REPORT ON EXAMINATION

OF THE

UNITED STATES FIRE 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

UNITED STATES FIRE INSURANCE COMPANY

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

Attest By: Brandi Biddle

Date: 27 Jun 2012

Insurance Commissioner of the State of Delaware

LIBERTY AND INDEPENDENCE

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 27th day of June, 2012.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
(302) 674-7300 Dover • (302) 739-5280 fax • (302) 577-5280 Wilmington

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

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UNITED STATES FIRE 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.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 27th day of June, 2012

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SALUTATION

May 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. 11.008, dated January 26, 2011, an examination has been made of the affairs, financial condition and management of the

UNITED STATES FIRE INSURANCE COMPANY

hereinafter referred to as the Company or USF and incorporated under the laws of the state of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, DE 19801. The examination was conducted at the administrative offices of the Company, located at 305 Madison Avenue, Morristown, New Jersey 07962. A pooled examination of the Company was conducted concurrently with that of its affiliates, Crum & Forster Indemnity Company (CFIC), a Delaware Company, The North River Insurance Company (NRIC), a New Jersey Company, Crum and Forster Insurance Company (CFInsco), a New Jersey Company and Crum & Forster Specialty Insurance Company (CFSIC) an Arizona Company. Separate reports of examination were filed for each company. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was completed as of December 31, 2007. This examination covered the period of January 1, 2008, through December 31, 2010, 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, 2010. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (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 report addresses regulatory issues reviewed during the examination process.

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 of their 2010 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 tests of controls, risk mitigation and substantive testing.

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

Corporate Records
Fidelity Bonds and Other Insurance
Pensions, Stock Ownership and Insurance Plans
Statutory Deposits
Compliance With Prior Examination Recommendations – none
Summary of Recommendations - none

SUMMARY OF SIGNIFICANT FINDINGS

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

SUBSEQUENT EVENTS

On February 9, 2011, Fairfax completed its acquisition of First Mercury Financial Corporation (FMFC), an insurance holding company, and subsequently contributed all of its shares to Crum & Forster Holdings Corp. (Holdings), a Delaware corporation. At the date of the acquisitions, subsidiaries of FMFC included First Mercury Insurance Company (FMIC), First Mercury Casualty Company (which ceased to exist when it was merged into FMIC on July 1, 2011), American Management Corporation (AMC), CoverX (a wholesale broker) and Valiant Insurance Group ("VIG") and its subsidiaries (which were sold to TIG Insurance Group, Inc. (TIG), a Fairfax affiliate, on July 1, 2011). FMIC is principally in the E&S casualty business and is known for its expertise in security-related classes.

The FMFC purchase price was $294.3 million. Furthermore, in the first quarter of 2011, FMFC reported total assets of $221.2 million, which included $55.8 of intangible assets relating to licenses and brand names. As a result, $73.1 million of goodwill was recorded in connection with the FMFC acquisition. Subsequent to the acquisition, Fairfax (US) Inc. discharged $29 million of FMFC's indebtedness and reimbursed acquisition-related expenses. FMFC was then contributed to Holdings, adding $325.3 million to Holding's equity.

Effective July 1, 2011, USF, the lead pool company, entered into a 100% quota share reinsurance agreement with FMIC, wherein USF assumed all liabilities of FMIC for all insurance business written before and after the effective date. Reserves in the amount of $530 million were ceded as of the effective date in exchange for cash and securities with a market value of $530 million, resulting in no impact to surplus. Consideration was recorded as a decrease to paid losses. In addition, USF assumed retroactive reinsurance arrangements from FMIC which are reported on the aggregate write-ins for liabilities.

Also effective July 1, 2011, USF, the lead pool company, entered into a 100% quota share reinsurance agreement with American Underwriters Insurance Company (AUIC), wherein USF assumed all liabilities of AUIC for all insurance business written before and after the effective date. Reserves in the amount of $3.0 million were ceded as of the effective date in exchange for cash and securities with a market value of $3.0 million, resulting in no impact to surplus. Consideration paid was recorded as a decrease to paid losses.

Effective December 31, 2011, the Crum & Forster companies (C&F companies) entered into a reinsurance agreement with Clearwater Insurance Company (Clearwater) in which the C&F companies ceded and Clearwater assumed certain liabilities under insurance and reinsurance contracts entered into by the C&F companies on or prior to December 31, 1998, exclusive of workers' compensation and surety. The aforementioned contracts covered substantially all of the C&F companies' liabilities for asbestos, environmental and other latent claims. The gross latent liabilities had a value of $368.9 million at December 31, 2011, which included $30 million of ULAE reserves. Existing reinsurance associated with the gross reserves was $34.4 million, which included $9 million of uncollectible reserves. This reinsurance was concurrently assigned to Clearwater. The transaction effectively reinsured 100% of the C&F companies' net latent exposures of $334.5 million. Reserves in the amount of $334.5 million were ceded as of the effective date in exchange for cash and securities with a market value of $334.5 million, resulting in no impact to surplus. Consideration paid was recorded as an increase to paid losses. As a result of the Reinsurance Agreement, the C&F companies' net asbestos and environmental reserves were substantially reduced at year-end 2011 to $91 thousand and $5.8 million, respectively, from $236.5 million and $66.4 million, respectively, at year-end 2010.

In the third quarter of 2011, the C&F companies rebalanced capital among the insurance companies in order to better align each company's surplus as a percentage of total pool surplus. This included a $60.0 million dividend from Seneca Insurance Company, Inc. (SIC) to its parent, NRIC, and then a $75.0 million dividend payment from NRIC to Holdings, which in turn contributed the full $75.0 million to USF. In addition, FMIC paid an extraordinary dividend of $180.0 million to Holdings, which in turn contributed the full $180.0 million to USF. The Company, as a pool participant, ceded its 76% share of the reserves in the amount of $254.2 million and received consideration for the same amount.

COMPANY HISTORY

The Company was incorporated under the laws of New York on April 1, 1824. The Company absorbed the following companies by merger: Peter Cooper Insurance Company of New York in September, 1911; Williamsburg City Fire Insurance Company of New York on October 31, 1916; Colonial Assurance Corporation of New York on December 21, 1922;

Allemannia Fire Insurance Company of Pittsburgh on May 31, 1951; and Southern Fire Insurance Company on September 21, 1956.

During 2003, MJR Fire Insurance Company was incorporated in Delaware as a wholly owned property and casualty insurance company subsidiary of United States Fire Insurance Company. Effective December 31, 2003, the United States Fire Insurance Company, a New York domiciled Company, was merged with and into the MJR Fire Insurance Company. In connection with the merger, MJR Fire Insurance Company’s name was changed to United States Fire Insurance Company and became the wholly owned subsidiary of Crum & Forster Holding Inc., which is a wholly owned subsidiary of Holdings.

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, its Board of Directors (Board). The Board shall consist of at least three members and subject to a maximum of seven members.

The Board at December 31, 2010, was comprised of three members, each elected or appointed in accordance with Company bylaws. Each Director shall hold office until his successor is elected and qualified, or until earlier resignation or removal.

Directors

The Board of Directors, duly elected in accordance with the Company’s bylaws and serving at December 31, 2010, were as follows:

Directors Name	Principal Business Affiliation
Douglas Mendel Libby, Chairman	Crum & Forster Holdings Corp.
Mary Jane Robertson	Crum & Forster Holdings Corp.
Dennis James Hammer	Crum & Forster Holdings Corp.

The bylaws of the Company state the principal officers shall be a President, a Chairman of the Board of Directors, a Chief Executive Officer, and any other Vice-Presidents, a Treasurer, a Secretary, one or more Assistant Vice Presidents, one or more Assistant Secretaries, and such other officers, assistant officers or agents as the Board from time to time may determine.

Officers

At December 31, 2010, the Company's principal officers and their respective titles were as follows:

Officer	Title
Douglas Mendel Libby	Chairman of the Board, President & CEO
Mary Jane Robertson	Executive Vice President, Treasurer & CFO
Stephen Michael Mulready	Executive Vice President
James Vincent Kraus	Senior Vice President, General Counsel & Secretary
Marc James Adee	Senior Vice President
Stephen Arthur Eisenman	Senior Vice President
Dennis James Hammer	Senior Vice President& Controller
Matthew William Kunish	Senior Vice President
Mark Lloyd Owens	Senior Vice President
Nicole Elizabeth Bennett-Smith	Senior Vice President & CIO
Donald Ross Fischer	Senior Vice President
Robert George Himmer	Senior Vice President
Chris Ivan Stormo	Senior Vice President
Mark George Brown	Senior Vice President
David John Ghezzi	Senior Vice President
Mary Jeanne Hughes	Senior Vice President
Ellen Caramore O’Connor	Senior Vice President
Richard Yien	Senior Vice President

The minutes of the meetings of the Stockholder and Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers and approval of investment transactions were also noted.

Inspection of Company files indicated that ethics statement/conflict of interest affidavits were distributed, completed and returned by all employees at the Assistant Secretary level or above for the examination period.

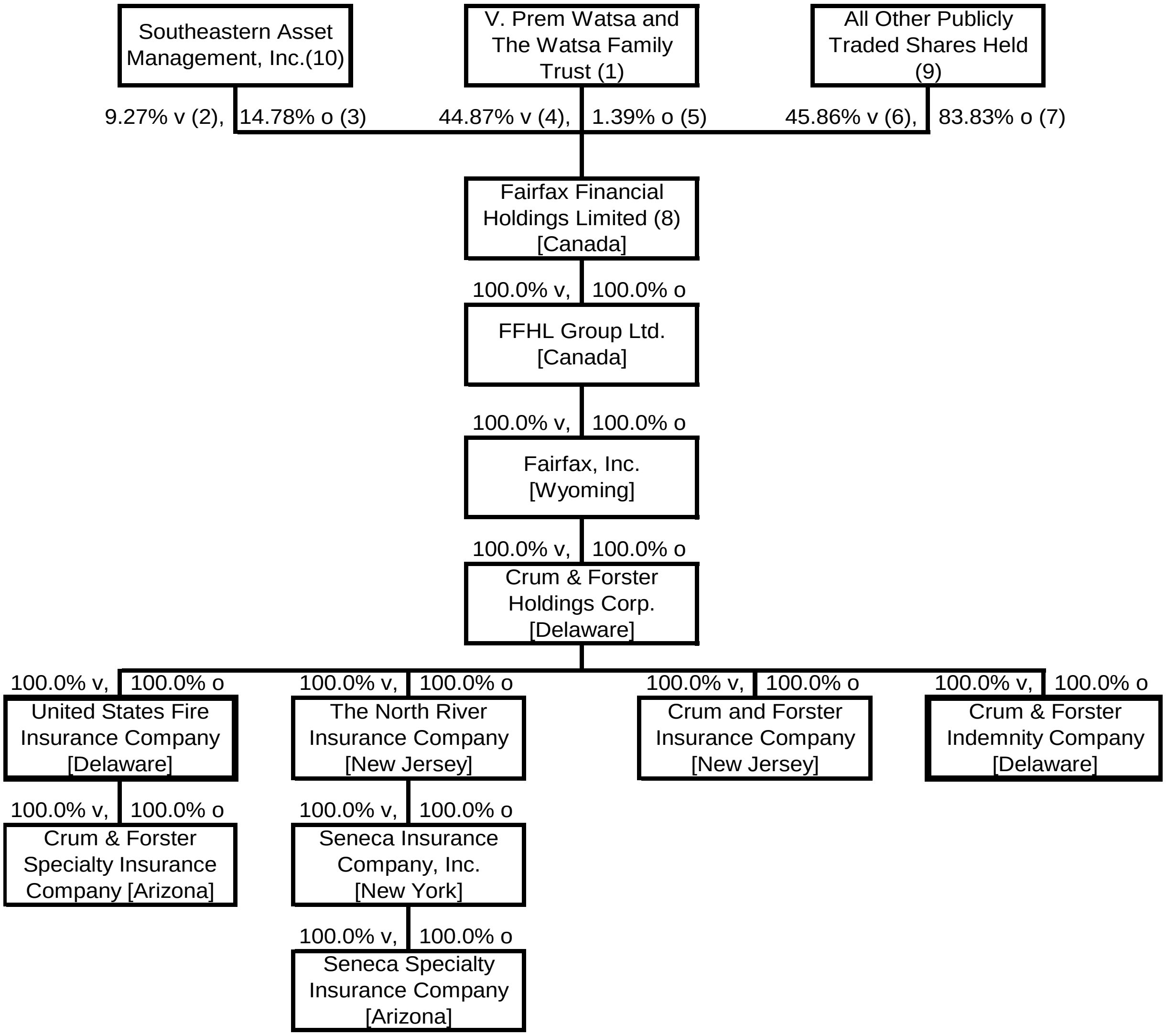
During our review for compliance with 18 Del. C. §4919, it was noted that the Company properly reported changes in directors and principal officers.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in 18 Del. C. §5001 (4) “Insurance Holding Company System”. The Company’s Holding Company Registration Statements were properly filed with the Delaware Insurance Department for the years under examination.

All of the common stock is owned by Holdings. The ultimate controlling entity of the holding company system is Fairfax Financial Holdings Limited (FFH), a Canadian holding company. FFH’s stock is traded on the Toronto Stock Exchange under the symbol “FFH”. As of December 31, 2010, FFH reported approximately $31.74 billion in assets and $8.70 billion in shareholder equity on a consolidated Canadian GAAP basis in U.S. dollars.

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


Southeastern Asset Management, Inc.(10)
V. Prem Watsa and The Watsa Family Trust (1)
All Other Publicly Traded Shares Held (9)
9.27% v (2), 14.78% o (3)
44.87% v (4), 1.39% o (5)
45.86% v (6), 83.83% o (7)
Fairfax Financial Holdings Limited (8) [Canada]
100.0% v, 100.0% o
FFHL Group Ltd. [Canada]
100.0% v, 100.0% o
Fairfax, Inc. [Wyoming]
100.0% v, 100.0% o
Crum & Forster Holdings Corp. [Delaware]
100.0% v, 100.0% o
United States Fire Insurance Company [Delaware]
100.0% v, 100.0% o
The North River Insurance Company [New Jersey]
100.0% v, 100.0% o
Crum and Forster Insurance Company [New Jersey]
100.0% v, 100.0% o
Crum & Forster Indemnity Company [Delaware]
100.0% v, 100.0% o
Crum & Forster Specialty Insurance Company [Arizona]
100.0% v, 100.0% o
Seneca Insurance Company, Inc. [New York]
100.0% v, 100.0% o
Seneca Specialty Insurance Company [Arizona]

Notes 1 through 10 more fully describe the ownership and voting percentages throughout the holding company.

v = voting control
o = ownership control
(1) through voting and 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) calculated as 3,015,922 votes (3,015,922+C11 subordinate common shares held) divided by 32,398,020 votes [See (8)]
(3) calculated as 3,015,922 subordinate common shares held / 16,918,020 total subordinate common shares times $4,121,400,000 / $4,258,000,000 [See (8)]
(4) calculated as 0.79% through V. Prem Watsa and 47.94% through The Watsa Family Trust and the four entities described in (1). The 0.8% is calculated as 169,835 subordinate voting common shares (169,835 votes) through 810679 Ontario Limited, 83,199 subordinate voting common shares (83,199 votes) held personally by Mr. V. Prem Watsa and 3,500 subordinate voting common shares (3,500 votes) held through "Prestin" plus, which equals 256,534 votes divided by 32,398,020 total votes. The 47.9% is calculated as 50,620 subordinate voting common shares (50,620 votes) plus 1,548,000 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 divided by 32,398,020 total votes. [See (8)]
(5) calculated as 307,154 subordinate common shares held (256,534 plus 50,620 [See (4)]) / 16,918,020 total subordinate voting common shares times $4,121,400,000 / $4,258,000,000 [See (8)]
(6) 100.00% minus 9.31% (2) minus 48.73% (4)
(7) 100.00% minus 17.27% (3) minus 1.76% (5)
(8) common shares are publicly traded on the Toronto Stock Exchange in Canada and the New York Stock Exchange in the U.S. under the symbol "FFH". The Company has issued at 12/31/07 1,548,000 multiple voting common shares (which carry ten votes per share), 16,918,020 subordinate voting common shares (which carry one vote per share), 3,000,000 non-voting preferred Series A shares and 5,000,000 non-voting. Series B shares. Total votes then consist of 32,398,020: the 15,480,000 votes attributable to the multiple voting common shares and 16,918,020 votes attributable to the subordinate voting common shares. Fairfax's capital account at 12/31/07 totals $4,258,000,000 (U.S.) which consists of common shares totaling $4,121,400,000 (96.8% of the total) and preferred shares totaling $136,600,000 (3.2% of the total).
(9) No entity or individual owns or controls greater than 10% as of 12/31/07, but as of 3/31/08, MacKenzie Financial Corporation owned 2,190,554 subordinate voting common shares, which represented 6.76% voting control (2,190,554 divided by 32,398,020 total votes) and 12.53% ownership control (2,190,554 divided by 16,918,020 times $4,121,400,000 divided by $4,258,000,000). At 3/31/08, Southeastern Asset Management beneficially owned 2,756,675 subordinate voting common shares [a decrease of 259,247 shares from 12/31/07], which represented 8.51% voting control and 15.77% ownership control.
(10) Disclaimer of affiliation with the Delaware Department of Insurance dated November 22, 2004

Southeastern Asset Management was identified in the 2010 Holding Company Registration Statement as controlling more than 10% of the voting stock of FFH [reported as owning or controlling 16.6% of the subordinate voting shares of FFH, however, actual voting control was 9.27% and ownership control was 14.78%]. Southeastern Asset Management filed a disclaimer of control and requested exemption under 18 Del. C. §5003(e) (2) regarding control of greater than 10% of the securities of FFH. This filing was approved by the Delaware Insurance Department on November 22, 2004. V. Prem Watsa, who had 44.87% voting control of FFH and 1.39% ownership control of FFH, was identified in the holding company registration statements for the years under examination as the "Chairman" of the ultimate controlling entity, FFH.

Intercompany Management and Service 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, 2010.

Expense Allocation & Administration Services Agreement

This agreement dated April 1, 2010 between the Company and Holdings pertains to the performance of certain administrative services by the Company for Holdings relating to accounting, legal, and other corporate matters. Additionally the agreement applies to the allocation of certain holding company operating expenses of Holdings and insurance company operating expenses of the Company pertaining to shared personnel and to certain resources and services provided by the Company to Holdings.

Administrative Service Agreements

The Company is a party to an administrative service agreement with the pool participants effective January 1, 1993. By amendments dated June 12, 1995, and December 21, 2000, CFIC and CFSIC, respectively, were added to these agreements. The Company 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. The above mentioned agreement with CFIC was replaced with a similar agreement effective June 30, 2010.

Personal Lines Administrative Services Agreement
Personal Lines Reinsurance Agreement
Reinsurance and Insurance Management and Services Agreement
Quota Share Reinsurance Agreement

The Company is a party to the above mentioned agreements; a personal lines administrative services agreement, a personal lines reinsurance agreement, a reinsurance and insurance management and services agreement effective January 1, 1993, and a quota share reinsurance agreement effective January 1, 2000, with TIG, formerly International Insurance Company, an Illinois insurer. TIG provides certain underwriting and administrative services relating to personal lines reinsurance agreement between TIG and the Company. TIG provides the Company with management of certain reinsurance recoverable and for run-off along with performing discontinued operations previously performed by certain of the C&F business units on behalf of the Company as well as the underwriting, issuance and delivery of policies, and handling of claims in the state of Hawaii. The Company agrees to pay all costs and expenses incurred by TIG for these services.

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, 2000. 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. The Company replaced the above referenced agreement with a similar agreement effective January 1, 2009.

Master Repurchase Agreement

The Company is a party to a master repurchase agreement with FFH effective July 1, 2000, with an amendment dated September 11, 2001. The agreement provides for the repurchase of securities that are transferred to FFH from time to time in order to provide liquidity in the event that the Company is required to pay claims or other corporate obligations, subject to an aggregate limitation for USF and NRIC of $100 million and for CFIC and CFInsco of $5 million. Pursuant to the agreement, the Company is obligated to repurchase from FFH securities that are transferred for this purpose before the end of each calendar year in which the original purchase took place at a price equal to the amount initially raised from their sale plus the stated interest rate for each security pursuant to the initial sale. During the time that such securities are transferred to FFH, the Company is entitled to receive income payable on such securities. There were no transactions under this agreement during the examination period.

Administrative Services Agreement

The Company is a party to an administrative services agreement with SIC, a New York insurance company and wholly-owned by the Company’s immediate parent, Holdings, effective August 31, 2000. The Company provides SIC with certain underwriting and administrative services. SIC agrees to pay all costs and expenses incurred by the Company.

Information Technology Agreement

The Company was a party to an IT Obligation Agreement among MFXchange (Ireland) Limited (MFX) and affiliate Fairfax Information Technology Services, Inc. (FITS) effective April 30, 2009. This agreement was terminated effective June 1, 2010, and replaced with an IT

Services Agreement between MFX and the Company effective on that date MFX is an affiliate company.

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 in 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.

Administrative Services Agreement

The Company is a party to an administrative services agreement with Seneca Specialty Insurance Company (Seneca Specialty), an Arizona company, effective January 1, 2005. The Company provides Seneca Specialty with certain underwriting and administrative services. Seneca Specialty agrees to pay all costs and expenses incurred by the Company.

Claims Service and Management Agreement

The Company is a party to a claims services and management agreement among Fairmont Premier Insurance Company (Fairmont Premium), Fairmont Specialty Insurance Company (Fairmont Specialty) and Fairmont Insurance Company (Fairmont) effective January

1, 2006. USF provides claims services for certain identified types of claims for Fairmont Premium, Fairmont Specialty and Fairmont. Fairmont Premium, Fairmont Specialty and Fairmont each agree to pay a fee based on each entity's share of the costs, overhead and general expenses incurred by the Company in providing the services.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company was licensed to transact multiple property and casualty lines of insurance in all fifty states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

The Company is a commercial property and casualty insurance company that targets specialty classes of business and niche market opportunities. The Company writes business through over 1,600 producers who, on a direct written basis, generally fall into three categories: wholesale brokers 36%, independent regional retail firms 46%, and national brokers 18%. Specialty program business is written through Managing General Underwriters (MGUs) where appropriate for the class (A&H, Bail Bonds, and E&S binding authorities).

In 2010, over 55% of the Company's gross premiums written arose from the offering of general liability including umbrella, workers' compensation, commercial automobile and property policies to middle market commercial enterprises through the Company's regional branch network. The balance of the Company's business is comprised of a diverse portfolio of specialty businesses in which the Company has specific product, geographic or customer group expertise. These include products such as accident and health, directors' and officers' liability and bail bonds, geographic specialties such as the Company's coverage of non-standard, inner-city risks not typically well served by the standard market and 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.

As of January 1, 2006, certain segments of the business of the insurance companies of Fairmont Specialty Group, affiliates of Fairfax, were continued as a new division of Holdings. The Fairmont business consists of standard commercial and personal lines, bail bonds, and accident and health coverage.

On the filed Annual Statement for 2010, the Company reported the following distribution of Direct Premiums Written:

Line of Business Premiums Percent	Direct Premiums Written	Percent
Workers' Compensation	$ 141,232,567	28.9%
Group Accident and Health	126,233,915	25.8%
Inland Marine	77,820,737	15.9%
Commercial Auto Liability	42,531,741	8.7%
Other Liability – Occurrence	31,685,949	6.5%
Commercial Multiple Peril	18,135,972	3.7%
Fire	15,208,031	3.1%
All Other Lines < $10,000,000 individually	36,250,325	7.4%
Total	$ 489,099,237	100.0%

<u>A.M.Best's Rating</u>

The Company and its U.S. insurance affiliates have a rating of "A" *(Excellent)* from A.M. Best.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the three proceeding years since its last examination (2007):

Year	Admitted Assets	Capital & Surplus	Net Premiums Written	Net Income
2007	$ 3,694,722,840	$ 1,160,929,809	$ 742,781,255	$ 137,063,710
2008	$ 3,050,714,220	$ 943,278,911	$ 579,453,391	$ 458,359,045
2009	$ 2,743,387,632	$ 1,055,477,177	$ 456,047,372	$ 41,294,263
2010	$ 2,511,795,130	$ 901,188,233	$ 462,685,175	$ (24,683,314)

Since December 31, 2007, the Company's financial results were as follows:

- 32.02 % decrease in admitted assets
- 22.37% decrease in capital and surplus
- 37.71 % decrease in net premiums written
- 118.00 % decrease in net income

The Company reported net income of ($24,683,314) for 2010 compared to $137,063,710 for 2007. The decrease of $161,747,024 from 2007 to 2010 mainly reflects underwriting losses and lower net investment return for all years of the examination. Additional factors which contributed to the decrease were interest expense on funds held and the commutation of retroactive reinsurance.

The Company's admitted assets decrease of $1,182,927,710 for the examination period reflects the result of dividend payments to parent in the amount of $840,300,000 for the years 2008 through 2010.

The net premium written decrease of $280,096,080 was the result of the soft property and casualty market most significantly in the commercial auto and property lines of business and the Company's conscience effort to reduce unprofitable classes of business.

LOSS EXPERIENCE

The Company reported one-year unfavorable development of $36.4 million in 2011, which was driven primarily by latent exposures and a large claim in general liability and workers' compensation for recent accident years.

REINSURANCE

The Company's underwriting results are significantly affected by reinsurance. The Company reported the following distribution of premiums written as of December 31, 2010:

Total Direct Written Premiums	$	489,099,237
Assumed premiums affiliated	$	233,116,516
Assumed premiums non-affiliated		23,614,441
Total Assumed Premiums	$	256,730,957
Total Gross Premiums	$	745,830,194
Ceded premiums affiliated	$	185,787,055
Ceded premiums non- affiliated		97,357,964
Total Ceded Premiums	$	283,145,019
Net Written Premiums	$	462,685,175
Percentage Ceded of Gross		37.96%

Assumed – Non-Pooled

In addition to assumptions from the pool participants, the Company has three other significant sources of assumed business: (1) a 100% quota share treaty with affiliate CFSIC; (2) various treaties with SIC, including workers' compensation, property per risk, property catastrophy, E&O coverage and multi-line property reinsurance, and; (3) participation in various pools and associations. The premiums assumed from CFSIC, SIC and the various pools and associations for 2010 were $53.6 million, $3.51million and $1.28 million, respectively.

Ceded

The Company is a 76% participant in a pool with its affiliates. 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 and Forster Insurance Company	1%
Crum & Forster Indemnity Company	1%

The Pooling Agreement provides that the Company, acting as lead company, assumes from the Pool Participants 100% of their premiums, losses, dividends to policyholders and other underwriting expenses.

Per Risk

As of December 31, 2010, the Company was a party to the following significant reinsurance contracts on a per risk basis:

Coverage	Limits	Retention
Property catastrophe	$70 million limit, excess of	$20 million retention
Property per risk - C&F Specialty	$28 million limit, excess of	$2 million retention
Property per risk - Standard & Package	$45 million limit, excess of	$5 million retention
Umbrella – admitted	$20 million limit, excess of	$5 million retention
Umbrella - non-admitted	$10 million limit	$5 million (50% QS retention up to $10 million)
Crisis management	$10 million limit	$4.5 million (45% QS retention up to $10 million)
D&O and professional liability	$7 million limit, excess of	$3 million retention plus (30% QS retention from $3 million to 10 million)

During 2010, the Company reviewed its reinsurance programs and modified the coverage and retention levels of certain programs as deemed necessary in the current market environment. In general, the Company's reinsurance contracts provide coverage for domestic acts of terrorism. Certain casualty contracts have additional terrorism coverage for acts of terrorism certified under the Terrorism Risk Insurance Program Reauthorization Act of 2007. None of the contracts cover acts of terrorism involving use of nuclear, biological or chemical agents.

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. The contract provides $400 million of limit in excess of a 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 are currently based on 35% of amounts ceded plus a reinsurer margin of $8 million. The contract contains provisions that would increase the premium rate to as high as 62% under conditions that Company management considers unlikely. The contract is on a funds held basis with interest credited at 7%. As of December 31, 2010, the Pool had ceded $349 million in losses and LAE under this contract, and incurred premium and interests cost of $143.8 million and accrued funds held interest of $116.9 million for a pretax surplus benefit of $88.3 million (USF recorded its 76% share under the Pooling Agreement). At December 31, 2010, and December 31, 2009, the Pool Participants had reinsurance recoverable balances of $349.0 million (for 2010 and 2009) and funds held balances of $252.8 million and $236.3 million, respectively, related to this agreement. The coverage remaining on this treaty is $51 million with no coverage available for asbestos development.

The arrangements described above with North American Specialty Insurance Company are recorded as retroactive reinsurance, in accordance with SSAP 62R.

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained in Morristown, New Jersey, and various branch offices throughout the United States. The Company's IT organization has been substantially revised during the examination period. Beginning in 2009 C&F began the effort to in-source its IT functions from their sister company/vendor FITS/MFX. Since 2010, the only functions that remain with MFX are hosting services located in Ridgefield Park, New Jersey and Roanoke, Virginia. A new Company-owned data center is currently being constructed in Jersey City, New Jersey. The new data center will ultimately house all Company servers.

An external accounting firm audits the statutory-basis financial statements of the Company annually. The Company's external firm reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the financial statements as of December 31, 2010. No significant or qualifying deficiencies were found to exist in the design or operation of the internal control structure.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The consulting firm of INS Services, Inc. performed a review of the Company's global controls over its information and technology IT environment. It was determined that global controls surrounding the EDP environment were found to be sufficient.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2010, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2010
Statement of Liabilities, Surplus and Other Funds, December 31, 2010
Underwriting and Investment Exhibit, Statement of Income, December 31, 2010
Capital and Surplus Account, Statement of Income, December 31, 2010

Reconciliation of Surplus Since last Examination
Schedule of Examination Adjustments

Analysis of Assets

As of December 31, 2010

	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$ 706,998,809		$ 706,998,809	1
Preferred stocks	32,615,754		32,615,754	2
Common stocks	1,049,958,433	$ 6,286,861	1,043,671,572	2
Cash and short-term investments	239,350,241		239,350,241	
Derivatives	64,932,184		64,932,184	
Other invested assets	123,184,888		123,184,888	
Receivables for securities	26,823		26,823	
Investment income due and accrued	11,798,779		11,798,779	
Uncollectible premiums and agents'balances in course of collection	16,631,865	1,865,984	14,765,881	
Deferred premiums, agents balances and installments booked but deferred & not yet due	46,024,415	719,476	45,304,939	
Accrued retrospective premiums	38,000,000	3,800,000	34,200,000	
Amounts recoverable from reinsurers	11,777,636		11,777,636	
Funds held by or deposited with reinsured companies	1,346,381		1,346,381	
Other amounts receivable under reinsurance contracts	4,542,363		4,542,363	
Current federal and foreign income	33,445,345		33,445,345	
Net deferred tax asset	101,968,430		101,968,430	
Guaranty funds receivable or on deposit	4,504,113		4,504,113	
Electronic data processing equipment & software	4,009,561	3,145,799	863,762	
Furniture and equipment	3,252,713	3,252,713	-	
Receivables from parent, subsidiaries & affiliates	5,519,227		5,519,227	
Aggregate write-ins:	41,628,142	10,650,139	30,978,003	
Total Assets	$ 2,541,516,102	$ 29,720,972	$ 2,511,795,130	

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2010

Liabilities, Surplus and Other Funds			Note
Losses	$	981,608,394	3
Reinsurance payable on paid losses and LAE		1,852,515	
Loss adjustment expenses		406,235,365	3
Commissions payable, contingent commissions & other similar charges		3,884,020	
Other expenses		32,777,583	
Taxes, licenses and fees		21,427,700	
Unearned premiums		153,477,683	
Ceded reinsurance premiums payable		5,076,150	
Funds held by company under reinsurance treaties		201,086,968	
Amounts withheld or retained by company for account of others		18,341,214	
Provision for reinsurance		5,707,614	
Payable to parent, subsidiaries and affiliates		143,202	
Payable for securities		112,638	
Aggregate write-ins for liabilities:		(221,124,149)	
Total Liabilities	$	1,610,606,897	
Aggregate write-ins for special surplus funds	$	155,915,261	
Common capital stock		4,586,262	
Gross paid in and contributed surplus		279,329,699	
Unassigned funds (surplus)		461,357,011	
Surplus as regards policyholders	$	901,188,233	
Total Liabilities, Capital and Surplus	$	2,511,795,130	

Underwriting and Investment Exhibit - Statement of Income
As of December 31, 2010

UNDERWRITING INCOME		
Premiums earned	$	461,019,111
DEDUCTIONS		
Losses incurred	$	265,833,906
Loss adjustment expenses incurred		100,610,139
Other underwriting expenses incurred		157,550,843
Total underwriting deductions	$	523,994,888
Net underwriting gain or (loss)	$	(62,975,777)
INVESTMENT INCOME		
Net investment income earned	$	61,316,590
Net realized capital gains or (losses)		(25,407,916)
Net investment gain or (loss)	$	35,908,674
OTHER INCOME		
Aggregate write-ins for miscellaneous income	$	(10,002,933)
Total other income	$	(10,002,933)
Net income before dividends to policyholders and before federal income taxes	$	(37,070,036)
Dividends to policyholders	$	-
Net income after dividends to policyholder but before federal income taxes	$	(37,070,036)
Federal and foreign income taxes incurred		(12,386,722)
Net income	$	(24,683,314)

Capital and Surplus Account
As of December 31, 2010

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2009	$	1,055,477,177
GAINS AND (LOSSES) IN SURPLUS		
Net income	$	(24,683,314)
Change in net unrealized capital gains (losses)		75,059,578
Change in net unrealized foreign exchange capital gain (loss)		(3,546,515)
Change in net deferred income tax		(40,797,822)
Change in non-admitted assets		119,301,918
Change in provision for reinsurance		377,211
Dividends to stockholders		(280,000,000)
Change in surplus as regards policyholders for the year	$	(154,288,944)
Surplus as regards policyholder, December 31, 2010	$	901,188,233

Reconciliation of Surplus since last Examination

	Special Surplus Funds (2)	Common Capital Stock	Gross Paid -in & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2007	$ 395,800,261	$ 4,586,262	$ 279,329,699	$481,213,587	$1,160,929,809
Operations (1)					
2008 Operations	(239,885,000)			488,234,102	248,349,102
2009 Operations				206,498,266	206,498,266
2010 Operations				125,711,056	125,711,056
Dividends Paid (3)					
2008 Dividends Paid				(466,000,000)	(466,000,000)
2009 Dividends Paid				(94,300,000)	(94,300,000)
2010 Dividends Paid				(280,000,000)	(280,000,000)
December 31, 2010	$ 155,915,261	$ 4,586,262	$ 279,329,699	$461,357,011	$ 901,188,233

(1) Operations is defined as: Net income, change in net unrealized capital gains or (losses), change in net unrealized foreign exchange 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 in 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 SSAP 62R (refer to Notes to the Financial Statements for information related to Special Surplus).

(3) Unless otherwise noted, dividends paid were considered ordinary and were reported properly to the Delaware Insurance Department. A portion of the 2008 and 2010 dividends paid were considered extraordinary and required prior approval by the Delaware Insurance Department.

Capitalization

At December 31, 2010, the Company had 2,242,187 common shares authorized with a par value of $3 per share, of which 1,528,754 shares were issued and outstanding.

Dividends

The Company is subject to statutory and regulatory restrictions imposed by the State of Delaware on insurance companies which limits the amount of cash dividends that may be paid to the stockholders. Under Delaware law, cash dividends may be paid only from realized net profits and realized capital gains. Additionally, the maximum aggregate amount of ordinary dividends that the Company may declare or pay during any twelve-month period is the greater of (1) 10% of its statutory surplus, or (2) net income, not including realized capital gains, each as reported in the prior year's annual statements, unless written approval is obtained from the Delaware Insurance Commissioner granting a greater amount (extraordinary dividends). In addition, no dividend may be paid in excess of unassigned funds.

According to Company records and as reflected in the minutes to the Board of Director meetings, both ordinary and extraordinary dividends were paid by the Company to the stockholder totaling $840,300,000, in the form of cash and fixed income securities as reflected below, in accordance with 18 Del. C. §5005(b):

Date Paid	**Ordinary Dividend**	**Extraordinary Dividend**	**Total**
March 31, 2008	$ 116,000,000		$116,000,000
October 23, 2008	93,000	$ 349,907,000	350,000,000
March 30, 2009	94,300,000		94,300,000
March 30, 2010	105,000,000		105,000,000
April 13, 2010	548,000	174,452,000	175,000,000
	$ 315,941,000	$ 524,359,000	$840,300,000

In addition, the Company paid an extraordinary dividend to the stockholder in the amount of $90,000,000 on March 30, 2011, which was approved by the Delaware Department of Insurance.

SCHEDULE OF EXAMINATION ADJUSTMENTS

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

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds $706,998,809

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. Bonds owned by the Company are as follows:

Type	Statement Value
US Governments	$ 70,138,568
States and Territories and Possessions	79,007,894
Special Revenue	491,177,807
Industrial & Miscellaneous	66,674,540
Total	$ 706,998,809

Of the Company's bond holdings, which comprised 32% of the Company’s total invested assets and 28% of total admitted assets at December 31, 2010, 92.6% were categorized as Class 1 with respect to NAIC credit quality standards as compared to 77.3% at December 31, 2009.

Note 2 - Common Stock	$1,043,671,572
Note 2 - Preferred Stock	$32,615,754
	$1,076,287,326

As of December 31, 2010, the Company’s common stock holdings were comprised of affiliated and unaffiliated stock. Unaffiliated common stock is carried at market value. Affiliated common stock is carried at the underlying statutory equity basis. Investments in non-insurance affiliates are valued based on the audited GAAP equity. Investments in foreign insurance affiliates are valued on the basis of U.S. GAAP equity adjusted to a statutory basis of accounting. Unrealized appreciation or depreciation on unaffiliated common and preferred stocks is credited or charged directly to unassigned surplus. The Companies’ investments in redeemable preferred stock are valued at the lower of cost or fair market value. Any difference between cost and fair value is charged directly to surplus.

Type		Amount
Investments in affiliates-common stock	$	486,436,321
Unaffiliated investments-common stock		557,235,251
Total Common Stock	$	1,043,671,572
Investments in affiliates-preferred stock	$	8,089,975
Unaffiliated investments-preferred stock		24,525,779
Total Preferred Stock	$	32,615,754
Total Common and Preferred Stock	$	1,076,287,326

Note 3 - Losses	$981,608,394
Note 3 - Loss Adjustment Expenses	$406,235,365
	$1,387,843,759

The above-captioned amount, which is the same as that reported by the Company in its' Annual Statement, has been accepted for purposes of this report.

The Delaware Department of Insurance retained the services of INS Consultants, Inc. (INS), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2010. The INS analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The review does not address the collectability of reinsurance recoverables.

The conclusions set forth in INS's report are based on information provided by the Company, including the 2010 Annual Statements, the related 2010 Statement of Actuarial Opinion with underlying actuarial work papers.

INS performed an analysis on the Company's book of business by segment of business on both a gross and a net basis for loss, defense and cost containment (DCC) expense and adjusting and other (A&O) expense. INS also reviewed the Company's work papers which reconcile the year-end 2010 data to Schedule P. The work papers supported the conclusion that the year-end amounts were reconciled to the Schedule P amounts.

Based on work performed, INS concluded the Company's carried December 31, 2010, gross and net loss and LAE reserves to be reasonably stated, and as such, no financial adjustment was required for examination purposes.

CONCLUSION

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

Description	December 31, 2007	December 31, 2010	Increase (Decrease)
Assets	$ 3,694,722,840	$ 2,511,795,130	$ (1,182,927,710)
Liabilities	$ 2,533,793,031	$ 1,610,606,897	$ (923,186,134)
Special Surplus Funds	395,800,261	155,915,261	(239,885,000)
Common Capital Stock	4,586,262	4,586,262	-
Gross Paid In and Contributed Surplus	279,329,699	279,329,699	-
Unassigned Funds (Surplus)	481,213,587	461,357,011	(19,856,576)
Total Surplus as Regards Policyholders	$ 1,160,929,809	$ 901,188,233	$ (259,741,576)
Totals	$ 3,694,722,840	$ 2,511,795,130	$ (1,182,927,710)

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

Respectfully submitted,

Joseph Murano Jr.

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