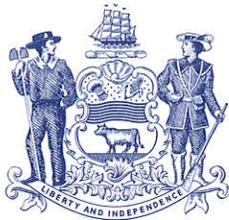


REPORT ON EXAMINATION
OF THE
VALIANT SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

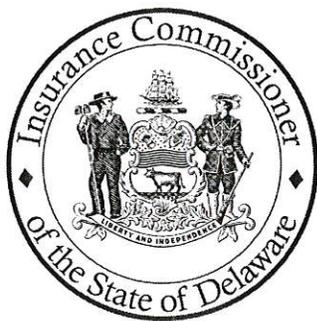
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

VALIANT SPECIALTY INSURANCE COMPANY

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

Attest By: *Brandi Biddle*

Date: May 30, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 30th day of May, 2013.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
VALIANT SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2011

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", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 30th day of May, 2013

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SALUTATION

April 1, 2013

Honorable Karen Weldin Stewart
Delaware Department of Insurance
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No.12-021, dated May 8, 2012, an Association examination has been made of the affairs, financial condition and management of the

VALIANT SPECIALTY INSURANCE COMPANY

hereinafter referred to as "Company" or "VSIC" incorporated under the laws of the State of Delaware with its home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the main administrative office of the Company at 250 Commercial Street, Manchester, NH 03101.

The report of this examination is respectfully submitted.

SCOPE OF EXAMINATION

This is the first examination for this Company. This examination covers the period of July 15, 2008 through December 31, 2011 and encompassed a general review of 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, 2011. Transactions subsequent to the latter date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (NAIC Handbook). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risk of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risk 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 regulation.

During the examination, consideration was given to work performed by the Company's external accounting firm, PricewaterhouseCoopers, LLP (PwC), Boston, MA. Certain auditor work papers 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. The Company was Sarbanes Oxley (SOX) Section 404 compliant as of the examination date and we reviewed and relied on the work completed by PwC SOX Compliance audit.

Arrangement was made with the California Insurance Department (CID) to share information and work papers regarding their concurrent financial examinations. As California is an

accredited state, we benefited from CID work as the insurance companies have common management and corporate governance, information systems and control processes.

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

Conflict of Interest
Custodial Agreements
Risk Based Capital
Legal Actions
All Asset and Liability Items not mentioned

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulation or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

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

SUBSEQUENT EVENTS

The Company paid a \$16 million extraordinary distribution to its wholly owned parent Valiant Insurance Company as a return of capital. This transaction was properly filed and approved by the Delaware Insurance Department on June 7, 2012.

COMPANY HISTORY

Valiant Specialty Insurance Company was incorporated under the laws of the State of Delaware on July 15, 2008 as a subsidiary of Valiant Insurance Company (VIC), a Delaware domestic insurer. VIC is a wholly-owned subsidiary of Valiant Insurance Group (VIG), whose parent is TIG Insurance Company (TIC), a property and casualty insurer domiciled in California.

On November 5, 2010, First Mercury Financial Corporation's (FMFC) principal insurance subsidiary, First Mercury Insurance Company (FMIC), purchased VIG from Ariel Holdings, Ltd. (Ariel). On February 9, 2011, FMFC merged with a wholly-owned indirect subsidiary of Fairfax

Financial Holdings Limited (Fairfax), a Canadian financial services holding company with shares listed on the Toronto Stock Exchange. Fairfax is the Company's ultimate parent company.

The Company serves as the surplus lines insurer for the group in states other than Delaware. Effective July 1, 2011, subsequent to the acquisition by Fairfax, any previously non-discontinued lines of business were placed into runoff.

Common Capital Stock

As of December 31, 2011, the Company had 4,200,000 shares of \$1.00 par value common stock authorized, issued and outstanding.

Dividends

No dividends were declared or paid during the current examination period.

CORPORATE RECORDS

Article Four of the Company's Certificate of Incorporation was amended on July 10, 2009 increasing the authorized number of shares from 500,000, with par value of \$1.00 per share, to 4,200,000 shares with the same \$1.00 par value per share and was properly filed and approved. No amendments were made to the bylaws during the examination period.

The recorded minutes of the shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes adequately documents the approvals, ratifications and transactions that occurred during the meetings.

MANAGEMENT AND CONTROL

Board of Directors

The Board of Directors (Board) shall not have less than four or exceed eighteen members. As of the examination date, the Board was comprised of four members. Individuals elected and serving on the Board at December 31, 2011 were:

John Bator, Chairman

Nicholas Bentley

Richard Fabian

John Parker

Officers

The bylaws of the Company state that officers of shall be elected or appointed by the Board. As of December 31, 2011, the Company's principal officers and their respective titles are as follows:

Nicholas Bentley President

Richard Fabian Secretary

John Bator Treasurer

Committees

The Company's bylaws provide for the Board to designate one or more internal committees. Valiant Specialty Insurance Company does not have its own Audit or Investment Committees, decisions are currently undertaken by the full board; however, as an indirect subsidiary of TIG Insurance Company, matters are also addressed by the Audit and Investment Committees of TIG Insurance Company and all members of the Board are invited to attend. As of December 31, 2011, the Board of TIG Insurance Company had appointed the following committees and members:

Investment Committee

John Bator, Chairman

Nicholas Bentley

John Parker

Audit Committee

John Parker, Chairman

John Bator

Nicholas Bentley

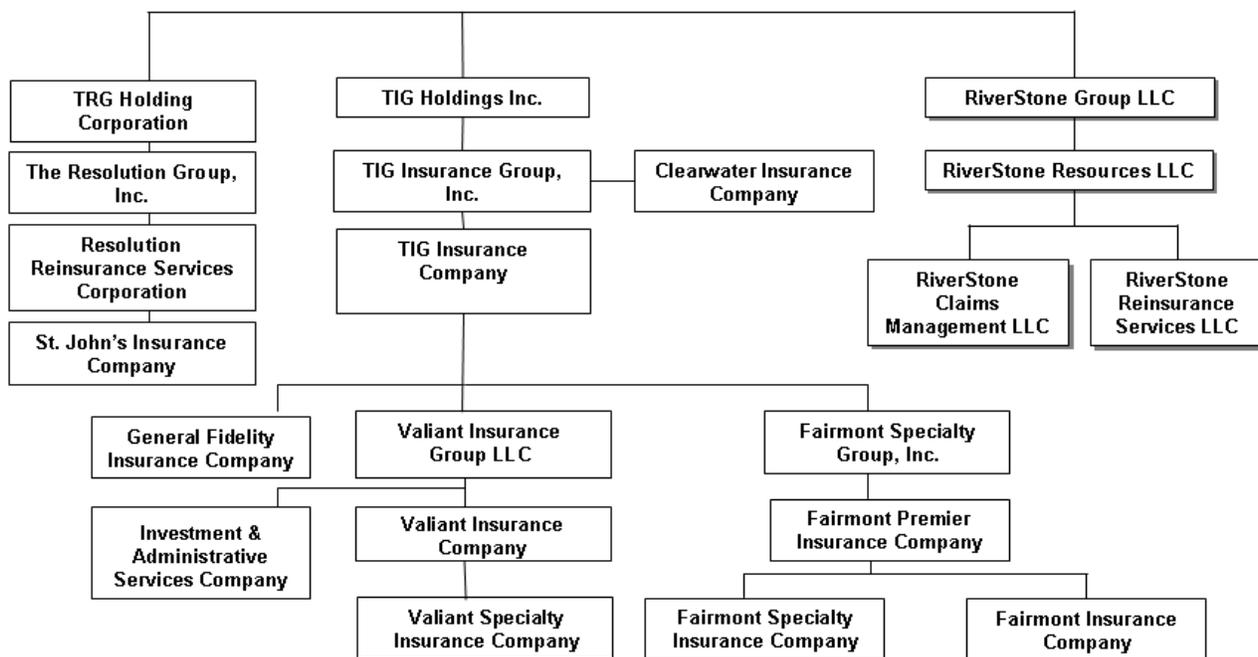
Conflict of Interest

The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer or employee which is likely to conflict with their official duties. The signed conflict of interest disclosure statement for each director and officer serving during 2011 was reviewed with no exceptions noted.

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system. The ultimate controlling parent is Fairfax Financial Holdings Limited.

The following is an abridged U.S corporate organizational chart as of December 31, 2011:



AFFILIATED AGREEMENTS

The Company was party to the following affiliated agreements during the current examination period and subsequent:

Underwriting Policy Administration and Processing Management Agreement

Effective November 25, 2008, the Company entered into an Underwriting Policy Administration and Processing Management Agreement with Investment and Administrative Services Company (IASCO), an affiliate, whereby IASCO provided employees, office space, and other administrative services related to the operation of the Company. This agreement was properly filed and approved by the Department on December 9, 2008. This arrangement was terminated in conjunction with the change in ownership and control.

Investment and Administrative Services Agreement

Effective November 25, 2008, the Company entered into an Investment and Administrative services Agreement with IASCO whereby IASCO provided investment management and administrative services to the Company. This agreement was properly filed and approved by the Department on December 9, 2008. This arrangement was terminated in conjunction with the change in ownership and control.

Claims Administrative Services Agreement

Effective November 25, 2008, the Company entered into a Claims Administrative Services Agreement with IASCO whereby IASCO provided claims handling services to the Company. This agreement was properly filed and approved by the Department on December 9, 2008. This arrangement was terminated in conjunction with the change in ownership and control.

Administrative Services Agreement

Effective February 9, 2011, the Company entered into an Administrative Services Agreement with United States Fire Insurance Company(US Fire), an affiliate, whereby US Fire provides underwriting advice, policy issuance and billing, claims processing, and various other support functions for the Company. This agreement was properly filed and approved by the Department on May 13, 2011.

Investment Management Agreement

Effective February 9, 2011, the Company entered into an Investment Management Agreement with Fairfax Financial Holdings Limited (Fairfax), ultimate parent company, and Hamblin Watsa Investment Counsel, Ltd. (HWIC), an affiliate, whereby Fairfax and HWIC provides investment management and administrative services to the Company. This agreement was properly filed and approved by the Department on May 9, 2011.

Claims Administrative Agreement

Effective May 9, 2011, the Company entered into a Claims Administrative Agreement with RiverStone Claims Management LLC (RS Claims), an affiliate, whereby RS Claims provides the claims handling services necessary for the Company's operations. This agreement was properly filed and approved by the Department on April 11, 2011.

Management Services Agreement

Effective July 1, 2011, the Company entered into a Management Services Agreement with RiverStone Resources LLC (RiverStone), an affiliate, whereby RiverStone provides the management, administrative and technical services necessary for a portion of the Company's daily operations. This agreement was properly filed and approved by the Department on June 13, 2011.

Administrative Services Agreement

Effective July 1, 2011, the Company entered into an Administrative Services Agreement with First Mercury Insurance Company (FMIC), an affiliate, FMIC whereby provides underwriting advice, policy issuance and billing and claims processing related to the operation of the Company. This agreement was properly filed and approved by the Department on June 13, 2011.

Tax and Compliance Services Agreement

Effective July 1, 2011, the Company entered into a Tax and Compliance Services Agreement with Fairfax (US), Inc. (Fairfax (US)), an affiliate, whereby Fairfax (US) provides tax services to the Company. This agreement was properly filed and approved by the Department on June 17, 2011.

Tax Allocation Agreement

Effective July 1, 2011, the Company was included as a member in an existing Tax Allocation Agreement with TIG Holdings, Inc., an affiliate. The agreement sets forth the manner in which the total consolidated federal income tax liability or benefit is allocated to each entity in the group as if separate tax returns were filed. This agreement was properly filed and approved by the Department on June 16, 2011.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity insurance coverage in the amount of \$15,000,000 which meets the minimum amount suggested by the National Association of Insurance Commissioners.

Review of the other insurance coverage policies in force reveal the Company maintains adequate coverage for the types of hazards to which the Company is exposed.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2011, the Company is eligible to write business on a surplus line basis in 41 jurisdictions. Effective July 1, 2011, subsequent to the acquisition by Fairfax, any previously non-discontinued lines of business were placed into runoff.

GROWTH OF THE COMPANY

The following exhibit reflects the Company's operating trends as reported in its Annual Statements for the examination period:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net Admitted Assets	\$22,394,862	\$22,318,963	\$21,928,660	\$16,017,707
Total Capital and Surplus	\$20,305,800	\$21,528,450	\$20,945,394	\$16,007,030
Gross Premium Written	\$18,763	\$2,483,846	\$1,837,525	\$0
Net Income	\$(209,751)	\$623,917	\$(102,085)	\$7,030

During 2011, total admitted assets increased slightly by \$76,000. The Company's assets primarily consist of cash (\$22,183,142) and bonds (\$101,158). Total liabilities increased \$1.3 million primarily due to an increase in the provision for unauthorized reinsurance (\$997,000) and increase in intercompany payable balances (\$661,329). Results of operations reflect a net loss of which represents the cost of operations of the Company's run-off business.

REINSURANCE

Assumed

The Company did not assume reinsurance during the examination period.

Ceded

Reinsurance ceded is considered significant as 100% (\$18,763) was ceded during 2011. Of this total, \$3,947 or 21% was ceded to one affiliate (First Mercury Insurance Company) and \$14,816 or 79% to one non-affiliate (Ariel).

On November 5, 2010, First Mercury Insurance Company (FMIC) purchased Valiant Insurance Group from Ariel Holding's LTD. Under the terms of this agreement, Ariel agreed to provide FMIC with full protection related to the runoff of VSIC's net loss and loss adjustment expense reserves and unearned premium reserves reflected on the closing date through excess of loss reinsurance contracts. At December 31, 2011, no cessions have been made under this agreement. In

addition, FMIC provided full protection related to VSIC's net loss and loss adjustment expenses and unearned premium reserves after the closing date through a quota share reinsurance agreement.

ACCOUNTS AND RECORDS

All records are maintained at the Company's administrative office in Manchester, NH. The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure and the processing structure. The general ledger account balances were reconciled and traced to amounts reported in the annual statement for the most recent year under review. All balance sheet accounts were summarized and traced to the appropriate asset exhibits and liability lines within the annual statement.

PricewaterhouseCoopers, LLP (PwC) audited the statutory financial statements of the Company and certain affiliates as of December 31, 2011. PwC reviewed the internal control structure in order to establish necessary audit procedures required to express an opinion on the December 31, 2011 financial statements. No material qualifying deficiencies were found to exist in either the design or oversight of the internal control structure.

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

STATUTORY AND SPECIAL DEPOSITS

In compliance with various state statutory and special deposit requirements, the Company maintained the following deposits as of December 31, 2011:

State	Type of Security	Par or Book Value	Fair Value
Arkansas	Cash Reserve	\$100,178	\$100,199
Delaware	Money Market Fund	\$2,500,050	\$2,500,050
New Mexico	Special Revenue Bond	\$101,060	\$101,345
Totals		<u>\$2,701,288</u>	<u>\$2,701,594</u>

FINANCIAL STATEMENTS

The financial condition of the Company and the results of its operations for the five-year period under examination are reflected in the following statements:

Statement of Assets, Liabilities, Surplus and Other Funds

Statement of Income

Statement of Capital and Surplus

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Bonds	\$ 101,158
Cash and short term investments	22,183,142
Receivable for securities	<u>100,000</u>
Subtotals	<u>22,384,300</u>
Investment income due and accrued	138
Amounts recoverable from reinsurers	<u>10,424</u>
Total Assets	<u><u>\$22,394,862</u></u>
Other expenses	\$ 281,925
Ceded reinsurance premiums payable	(1,806)
Provision for reinsurance	997,000
Payable to parent, subsidiaries and affiliates	<u>811,942</u>
Total Liabilities	<u>\$ 2,089,061</u>
Common capital stock	\$ 4,200,000
Gross paid in and contributed surplus	16,800,000
Unassigned funds (surplus)	<u>(694,199)</u>
Surplus as Regards Policyholders	<u>\$20,305,801</u>
Total Liabilities, Surplus & Other Funds	<u><u>\$22,394,862</u></u>

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011

Underwriting Income	
Premiums earned	<u>\$0</u>
Deductions	
Losses incurred	0
Loss adjustment expenses incurred	0
Other underwriting expenses incurred	<u>207,417</u>
Total underwriting deductions	<u>207,417</u>
Net underwriting (loss)	<u>(207,417)</u>
Investment Income	
Net investment income earned	(8,401)
Net realized capital gains	<u>37</u>
Net investment gain	<u>(8,364)</u>
Net income before federal income taxes	<u>(215,781)</u>
Federal income taxes incurred	<u>(6,030)</u>
Net Income	<u><u>\$(209,751)</u></u>

STATEMENT OF CAPITAL AND SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 2011

Capital and Surplus, December 31, 2010	<u>\$21,528,450</u>
Net income	(209,751)
Change in net deferred income tax	75,167
Change in nonadmitted assets	(91,065)
Change in provision for reinsurance	<u>(997,000)</u>
Net change in capital and surplus	<u>(1,222,649)</u>
Capital and Surplus, December 31, 2011	<u><u>\$20,305,801</u></u>

COMMENTS ON THE FINANCIAL STATEMENTS

There are no proposed financial adjustments to the Company's filed 2011 Annual Statement based on the results of this examination.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company was incorporated June 15, 2008. The Delaware Insurance Department issued an organizational report as of October 10, 2008. No issues or recommendations were made.

SUMMARY OF RECOMMENDATIONS

No recommendations were made as a result of this examination.

ACKNOWLEDGEMENT

The examiner-in-charge would like to acknowledge that the Company's personnel were cooperative and helpful during the examination process.

A handwritten signature in black ink, reading "Richard Kramer", written over a horizontal line.

Richard Kramer, CFE, AIE, FLMI

Examiner-In-Charge