

Premiums earned	\$ 12,964,783
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**DEDUCTIONS**

Losses incurred	\$ 6,454,663
Loss adjustment expenses incurred	2,300,497
Other underwriting expenses incurred	4,553,495
Total underwriting deductions	\$ 13,308,655
Net underwriting gain or (loss)	\$ (343,872)

**INVESTMENT INCOME**

Net investment income earned	\$ 1,152,583
Net realized capital gains or (losses)	599
Net investment gain or (loss)	\$ 1,153,182

**OTHER INCOME**

Finance and service charges not included in premiums	11,958
Aggregate write-ins for miscellaneous income	\$ (193,898)
Total other income	\$ (181,940)

Net income before dividends to policyholders and before federal income taxes	\$ 627,370
Dividends to policyholders	-
Net income after dividends to policyholder but before federal income taxes	\$ 627,370
Federal and foreign income taxes incurred	138,244
Net income	\$ 489,126

**Capital and Surplus Account  
As of December 31, 2014**

Surplus as regards policyholders, December 31, 2013	\$ <u>15,735,157</u>
<b>GAINS AND (LOSSES) IN SURPLUS</b>	
Net income	\$ 489,126
Change in net deferred income tax	172,454
Change in non-admitted assets	(90,673)
Change in provision for reinsurance	2,376
Dividends to stockholders	(1,500,000)
Change in surplus as regards policyholders for the year	\$ <u>(926,717)</u>
Surplus as regards policyholder, December 31, 2014	\$ <u><u>14,808,440</u></u>

**Reconciliation of Capital and Surplus from the Prior Examination**

From December 31, 2010 to December 31, 2014

		Aggregate Write-ins for Surplus Funds	Common Capital Stock	Gross Paid-in & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2010		\$ 2,051,911	\$ 3,500,000	\$ 2,750,000	\$ 6,419,621	\$ 14,721,532
2011 Operations	(1)				(897,108)	(897,108)
2011 Write-ins	(2)	(97,501)			97,501	-
December 31, 2011		\$ 1,954,410	\$ 3,500,000	\$ 2,750,000	\$ 5,620,014	\$ 13,824,424
2012 Operations	(1)				667,802	667,802
2012 Write-ins	(2)	6,570			(6,570)	-
December 31, 2012		\$ 1,960,980	\$ 3,500,000	\$ 2,750,000	\$ 6,281,246	\$ 14,492,226
2013 Operations	(1)				1,242,931	1,242,931
December 31, 2013		\$ 1,960,980	\$ 3,500,000	\$ 2,750,000	\$ 7,524,177	\$ 15,735,157
2014 Operations	(1)				573,283	573,283
2014 Dividends	(3)				(1,500,000)	(1,500,000)
December 31, 2014		\$ 1,960,980	\$ 3,500,000	\$ 2,750,000	\$ 6,597,460	\$ 14,808,440

- (1) Operations is defined as: net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, and aggregate write-ins for gains and losses to surplus.
- (2) The change in special surplus is due to retroactive reinsurance that is required to be accounted for as a write-in item under SSAP62R.
- (3) Dividends were approved by the DDOJ and paid to the Company's immediate parent, Crum & Forster Holdings Corporation.

Common Capital Stock

The Company's Certificate of Incorporation authorizes the issue of 100,000 shares of common stock with a \$35.00 par value. As of December 31, 2014, the Company had all common shares issued and outstanding totaling \$3,500,000. All outstanding common shares of the Company are owned by Crum & Forster Holdings Corporation.

Paid in Surplus

As of December 31, 2014, the Company reported gross paid in and contributed surplus of \$2.8 million. There was no change to this amount during the examination period.

Dividends

The Company paid an ordinary dividend to its parent of \$1.5 million in 2014. The dividend was approved by the Department.

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

No examination changes were made as a result of this examination.

**NOTES TO FINANCIAL STATEMENTS**

**Note 1:**

**Schedule D - Bonds**

**\$ 24,017,092**

**Schedule DA – Short-term Investments**

**15,641,997**

As of December 31, 2014, the Company reported total bond investments on Schedule D – Part 1 with book adjusted carrying values in the amount of \$24.0 million and fair market values of \$28.1 million. The Company reported short-term investments on Schedule DA – Part 1 with book adjusted carrying values of \$15.6 million resulting in total bond and short-term investment holdings of \$39.6 million. Bonds and short-term investments were comprised of the following classes:

<u>Schedule D - Part 1</u>	<u>Statement Value</u>	<u>% of Total</u>
U.S. Government Bonds	\$ 4,123,020	10.4%
U.S. States, Territories and Possession Obligations	4,936,122	12.4%
U.S. Special Revenue - Issuer Obligations	14,807,950	37.3%
Industrial and Miscellaneous Bonds	150,000	0.5%
Sub-total	<u>\$ 24,017,092</u>	<u>60.6%</u>
 <u>Schedule DA - Part 1</u>		
U.S. Treasury Bills	\$ 15,201,954	38.3%
Industrial and Miscellaneous Bonds	350,000	0.9%
Exempt Money Market Mutual Funds	90,043	0.2%
Sub-total	<u>\$ 15,641,997</u>	<u>39.4%</u>
Total Bonds and Short-term Investments	<u>39,659,089</u>	<u>100.0%</u>

Of the Company's total bond holdings, 100% were categorized as class 1 with respect to NAIC credit quality standards and 100% were publically traded securities. Bond maturities were structured with a barbell strategy with maturities of 39.4%, 18.7%, 1.3%, 1.1% and 39.5% maturing in less than one year, one to five years, five to ten years, ten to twenty years and over twenty years, respectively.

**Note 2:**

<b>Losses</b>	<b>\$17,955,611</b>
<b>Loss Adjustment Expenses</b>	<b>\$5,407,770</b>

INS Consultants, Inc. ("INS") performed a review of the inherent risks, management oversight and other mitigating controls over the Company's actuarial processes and procedures. INS' review included detail testing and an independent calculation of the Company's loss and loss adjustment expense reserves as of December 31, 2014. The Company's actuarial staff provided INS its Statement of Actuarial Opinion and the supporting actuarial data, documents and calculations. The Consulting Actuary determined the Company's loss and loss adjustment expenses reserves were sufficient on both a gross and net basis as of December 31, 2014.

The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectability of reinsurance recoverables. The INS reserve review found the Company's combined net loss and LAE reserves were adequate to support the business underwritten.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report. The review was conducted in conjunction with the current financial examination

### **SUBSEQUENT EVENTS**

#### Change in Capital Valuation:

A reverse stock split was made to change the authorized shares of 100,000 at \$35.00 per share to 100 at \$35,000 per share effective as of December 31, 2015.

#### Dividend to Stockholder:

The Company's Board of Directors declared and paid an ordinary cash dividend to the stockholder of record on January 4, 2016, in the amount of \$1.4 million, which was approved by the Delaware Department of Insurance.

#### Commutation of Retroactive Reinsurance Agreement:

As of October 15, 2015, the Company commuted an Adverse Loss Development Reinsurance Agreement ("the Agreement") with North American Specialty Insurance Company ("the Reinsurer") which was treated as a retroactive reinsurance contract. The Agreement

allowed for the commutation once the funds held balance was equal to the Reinsurer's liabilities. On the commutation date, the Company reduced funds held by the company under reinsurance treaties and aggregate write-ins for liabilities. The commutation resulted in no additional fund settlement between the Company and the Reinsurer and had no impact on the Statement of Income. In addition, the Company decreased special surplus funds and increased unassigned surplus.

**PRIOR EXAM COMMENTS AND RECOMMENDATIONS**

There were no recommendations made in the prior examination report.

**COMMENTS AND RECOMMENDATIONS**

There were no recommendations made in the examination report.

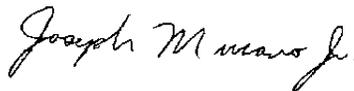
**CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2010</u>	<u>December 31, 2014</u>	<u>Increase (Decrease)</u>
Assets	\$ 36,026,832	\$ 45,475,291	\$ 9,448,459
Liabilities	\$ 21,305,300	\$ 30,666,851	\$ 9,361,551
Special surplus funds	2,051,911	1,960,980	
Common Capital Stock	3,500,000	3,500,000	-
Gross Paid In and Contributed Surplus	2,750,000	2,750,000	-
Unassigned Funds (Surplus)	6,419,621	6,597,460	177,839
Total Surplus as Regards Policyholders	\$ 14,721,532	\$ 14,808,440	\$ 86,908
Totals	\$ 36,026,832	\$ 45,475,291	\$ 9,448,459

The assistance of the Delaware Insurance Department's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc., is acknowledged.

Respectfully submitted,

A handwritten signature in cursive script that reads "Joseph Murano Jr.".

Joseph Murano Jr., CFE  
Examiner-In-Charge  
State of Delaware