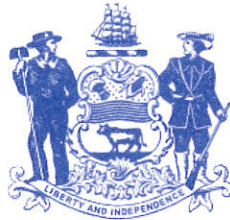


REPORT ON EXAMINATION
OF
HUDSON EXCESS INSURANCE COMPANY
AS OF
DECEMBER 31, 2014

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

HUDSON EXCESS INSURANCE COMPANY

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

Attest By:

Date: April 13, 2016



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 13th day of April, 2016.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner



REPORT OF EXAMINATION
OF THE
HUDSON EXCESS 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 13th day of April, 2016

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SALUTATION

January 31, 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. 15.009, dated February 2, 2015, an examination has been made of the affairs, financial condition and management of

HUDSON EXCESS INSURANCE COMPANY

hereinafter referred to as the “Company” or “Hudson Excess” and incorporated under the laws of the State of Delaware as a stock company. The examination was conducted at the statutory home office of the Company, located at 100 William Street, 5th Floor, New York, New York 10038.

This examination was conducted concurrently as part of the coordinated examination of the Fairfax Insurance Group. The State of Delaware was the assigned lead state by the National Association of Insurance Commissioners (NAIC). Separate reports of examination were filed for each company within the Fairfax Insurance Group. The report for this examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The last examination was an Organizational Exam which covered the period of May 11, 2012, through August 15, 2012. This examination covers the period of August 16, 2012, through December 31, 2014.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. 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 and 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 auditing firm, PricewaterhouseCoopers LLC (PwC). Certain auditor work papers have been incorporated into the work papers of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant material adverse findings or financial adjustments as a result of this examination.

COMPANY HISTORY

General

The Company was incorporated on May 11, 2012, in the State of Delaware as a wholly-owned subsidiary of Hudson Specialty Insurance Company (Hudson Specialty) and commenced operations on October 2, 2012.

Capitalization

The Company is authorized to issue 100,000 shares of common stock with a par value of \$300 per share. Currently, only 25,948 shares of the common stock are issued and held by Hudson Specialty.

The following table reflects the Company's capitalization activity since the prior examination:

	<u>Capital Stock</u>	<u>Gross Paid-in & Contributed Surplus</u>
May 11, 2012	\$0	\$0
Activity	<u>7,784,400</u>	<u>38,922,000</u>
December 31, 2014	<u>\$7,784,400</u>	<u>\$38,922,000</u>

Dividends

The Company paid no dividends during the current examination period.

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to the General Corporation Laws 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).

Directors shall be elected annually by the sole shareholder and the number of directors shall consist of no less than three (3) and no more than nine (9) members. The directors shall hold office until the next Annual Shareholders Meeting or until their successors are elected or appointed. The Board of Directors, duly elected in accordance with its bylaws and serving at December 31, 2014, were as follows:

<u>Individual</u>	<u>Principal Business Affiliation</u>
Jan Christiansen	Executive Vice President & Chief Financial Officer Odyssey Re Holdings Corp.
Christopher L. Gallagher	President & Chief Operating Officer Hudson Insurance Company
Michael G. Wacek	Executive Vice President Odyssey Re Holdings Corp.
Brian D. Young	President & Chief Executive Officer Odyssey Re Holdings Corp.

Officers

In accordance with its bylaws, officers serving the Company shall be a Chairman of the Board, a President, one or more Vice Presidents (as determined by the Board of Directors), a Controller, a Corporate Secretary, and other officers as may from time to time be appointed by

the Board of Directors. The Vice Presidents may include Executive Vice Presidents and Senior Vice Presidents. Any two or more offices may be held by the same person, except that the President and the General Counsel cannot be the same person. The most senior officers, duly appointed in accordance with the bylaws and serving at December 31, 2014, were as follows:

<u>Individual</u>	<u>Office</u>
Brian D. Young	Chairman & Chief Executive Officer
Christopher L. Gallagher	President & Chief Operating Officer
Christopher T. Suarez	Executive Vice President & Chief Underwriting Officer
Elizabeth A. Sander	Executive Vice President & Chief Actuary
Jan Christiansen	Executive Vice President
James J. Hooghuis	Executive Vice President
Anthony J. Slowski	Senior Vice President & Controller
Anthony Terracciano	Senior Vice President & Chief Information Officer
John F. Verbich	Senior Vice President & Chief Financial Officer
Dina G. Daskalakis	Senior Vice President, General Counsel & Corporate Secretary

Committees of the Board

As of December 31, 2014, the Board had not constituted any committees.

Corporate Records

The recorded minutes of the shareholders and the Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events for the approval of investment transactions in accordance with 18 Del. C. §1304.

Inspection of Company files indicated that an ethics statement/conflict of interest statement was completed by all directors and employees for the examination period.

A review was performed for compliance with Code 18 Del. C. § 4919 Change of directors, officers; notice. This law states “Every domestic stock or mutual insurer shall

promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers.” The Company is in compliance.

Insurance Holding Company System

The Company is a member of an insurance holding company system known as Fairfax Holdings Financial Holdings Limited (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 \$36.131 billion and shareholders’ equity of \$9.526 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% 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}	1.33%	43.97%	{3}
All Other Publicly Traded Shares Held {4}	{5}	98.67%	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%	
Odyssey US Holdings Inc. [DE]		100.00%	100.00%	
Odyssey Re Holdings Corp. [DE]		100.00%	100.00%	
Odyssey Reinsurance Company [CT]		100.00%	100.00%	
Hudson Insurance Company [DE]		100.00%	100.00%	
Hudson Specialty Insurance Company [NY]		100.00%	100.00%	
Hudson Excess Insurance Company [DE]				

- {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 $100.00\% - 1.33\% \{2\} = 98.67\%$
- {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%.

Affiliated Agreements

Expense Sharing Agreement

The Company entered into an Expense Sharing Agreement with Odyssey Reinsurance Company (ORC) January 1, 2013. Each party to the agreement is to make the following services available to the other parties: management, consulting, underwriting, claims, accounting, financial, legal, personnel, data processing services, to be used at times and in amounts determined necessary and appropriate by the managing officers of each company. Each party provides quarterly detailed statements to each company to which it provided services during the quarter. This agreement was approved by the Delaware Department of Insurance on January 2, 2013. The Company paid \$0 in 2014 to ORC pursuant to this agreement.

Tax Allocation Agreement

The Company became a party to the 2000 Tax Allocation Agreement (originally effective January 1, 2000) with Fairfax (US) Inc. (Fairfax), Odyssey Re Holdings Corp. (ORH), ORC, Clearwater Select Insurance Company (CSIC) and Hudson Specialty by amendment No. 4 effective May 11, 2012. The Company and its U.S. affiliates file a consolidated U.S. federal income tax return in accordance with Section 1501 of the U.S. Internal Revenue Code of 1986 (as amended). Each company's tax liability is calculated based upon its respective share of consolidated income. The agreement further provides that each member receive reimbursement to the extent that its losses and other credits resulted in a reduction of the current year's consolidated tax liability, not to exceed its liability as if filed on an individual basis. This agreement was approved by the Delaware Department of Insurance on January 2, 2001, and this amendment was approved by the Delaware Department of Insurance on December 28, 2012. The Company paid \$1,692,230 in 2014 to ORH pursuant to this agreement.

Tax and Compliance Services Agreement

The Company entered into a Tax and Compliance Services Agreement with Fairfax effective May 12, 2012. Fairfax provides tax compliance and consulting services to ORH and its five operating subsidiaries. The fees paid by each company are payable quarterly and include a total fixed base fee and a variable fee component that includes third party outside fees incurred on behalf of ORH and its subsidiaries. This agreement was approved by the Delaware Department of Insurance on December 21, 2012. The Company paid \$0 in 2014 to ORH pursuant to this agreement.

Investment Manager Agreement

The Company entered into an Investment Manager Agreement with Hamblin Watsa Investment Counsel, Ltd. (Hamblin Watsa) and Fairfax Holdings effective May 11, 2012. Hamblin Watsa manages the Company's investment portfolio in accordance with investment objectives communicated in writing by Company management, subject to investment guidelines in compliance with the investment limitation statutes of the State of Delaware. In addition, Fairfax Holdings provides investment administrative services to the Company under guidelines established by the Board or authorized committee of the Board. This agreement was approved by the Delaware Department of Insurance on December 21, 2012. The Company paid \$106,692 in 2014 to Hamblin Watsa and Fairfax Holdings pursuant to this agreement.

Master Administrative Services Agreement

The Company entered into a Master Administrative Services Agreement among various U.S. operating subsidiaries of Fairfax Holdings effective November 1, 2014. Each party to the agreement may provide certain administrative services to any other party. Each party provides quarterly detailed statements to each company to which it provided services during the quarter.

This agreement was approved by the Delaware Department of Insurance on August 19, 2014.

The Company did not provide or receive any services or payments under this agreement in 2014.

Unaffiliated Agreements

Custodian Agreement

The Company entered into a Custodian Agreement with Bank of New York Mellon (BONY-Mellon) effective July 3, 2012. Pursuant to the agreement, BONY-Mellon acts as the custodian for the Company's portfolio of investment securities. A review of the terms of the custodian agreement indicates that the agreement contains the minimum standards required under the NAIC Handbook.

TERRITORY AND PLAN OF OPERATION

Territory

At December 31, 2014, the Company has a certificate of authority to write business in Delaware and is eligible to write surplus lines in the remaining 49 U.S. states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

For 2014, the Company wrote 98.7% of its direct business in New York and the remaining 1.3% was spread among 8 other states.

Plan of Operation

The Company writes property and casualty products on a direct and program basis.

The Company did not have direct written premiums produced by managing general agents or third party administrators during this examination period.

Net written premiums in 2014 by line of business (top 5) were as follows:

<u>Lines of Business</u>	<u>Premiums</u>	<u>Percentage of Total</u>
Other Liability - Occurrence	\$ 9,654,221	73.2%
Commercial Multiple Peril	\$ 2,459,208	18.6%
Fire	\$ 782,498	5.9%
Other Liability - Claims Made	\$ 259,684	2.0%
Boiler and Machinery	\$ 36,425	0.3%
All Others	\$ (175)	0.0%
Total	<u>\$ 13,191,861</u>	<u>100.0%</u>

REINSURANCE

General

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

Direct	\$13,191,861
Reinsurance assumed from affiliates	\$ 0
Reinsurance assumed from non-affiliates	<u>120,000</u>
Total gross (direct and assumed)	\$13,311,861
Reinsurance ceded to affiliates	11,165,321
Reinsurance ceded to non-affiliates	<u>2,146,540</u>
Total ceded	<u>\$13,311,861</u>
Net premiums written	<u>\$ 0</u>

The Company retained 0% of its gross business in 2014.

Assumed

The Company assumed a small amount of business from a non-affiliated captive insurer in 2014.

Ceded

As of December 31, 2014, the Company had only one significant affiliated reinsurance agreement covering the general book of business. Of the Company's \$11.165 million in premiums ceded to affiliates in 2014, \$10.939 million was ceded to affiliate ORC pursuant to the

100% Quota Share Reinsurance Agreement effective April 9, 2013. The Company cedes to ORC a 100% quota share of any business written or renewed by the Company on or after the effective date, net of all reinsurance protections ceded to third party reinsurers. This agreement was approved by the Delaware Department of Insurance on May 7, 2013.

As of January 1, 2014, ORC has agreed to reinsure, on a 100% quota share basis, certain of the external reinsurance placements of the Company, Hudson Insurance Company (Hudson) and Hudson Specialty, which amount ORC then retrocedes to CRC Reinsurance Limited, a Barbados reinsurer that is 100%-owned by Fairfax Holdings. This retrocession arrangement is referred to as the Fairfax Internal Reinsurance Vehicle (FIRV). The Company ceded \$225 thousand in written premiums to ORC in 2014 pursuant to this arrangement.

FINANCIAL STATEMENTS

Financial statements, as reported and filed by the Company with the Delaware Department of Insurance, are reflected in the following:

- o Statements of assets, liabilities and surplus
- o Statement of income
- o Reconciliation of surplus for the period since the last examination
- o Supporting schedules and exhibits to the extent needed

**HUDSON EXCESS INSURANCE COMPANY
STATEMENT OF ASSETS
DECEMBER 31, 2014**

Assets	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	\$56,233,464		\$56,233,464	1
Cash and Short Term Investments	11,612,499		11,612,499	
Investment income due and accrued	78,358		78,358	
Premiums and Considerations:				
Uncollected premiums and agents balances	1,746,449	144,955	1,601,494	
Deferred premium	157,940		157,940	
Reinsurance:				
Amounts recoverable from reinsurers	106,235		106,235	
Net deferred tax asset	46,894		46,894	
Receivable from affiliates	191,380		191,380	
	<hr/>			
Total Assets	\$70,173,219	\$144,955	\$70,028,264	
	<hr/> <hr/>			

**HUDSON EXCESS INSURANCE COMPANY
STATEMENT OF LIABILITES AND SURPLUS
DECEMBER 31, 2014**

		NOTES
Losses	\$0	2
Loss adjustment expenses	103,122	2
Other expenses	4,100	
Current federal income taxes	4,892,093	
Ceded reinsurance premiums payable	3,260,475	
Amounts withheld by company for others	482,214	
Drafts outstanding	10,505	
Payable to affiliates	6,914	
Aggregate write-ins for liabilities	<u>2,422,283</u>	
Total Liabilities	<u>\$11,181,706</u>	
Common capital stock	\$7,784,400	
Gross paid in and contributed surplus	38,922,000	
Unassigned funds (surplus)	<u>12,140,158</u>	
Surplus as regards policyholders	<u>\$58,846,558</u>	
Total liabilities, surplus and other funds	<u><u>\$70,028,264</u></u>	

**HUDSON EXCESS INSURANCE COMPANY
STATEMENT OF INCOME
DECEMBER 31, 2014**

Underwriting Income

Premiums earned	\$ _____ -
Deductions	
Losses incurred	\$ -
Loss adjustment expenses incurred	90,340
Other underwriting expenses incurred	(3,343,358)
Total underwriting deductions	<u>\$ (3,253,018)</u>
Net underwriting gain or (loss)	<u>\$ 3,253,018</u>

Investment Income

Net investment income earned	\$ 1,542,638
Net realized capital gains (losses) less capital gains tax of \$1,531,341	8,887,536
Net investment gain or (loss)	<u>\$ 10,430,174</u>

Other Income

Net gain or (loss)	\$ -
Finance and service charges not included in premiums	-
Aggregate write-ins for miscellaneous income	(11,795)
Total other income	<u>\$ (11,795)</u>

Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$ 13,671,397
Federal and foreign income taxes incurred	1,673,733
Net Income	<u>\$ 11,997,664</u>

**HUDSON EXCESS INSURANCE COMPANY
RECONCILIATION OF SURPLUS FOR THE PERIOD
SINCE THE LAST EXAMINATION
DECEMBER 31, 2014**

<u>Description</u>	<u>Common Capital Stock</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>	<u>Total Surplus</u>
Balance as of May 11, 2012	\$ -	\$ -	\$ -	\$ -
2012 Operations (1)	-	-	3,178	3,178
2013 Operations (1)	-	-	237,266	234,088
2014 Operations (1)	-	-	12,140,158	11,902,892
2012 Capital Contribution (2)	7,784,400	38,922,000	-	46,706,400
Balance as of December 31, 2014	<u>\$ 7,784,400</u>	<u>\$ 38,922,000</u>	<u>\$ 12,380,602</u>	<u>\$ 58,846,558</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, dividends to stockholders, and aggregate write-ins for gains and losses to surplus.
- (2) Capital Contributions is defined as: surplus adjustments paid in.

**ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS RESULTING FROM
EXAMINATION**

There were no financial adjustments to the Company's financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

(Note 1) Bonds \$56,233,464

The Company's bonds represent 80.3% of admitted assets at year-end 2014. 100.0% of the Company's bonds are U.S Government bonds and are rated as Class 1 by the NAIC. 97.08% of the bond portfolio is comprised of investments maturing in ten years or more. During 2014, the Company recorded \$13.673 million in total realized capital gains from fixed income investment disposals.

(Note 2) Losses	\$0
Loss Adjustment Expenses	\$103,122

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for losses and LAE. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectability of reinsurance recoverables. The INS reserve review found the Company's combined net loss and LAE reserves were adequate to support the business underwritten.

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

The review was conducted in conjunction with the current financial examination. Based on the review, INS has accepted the conclusion that additional actuarial reserves were not required as of December 31, 2014.

SUBSEQUENT EVENTS

There were no significant subsequent events.

SUMMARY OF RECOMMENDATIONS

Compliance With Prior Exam Recommendations

This is the first full examination of the Company.

Current Exam Recommendations

There were no recommendations as a result of this examination.

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>August 15, 2012</u>	<u>December 31, 2014</u>	<u>Increase (Decrease)</u>
Assets	\$ 3,006,000	\$ 70,028,264	\$ 67,022,264
Liabilities	\$ -	\$ 11,181,706	\$ 11,181,706
Common Capital Stock	\$ 501,000	\$ 7,784,400	\$ 7,283,400
Gross Paid In and Contributed Surplus	2,505,000	38,922,000	36,417,000
Unassigned Funds (Surplus)	-	12,140,158	12,140,158
Total Surplus	\$ 3,006,000	\$ 58,846,558	\$ 55,840,558
Totals	\$ 3,006,000	\$ 70,028,264	\$ 67,022,264

In addition to the undersigned, Anthony Cardone, CPA, CFE, (Examination Supervisor), Andrew Chiodini, CFE, and Samuel Kohlmeyer, CFE participated in the examination.

Respectfully submitted,

Albert M. Piccoli, Sr.

Albert M. Piccoli, Sr., CFE
 Examiner-In-Charge
 State of Delaware