

REPORT ON EXAMINATION

OF

CRUM & FORSTER SPECIALTY INSURANCE 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 SPECIALTY INSURANCE COMPANY

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

Attest By:  _____

Date: June 2, 2016



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 2nd 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 SPECIALTY INSURANCE 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".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 2nd day of June, 2016

TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION.....	2
SUMMARY OF SIGNIFICANT FINDINGS	4
COMPANY HISTORY	4
MANAGEMENT AND CONTROL	5
TERRITORY AND PLAN OF OPERATION	11
REINSURANCE.....	12
FINANCIAL STATEMENTS	13
Analysis of Assets.....	14
Statement of Liabilities, Surplus and Other Funds	15
Underwriting and Investment Exhibit - Statement of Income	16
Capital and Surplus Account	17
SCHEDULE OF EXAMINATION ADJUSTMENTS.....	19
NOTES TO FINANCIAL STATEMENTS.....	19
PRIOR EXAM COMMENTS AND RECOMMENDATIONS	21
COMMENTS AND RECOMMENDATIONS.....	21
CONCLUSION.....	21

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. 15.007 dated February 2, 2015, an examination has been made of the affairs, financial condition and management of

CRUM & FORSTER SPECIALTY INSURANCE COMPANY

hereinafter referred to as “Company” or “C&F Specialty”, 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 Indemnity Company (“Indemnity”), a Delaware domiciled Company, Seneca Specialty Insurance Company (“SSIC”) a Delaware domiciled company, The North River 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 by the Arizona Department of Insurance. 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 and areas of emphasis in conducting the examination.

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 originally incorporated on October 30, 1989, under the name Transnational Insurance Company, a stock corporation, and became licensed as a Connecticut domestic property and casualty insurer on June 1, 1990. The Company was a wholly-owned subsidiary of Phoenix Reinsurance Company (PXRE), later named PXRE Reinsurance Company. The Company changed its name to Transnational Reinsurance Company on September 21, 1993. The Company became a wholly-owned subsidiary of Transnational Re Corporation (TREX) effective November 9, 1993. On November 1, 1993, TREX completed an initial public offering of 5.8 million Class A common shares. PXRE maintained approximately a 22% interest in TREX through its ownership of all of TREX's Class B common shares. As a part of the initial public offering, PXRE's ownership of the Company was simultaneously sold to TREX.

Effective December 11, 1996, TREX was merged into PXRE Corporation. As a result of the corporate reorganization, the Company was contributed by PXRE Corporation to PXRE. The name of the Company was changed back to Transnational Insurance Company on October 16, 1997.

On December 21, 2000, the Company was acquired by US Fire and the name of the Company was changed to its present name, Crum & Forster Specialty Insurance Company.

On October 18, 2001, the Company was re-domesticated from the State of Connecticut to the State of Arizona.

On October 30, 2014, the Company was re-domesticated from the State of Arizona to the State of Delaware.

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 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 Insurance 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%	
Crum & Forster Indemnity Company [DE]		100.00%	100.00%	
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})

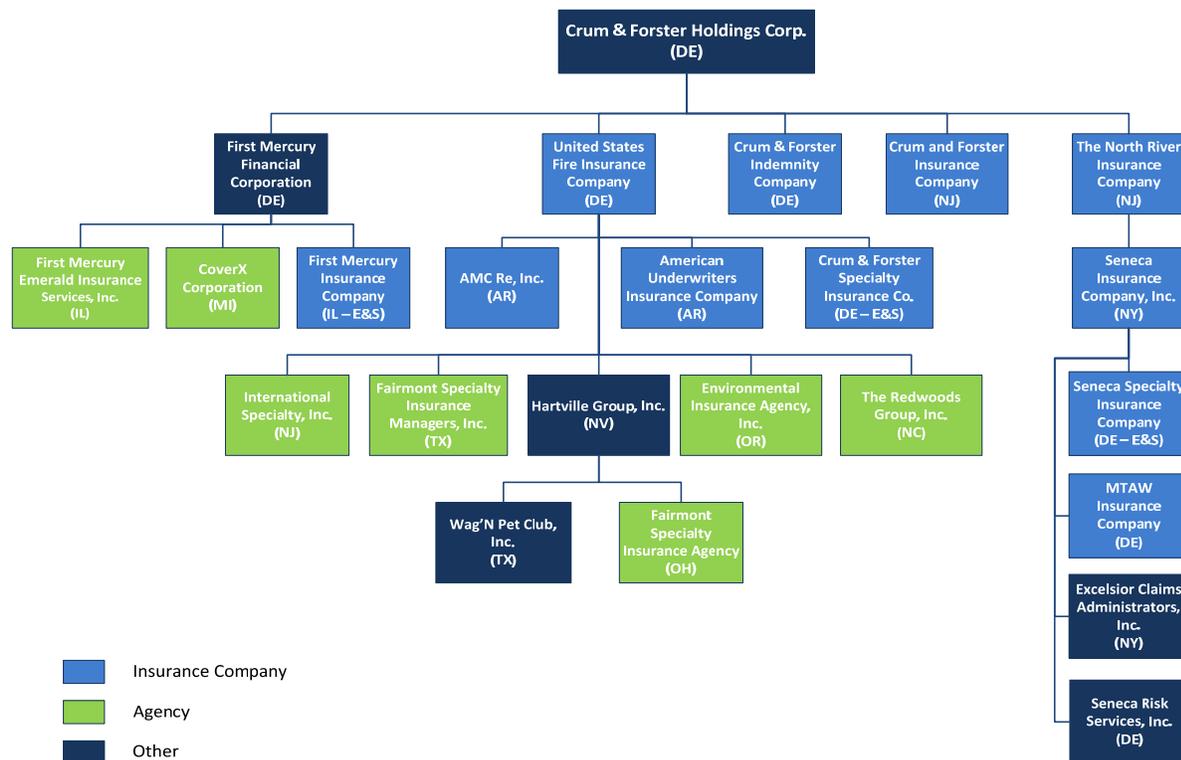
- {3} Including through his control of The Sixty Two Investment Company Limited, V. Prem Watsa's holdings represent 43.97% of the total votes attached to all shares of Fairfax Financial Holdings Limited at December 31, 2014. Calculated as 0.72% through V. Prem Watsa and 43.25% through The Watsa Family 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 December 21, 2000. US Fire provides all administrative services such as underwriting, policy issuance and billing services, claims handling, maintenance of the Company's records, preparation and rendering of reports to any regulatory agency to any regulatory agency, premium collections and paying of all expenses of the Company.

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 Agreements

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

C&F Specialty is a multiline property and casualty insurance company operating on an excess and surplus lines basis. The company is an eligible or approved surplus lines insurer in 53 states and jurisdictions. Business is developed from existing relationships with excess and surplus lines producers, initially relating to general liability, including environmental.

C&F Specialty underwrites business, typically written by non-admitted insurers utilizing full rate and form flexibility. The company's strategy is to emphasize lines of business where strong technical underwriting skills and judgment are required. A number of property and casualty products are offered in a wide range of classes of business. C&F Specialty writes business in all geographic areas where it is an eligible or approved surplus lines carrier.

On October 11, 2013, USF purchased the renewal rights related to the excess and surplus lines, environmental, and property/package lines of business from American Safety Indemnity Company and American Safety Casualty Insurance Company. This business was placed with C&F Specialty and increased C&F Specialty's gross premiums written by approximately 100% in 2014 compared with 2013.

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

Other Liability – Occurrence	\$ 75,614,169	57.1%
Other Liability – Claims Made	38,991,913	29.4%
Products Liability-Occurrence	17,402,159	13.1%
All Other Lines < \$1,000,000 individually	496,704	0.4%
Total	<u>\$ 132,504,945</u>	<u>100.0%</u>

REINSURANCE

General

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

Direct	\$ 132,504,945
Reinsurance assumed from affiliate	0
Reinsurance assumed from non-affiliates	<u>0</u>
Total gross (direct and assumed)	\$ <u>132,504,945</u>
Reinsurance ceded to affiliates	\$ 132,504,945
Reinsurance ceded to non-affiliates	<u>0</u>
Total ceded	\$ <u>132,504,945</u>
Net premiums written	\$ <u><u>0</u></u>

Assumed

The Company has no assumed business.

Ceded

Effective October 1, 2010, the Company cedes 100% of the premiums and liabilities arising from policies, binders and contracts of insurance to its affiliate, USF.

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

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$ 14,174,000		\$ 14,174,000	1
Cash and short-term investments	33,760,782		33,760,782	1
Investment income due and accrued	201,461		201,461	
Premiums and considerations:				
Uncollectible premiums and agents' balances in course of collection	5,266,745	475,419	4,791,326	
Reinsurance:				
Amounts recoverable from reinsurers	<u>4,836,830</u>		<u>4,836,830</u>	
Total Assets	<u>\$ 58,239,818</u>	<u>\$ 475,419</u>	<u>\$ 57,764,399</u>	

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

Liabilities, Surplus and Other Funds

Other expenses	\$ 12,509
Current federal and foreign income taxes	44,054
Net deferred tax liability	1,573,133
Ceded reinsurance premiums payable	2,047,179
Payable to parent, subsidiaries and affiliates	6,556,623
Aggregate write-ins for liabilities:	217,747
Total Liabilities	<u>\$ 10,451,245</u>
Aggregate write-ins for special surplus funds	
Common capital stock	3,994,440
Gross paid in and contributed surplus	16,214,319
Unassigned funds (surplus)	27,104,395
Surplus as regards policyholders	<u>\$ 47,313,154</u>
Total Liabilities, Capital and Surplus	<u><u>\$ 57,764,399</u></u>

Statement of Income
As of December 31, 2014

UNDERWRITING INCOME

Net underwriting gain or (loss)	\$	-
---------------------------------	----	---

INVESTMENT INCOME

Net investment income earned	\$	640,432
Net realized capital gains or (losses)		34,149
Net investment gain or (loss)	\$	<u>674,581</u>

OTHER INCOME

Aggregate write-ins for miscellaneous income		<u>(36,692)</u>
Total other income	\$	<u>(36,692)</u>

Net income after dividends to policyholder but before federal income taxes	\$	637,889
Federal and foreign income taxes incurred		36,551
Net income	\$	<u><u>601,338</u></u>

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

Capital and Surplus Account

Surplus as regards policyholders December 31, 2013	\$ <u>46,640,390</u>
Net Income	\$ 601,338
Change in non-admitted assets and related items	(182,086)
Change in provision for reinsurance	<u>253,512</u>
Change in surplus as regards policyholders for the year	<u>\$ 672,764</u>
Surplus as regards policyholders December 31, 2014	<u>\$ 47,313,154</u>

Reconciliation of Capital and Surplus from the Prior Examination
From December 31, 2010 to December 31, 2014

		Common Capital Stock	Gross Paid-in & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2010		\$ 3,600,000	\$ 12,108,759	\$ 24,161,550	\$ 39,870,309
2011 Operations	(1)	-	-	686,170	686,170
December 31, 2011		3,600,000	\$ 12,108,759	24,847,720	40,556,479
2012 Operations	(1)			736,091	736,091
2012 Surplus Adj.	(2)		4,105,560		4,105,560
2012 Capital Changes	(2)	394,440			394,440
December 31, 2012		\$ 3,994,440	\$ 16,214,319	\$ 25,583,811	\$ 45,792,570
2013 Operations	(1)	-	-	847,820	847,820
December 31, 2013		\$ 3,994,440	\$ 16,214,319	\$ 26,431,631	\$ 46,640,390
2014 Operations	(1)			672,764	672,764
December 31, 2014		<u>\$ 3,994,440</u>	<u>\$ 16,214,319</u>	<u>\$ 27,104,395</u>	<u>47,313,154</u>

(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 Company received a \$4.5 million capital contribution from USF to increase capital in order to remain eligible as an excess lines insurer in the State of New York.

Common Capital Stock

As amended on November 21, 2014, the Company's Certificate of Incorporation authorizes the issue of 332,870 shares of common stock with a \$12.00 par value. As of December 31, 2014, the Company had all common shares issued and outstanding totaling \$3,994,440. All outstanding common shares of the Company are owned by USF.

Paid in Surplus

As of December 31, 2014, the Company reported gross paid in and contributed surplus of \$16,214,319. The change in gross paid in and contributed surplus during the examination period

was due primarily to a capital contribution of \$4,500,000 in 2012 from its parent, USF, to increase its surplus in order to remain eligible as an excess lines insurer in New York. As a result, the Company's paid in surplus increased by \$4,105,560 during the examination period.

Dividends

The Company did not pay any dividends during the examination period.

SCHEDULE OF EXAMINATION ADJUSTMENTS

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

NOTES TO FINANCIAL STATEMENTS

Note 1:

Schedule D - Bonds

\$ 14,174,000

Schedule DA – Short-term Investments

22,907,351

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 \$14.2 million and fair market values of \$16.9 million. The Company reported additional short-term investments on Schedule DA – Part 1 with book adjusted carrying values of \$22.9 million resulting in total bond and short-term investment holdings of \$37.1 million. Bonds and short-term investments were comprised of the following classes:

	<u>Statement Value</u>	<u>% of Total</u>
<u>Schedule D - Part 1</u>		
U.S. Government Bonds	\$ 6,067,639	16.4%
U.S. Special Revenue - Issuer Obligations	8,106,361	21.9%
Sub-total	<u>\$ 14,174,000</u>	<u>38.3%</u>
 <u>Schedule DA - Part 1</u>		
U.S. Treasury Bills	\$ 20,929,511	56.4%
Exempt Money Market Mutual Funds	1,977,840	5.3%
Sub-total	<u>\$ 22,907,351</u>	<u>61.7%</u>
 Total Bonds and Short-term Investments	 <u>\$ 37,081,351</u>	 <u>100%</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 61.8%, 2.7%, 8.5%, 13.7% and 13.4% 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:

Losses	\$0
Loss Adjustment Expenses	\$0

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. INS determined the Company's loss and loss adjustment expense reserves were sufficient on both a gross and net basis as of December 31, 2014.

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.

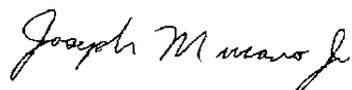
CONCLUSION

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	\$ 46,409,705	\$ 57,764,399	\$ 11,354,694
Liabilities	\$ 6,539,396	\$ 10,451,245	\$ 3,911,849
Common Capital Stock	3,600,000	3,994,440	394,440
Gross Paid In and Contributed Surplus	12,108,759	16,214,319	4,105,560
Unassigned Funds (Surplus)	24,161,550	27,104,395	2,942,845
Total Surplus as Regards Policyholders	\$ 39,870,309	\$ 47,313,154	\$ 7,442,845
Totals	\$ 46,409,705	\$ 57,764,399	\$ 11,354,694

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

Respectfully submitted,



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