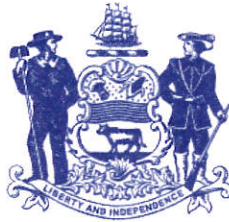


REPORT OF EXAMINATION
OF THE
LR Insurance, Inc.
AS OF
DECEMBER 31, 2014

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

LR INSURANCE, INC.

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

Attest By: _____

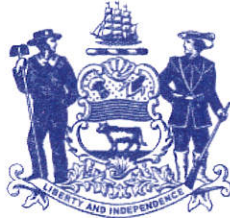
Date: June 22, 2016



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 22nd day of June, 2016.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
LR INSURANCE, INC.
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 22nd day of June, 2016

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	2
SUMMARY OF SIGNIFICANT FINDINGS OF FACT.....	3
COMPANY HISTORY	3
Common Capital Stock and Paid-in Surplus	3
Dividends	3
MANAGEMENT AND CONTROL	4
Stockholder	4
Board of Directors	4
Officers	5
Certificate of Incorporation and bylaws	5
Holding Company System	5
Intercompany Agreements	6
TERRITORY AND PLAN OF OPERATION	8
Territory	8
Plan of Operation	8
REINSURANCE.....	8
FIDELITY BOND	8
ACCOUNTS AND RECORDS	9
Accounting Information.....	9
Independent Accountants.....	9
Actuarial Opinion	9
FINANCIAL STATEMENTS	10
NOTES TO FINANCIAL STATEMENTS.....	14
SUBSEQUENT EVENTS	14
SUMMARY OF RECOMMENDATIONS	15
CONCLUSION.....	15

SALUTATION

June 5, 2016

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

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 15.035, dated April 24, 2015, an examination has been made of the affairs, financial condition and management of

LR Insurance, Inc.

hereinafter referred to as "Company," incorporated under the laws of the State of Delaware as a stock company. The Company's registered office in the State of Delaware is located at 306 South State Street, Dover, Delaware 19901. The Company's administrative home office is located at 1330 Enclave Parkway, Suite 200, Houston, Texas.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our examination of LR Insurance, Inc., a multi-state insurer. The last examination covered the period from January 1, 2006 through December 31, 2010. This examination covered the period from January 1, 2011 through December 31, 2014.

We conducted our examination in accordance with the National Association of Insurance Commissioners (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 may include 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 an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements.

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

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

This examination had no material adverse findings, significant non-compliance findings, material changes in financial statements, or updates on other significant regulatory information disclosed in the previous examination.

COMPANY HISTORY

The Company was incorporated as Lloyd's Register Industrial Services on August 10, 1973 under the laws of the State of Delaware, and was licensed to transact business as an insurance company on August 14, 1973. The Company changed its name to LR Insurance, Inc. effective May 11, 1989. The Company is a wholly owned subsidiary of Lloyd's Register Americas, Inc. which is a wholly owned subsidiary of Lloyd's Register, an inspection and classification of merchant ships holding company system domiciled in London, England.

Common Capital Stock and Paid-in Surplus

The Company is authorized to issue one hundred (100) shares of common stock with a par value of five thousand dollars (\$5,000) per share. As of December 31, 2010, one hundred (100) shares, representing capital totaling \$500,000 were issued and outstanding. All issued and outstanding shares of the Company's stock are owned by Lloyd's Register Americas. As a permitted practice requirement from the DE DOI effective in 1999, the Company is to maintain capital of \$1,000,000 and \$200,000 in free surplus.

Dividends

The Company paid a stockholder dividend of \$2,500,000 in 2012. No other dividends were paid during the examination period.

MANAGEMENT AND CONTROL

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.

Stockholder

In accordance with Article III, Section 1 of the Company's bylaws, the annual shareholder's meeting shall be held each year on a date and time designated by the Board of Directors.

Board of Directors

The Board of Directors shall consist of not less than three nor more than nine, the Directors shall be elected annually, and shall hold office until their successors are elected and qualify. At December 31, 2014 the Board was comprised of only one member. Two of the three members serving in 2014 resigned during the year. Peter Anthony Joy resigned in August 2014 and Donald B. Barnes III resigned in October of 2014. The following individual was elected and serving on the Board of Directors at December 31, 2014:

Directors

Keith Owen Povey

Principal Business Affiliation

Group Corporate Secretary, Lloyd's Register

Article IV, Section 1 of the bylaws states that any vacancies may be filled by the Board for the unexpired terms, however, the above mentioned vacancies were not filled in 2014.

It is recommended that the Company comply with its bylaws and fill Board vacancies.

Officers

Article V, Section 1 of the Company's bylaws provide that the officers of the Corporation shall be a President, one or more Vice Presidents, a Treasurer, and a Secretary. The President shall be a Director. No other officers need be Directors. The number of Vice Presidents shall be determined by the Board. The officers shall be elected annually, and shall hold office until their successors are elected and qualify.

At December 31, 2014, the Company's principal officers and their respective titles were as follows:

Efrain Garcia Jr.	President
Donna P. Grill	Secretary
Martin Paul Cottam	Vice President

The Company's President was not a member of the Board of Directors in 2014 as required in Article V, Section 1 of the Company's bylaws.

It is recommended that the Company's President be a member of the Board of Directors as required by Article V, Section 1 of the Company's bylaws.

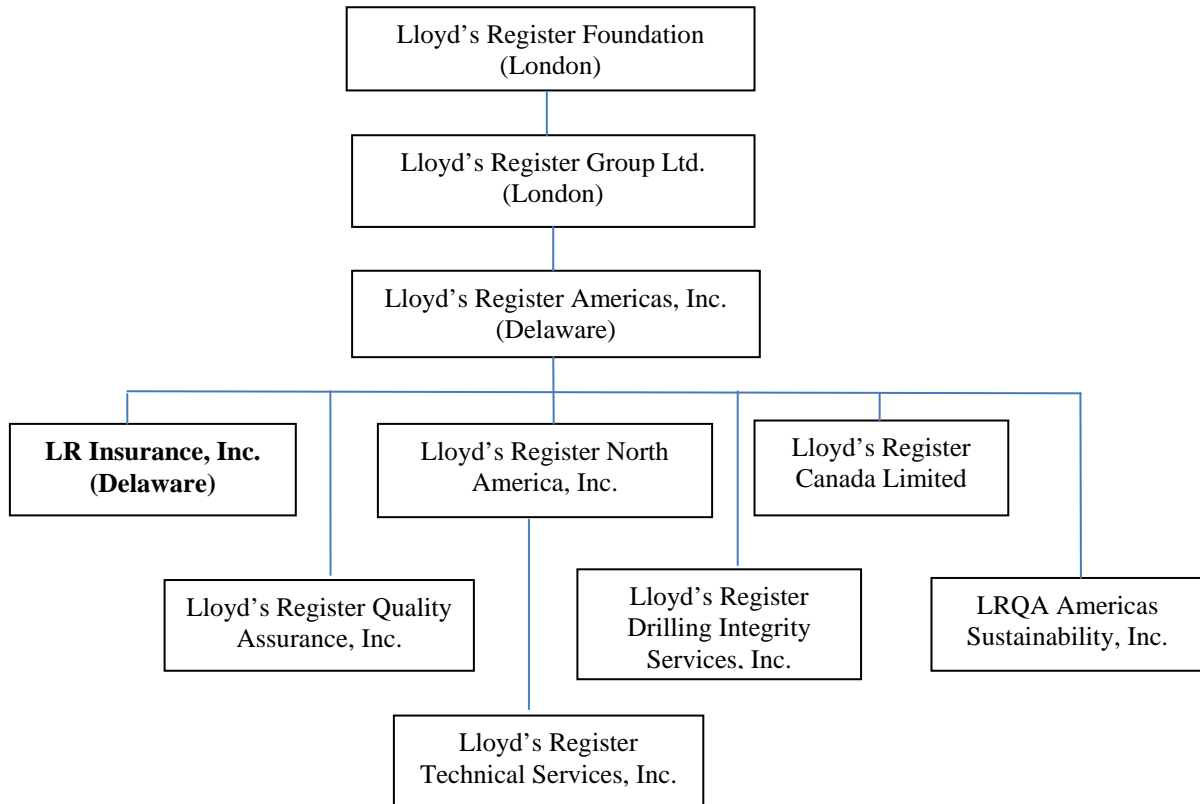
Certificate of Incorporation and bylaws

The Company did not amend its Articles of Incorporation or bylaws during the exam period.

Holding Company System

LR Insurance, Inc. operates within the Lloyd's Register Group with Lloyd's Register Foundation as the ultimate parent. Lloyd's Register is a global engineering, technical and business services organization that operates across many industry sectors, with over 9,000 employees based in 78 countries.

The following abbreviated presentation of the holding company system reflects the identities and interrelationships between the Company, its Parent, affiliated insurers and other members of the holding company system as of December 31, 2014:



Intercompany Agreements

The Company had the following agreements with affiliated parties:

Management Services Agreement

Effective July 02, 2012, the Company and other subsidiaries entered into an agreement with Lloyd's Register Group Limited and affiliated service providers noted in Schedule 1 of the agreement to provide specified management services for a fee based on cost plus a six per cent mark up. Services included corporate communications, group financial planning and analysis, corporate finance and group reporting services, group safety and business assurance, human

LR Insurance, Inc.

resources, information technology, integrative business system, internal audit services, legal services, operational management and reporting, risk management and secretarial services, and taxation and treasury services.

Reciprocal Services Agreement

Effective July 02, 2012, the Company and other subsidiaries entered into an agreement with Lloyd's Register Group Limited to provide reciprocal service related to classified codes and standards inspection services. Fees for this reciprocal agreement are agreed upon from time to time following discussion and negotiation.

License Agreement

Effective July 02, 2012, the Company and other subsidiaries, referred to as "Licensees", entered into an agreement with Lloyd's Register Group Limited, referred to as "Licensor" that allowed the Licensees the use of "Intellectual Property Rights" and the technical and marketing support services in respect of their activities connected with the promotion of safety on land and sea.

Consolidated Federal Income Tax Agreement

The Company filed a Consolidated Federal Income Tax return with Lloyd's Register Americas and other affiliates in 2014, however, there is no tax sharing agreement in place.

It is recommended that the Company enter into a Consolidated Tax Sharing agreement pursuant to the NAIC *Accounting Practices and Procedures Manual*, SSAP 101, paragraph 16.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is authorized to transact the business of casualty insurance, specifically only boiler and machinery insurance, in the states of Delaware and New Jersey.

Plan of Operation

The Company's primary activity is American Society of Mechanical Engineers (ASME) boiler and machinery inspection services as related to merchant vessels which are handled mainly through a UK branch office. The 1973 bylaws of the US National Board of Boiler and Pressure Vessel Inspectors require that any agency that inspects boilers or pressure vessels to ASME Code must be an insurance company authorized to write boiler and pressure vessel insurance. The Company was formed to meet this requirement and only had three active boiler and machinery policies in effect at year-end 2014.

REINSURANCE

There were no assumed or ceded reinsurance contracts in effect at year-end 2014.

FIDELITY BOND

As a provision to continue to operate as a Delaware (DE) licensed insurer, the Company was required by the DE DOI "to maintain professional indemnity and pollution liability insurance coverage in similar amounts, and not less than, amounts as currently stated in the Certificates of Insurance provided to the DE DOI by letter dated February 5, 1999." Lloyd's Register Americas, Inc. maintained professional indemnity insurance coverage with an aggregate

LR Insurance, Inc.

limit of \$8,506,250 in addition to General Liability, Crime, Workers Compensation and Auto policies. The Company is named as an insured on these policies as a subsidiary of Lloyd's Register.

ACCOUNTS AND RECORDS

Accounting Information

During the examination the Company's books and records were reviewed and compared to reported items and values in the annual statements. A trial balance for the final year under review was obtained and traced to the Company's Annual Statement.

Independent Accountants

Through a Service Agreement with AON Insurance Managers (USA) Inc. (AON), AON manages all of the Company's insurance operations which include maintaining books and records, preparing quarterly financial statements, and preparing quarterly and year-end statutory filings based on information provided by the Company's parent including cash activity and UK Branch results. The Company is exempt from filing annual audited financial statements.

Actuarial Opinion

The Company is exempt from filing an annual actuarial opinion. There were no paid loss or LAE claims during the period under examination.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2014, along with supporting exhibits as detailed below:

- Assets
- Liabilities, Capital and Surplus
- Statement of Income
- Capital and Surplus Account
- Reconciliation of Capital and Surplus for the Examination Period

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. The narratives on the individual accounts, with the exception of the reserve related balances, are presented on the “exception basis” in the Notes to the Financial Statements section of this report.

Assets
as of December 31, 2014

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ -	\$ -	\$ -	
Common stocks	-	-	-	
Cash, cash equivalents and short-term investments	1,611,210	-	1,611,210	
Investment income due and accrued	143	-	143	
Premiums and considerations	-	-	-	
Uncollected premiums and agents' balances in course of collection	-	-	-	
Current federal and foreign income tax recoverable and interest thereon	-	-	-	
Receivable from parent, subsidiaries and affiliates	7,065,620	-	7,065,620	1
Total assets excluding separate accounts, segregated accounts and protected cell accounts	\$ 8,676,973	\$ -	\$ 8,676,973	
From Separate Accounts, segregated accounts and protected cell accounts	-	-	-	
Total	\$ 8,676,973	\$ -0-	\$ 8,676,973	

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

			<u>Notes</u>
Losses	\$	-	
Reinsurance payable on paid losses and loss adjustment expenses		-	
Loss adjustment expenses		-	
Current federal and foreign income taxes		464,682	
Unearned premiums		15	
Remittances and items not allocated		-	
Amounts due to parents, subsidiaries and affiliates		-	
Total Liabilities	\$	464,697	
Common capital stock	\$	500,000	
Gross paid-in and contributed surplus		1,058,154	
Aggregate write-ins for special surplus funds		-	
Unassigned funds		6,654,122	
Surplus as regards policyholder surplus	\$	8,212,276	
Total Liabilities, Capital and Surplus	\$	8,676,973	

Statement of Income
As of December 31, 2014

Underwriting Income

Premiums earned	\$	111
Losses incurred		-
Loss adjustment expenses incurred		-
Other underwriting expenses incurred		21,396
Net underwriting gain (loss)	\$	(21,285)

Investment Income

Net investment income earned		(366)
Net realized gain (loss)		-
Net investment gain (loss)	\$	(366)

Other Income

Total Net gain (loss) from agents' or premium balances		-
Aggregate write-ins for miscellaneous income		3,189,437
Total other income	\$	3,189,437

Divdends to policyholders		-
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		3,167,786
Federal and foreign income taxes incurred		339,134
Net income(loss)	\$	2,828,652

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

Capital and Surplus, December 31, 2010	\$	4,614,266
Net income or (loss)	\$	6,322,529
Change in net unrealized foreign exchange capital gain (loss)		(224,520)
Dividends to stockholders		<u>(2,500,000)</u>
Net change in capital and surplus		<u>3,598,010</u>
Capital and surplus, December 31, 2014	\$	<u><u>8,212,276</u></u>

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

NOTES TO FINANCIAL STATEMENTS

(1) Receivables from parent, subsidiaries and affiliates \$7,065,620

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 of Examination. It was noted during the examination that the Company was unable to provide proof that the intercompany receivable was being settled in a timely manner.

It is recommended that the Company take steps to settle the intercompany receivable and ensure any future intercompany receivable or payable is settled timely as recommended in the NAIC *Account Practices and Procedures Manual*, SSAP 25, paragraph 7.

SUBSEQUENT EVENTS

There were no material transactions occurring immediately subsequent to the examination period.

SUMMARY OF RECOMMENDATIONS

Management and Control

It is recommended that the Company comply with its bylaws and fill Board vacancies.

It is recommended that the Company’s President be a member of the Board of Directors as required by Article V, Section 1 of the Company’s bylaws.

Intercompany Agreements

It is recommended that the Company enter into a Consolidated Tax Sharing agreement pursuant to the NAIC *Accounting Practices and Procedures Manual*, SSAP 101, paragraph 16.

Receivables from Parent, Subsidiaries and Affiliates

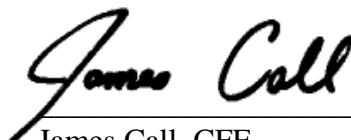
It is recommended that the Company take steps to settle the intercompany receivable and ensure any future intercompany receivable or payable is settled timely as recommended in the NAIC *Account Practices and Procedures Manual*, SSAP 25, paragraph 7.

CONCLUSION

The following schedule shows a comparison of the results from the December 31, 2014 examination to the December 31, 2010 Annual Statement balances, with changes between:

<u>Description</u>	<u>December 31, 2010</u>	<u>December 31, 2014</u>	<u>Increase (Decrease)</u>
Assets	\$ 4,833,542	\$ 8,676,973	\$ 3,843,431
Liabilities	219,276	464,697	245,421
Total Capital and Surplus	<u>\$ 4,614,266</u>	<u>\$ 8,212,276</u>	<u>\$ 2,980,316</u>

Respectfully submitted,



James Call, CFE
Examiner-In-Charge