REPORT OF EXAMINATION

OF THE

TIG INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

Insurance Commissioner

FILED ON June 11, 2021

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Los Angeles, California
April 12, 2021

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

TIG INSURANCE COMPANY

(hereinafter also referred to as the Company). The Company's main administrative office and primary location of its books and records is located at 250 Commercial Street, Suite 5000, Manchester, New Hampshire 03101. The Company's statutory home office is 7676 Hazard Center Drive, Suite 210, San Diego, California 92108.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2014. This examination covered the period from January 1, 2015 through December 31, 2019.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, 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 riskfocused 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, 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 findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This was a coordinated examination with California as the exam facilitator of the RiverStone subgroup of the Fairfax Group of regulated United States (U.S.) property and casualty insurance companies (Fairfax U.S. Group). Delaware is the lead state for the Fairfax U.S. Group examination. The following states participated on the Fairfax U.S. Group examination: Arkansas, Connecticut, Delaware, Florida, New Jersey, and New York. The examination was conducted concurrently with that of the Company's U.S. affiliates. The Companies in the Fairfax U.S. Group and their state of domicile are summarized as follows by subgroups:

Group/Company	NAIC CoCode	Domiciled State
RIVERSTONE GROUP		
Commonwealth Insurance Co of America[1]	12220	DE
TIG Insurance Co	25534	CA

(1) TIG Insurance Company sold Commonwealth Insurance Company of America to Brit Insurance USA Holdings Inc., effective April 30, 2018.

Group/Company	NAIC CoCode	Domiciled State
ZENITH GROUP		
Zenith Insurance Company	13269	CA
ZNAT Insurance Company	30120	CA

Group/Company	NAIC CoCode	Domiciled State
ALLIED WORLD GROUP[(2)]		
Allied World National Assurance Company	10690	NH
Allied World Assurance Company (U.S.) Inc.	19489	DE
Allied World Surplus Lines Insurance Company	24319	AK
Allied World Specialty Insurance Company	16624	DE
Allied World Insurance Company	22730	NH
Vantapro Specialty Insurance Company	44768	AR
Vault Reciprocal Exchange	16186	FL
Vault E&S Insurance Company	16237	AR

(2) Fairfax Financial Holdings Limited and Allied World Assurance Company Holdings, Ltd recently announced, in a November 12, 2020, press release, that they have, through their subsidiaries, entered into an agreement to sell their majority interest in Vault Reciprocal Exchange and Vault E&S Insurance. The transaction is expected to close during the first quarter of 2021.

Group/Company	NAIC CoCode	Domiciled State
CRUM & FORSTER GROUP		
United States Fire Insurance Company	21113	DE
Crum & Forster Specialty Insurance Company	44520	DE
North River Insurance Company	21105	NJ
First Mercury Insurance Company	10657	DE
Crum & Foster Indemnity Company	31348	DE
Seneca Ins Company Inc.	10936	NY
Seneca Specialty Insurance Company	10729	DE
Crum & Forster Insurance Company	42471	NJ
American Underwriters Insurance Company	10251	AR
MTAW Insurance Company	16498	DE

Group/Company	NAIC CoCode	Domiciled State
HUDSON GROUP[(3)]		
Hudson Insurance Company	25054	DE
Hudson Excess Insurance Company	14484	DE
Hudson Specialty Insurance Company	37079	NY

(3) 100% owned by Odyssey Re Group below

(4)

Group/Company	NAIC CoCode	Domiciled State
ODYSSEY RE GROUP		
Greystone Insurance Company	10019	CT
Odyssey Reinsurance Company	23680	CT

COMPANY HISTORY

During the examination period, the Company took steps to simplify the organizational corporate structure across affiliated run-off insurers, as follows:

Effective June 30, 2015, with the approval of the California Department of Insurance (CDI), the Company's subsidiaries Fairmont Premier Insurance Company, Fairmont Specialty Insurance Company, and Fairmont Insurance Company (collectively, the Fairmont Companies) merged with and into the Company. In addition, prior to the mergers, Fairmont Specialty Group, Inc., the intermediate holding company for the Fairmont group of insurers, was dissolved. As a result of the merger, all assets, rights and privileges of the Fairmont companies were transferred to and vested in the Company, and all liabilities of the Fairmont companies became the obligations of the Company.

Effective September 30, 2015, with the approval of the CDI and South Carolina Department of Insurance, the Company's wholly-owned subsidiary, General Fidelity Insurance Company (General Fidelity), merged with and into the Company. As a result of the merger, all assets, rights and privileges of General Fidelity were transferred to and vested in the Company, and all liabilities of General Fidelity became the obligations of the Company. As a result of this merger, General Fidelity's investment in American Safety Holdings Corporation (American Safety) transferred to the Company along with goodwill from when General Fidelity acquired American Safety in 2013. The carrying value of this goodwill was $14.5 million as of December 31, 2015. Effective June 30, 2016, the Company wrote-off its goodwill in American Safety.

Effective December 31, 2015, with the approval of the Delaware Department of Insurance, the Company's affiliate Mt. McKinley Insurance Company (MMIC), merged with and into Clearwater Insurance Company (Clearwater). All assets, rights and privileges of MMIC were transferred to and vested in Clearwater, and all liabilities of MMIC became the obligation of Clearwater.

Effective September 30, 2016, with the approval of the CDI and Delaware Department of Insurance, the Company's affiliate, Clearwater, merged with and into the Company. All assets, rights and privileges of Clearwater were transferred to and vested in the Company, and all liabilities of Clearwater became the obligations of the Company.

Effective June 30, 2016, with the approval of the CDI and Oklahoma Department of Insurance, the Company's indirect insurance subsidiaries, American Safety Casualty Insurance Company (ASCIC) and American Safety Indemnity Company (ASIC) (collectively, the American Safety Companies), merged with and into the Company. In addition, just prior to the mergers, American Safety Holdings Corporation (ASHC), the intermediate holding company for ASCIC, was dissolved. All assets, rights and privileges of the American Safety Companies were transferred to and vested in the Company, and all liabilities of the American Safety Companies became the obligations of the Company. As a result of the merger and restatement, the Company wrote-off its goodwill related to various acquisitions by ASHC of $16.4 million, which includes the $14.5 million goodwill write-off stated above.

On October 26, 2017, the Company entered into a Stock Purchase Agreement with Brit Insurance USA Holdings Inc. (BRIT), to sell Commonwealth Insurance Company of America (CICA). The CICA Stock Sale, including reinsurance and assumption agreements by the Company of CICA's pre-close liabilities and an administrative service agreement to provide administrative services with respect to the business being assumed, were approved by the CDI and Delaware Department of Insurance. On April 30, 2018, the CICA Stock Sale was closed. BRIT entered into a Stock Purchase Agreement, dated September 1, 2020, with Accelerant US Holdings, LLC for the sale of CICA. The transaction closed on February 5, 2021.

Capitalization

The Company is authorized to issue 50,000 shares of common stock with a par value of $140 per share. As of December 31, 2019, there were 30,928 shares issued and outstanding.

The Company is also authorized to issue 57,528 shares of preferred stock with a par value of $1 per share. As of December 31, 2019, there were 57,528 shares issued and outstanding.

The Company received additional paid-in capital from its immediate parent, Fairfax (US) Inc., during the examination period as follows:

Year	**Amount**
2018(1)	$ 119,315,389
2019(2)	132,154,705
Total	$ 251,470,094

(1) The composition of 2018 paid-in contribution consisted of $40,000,000 in cash, $31,949,412 in shares of common stock of Kennedy Wilson, $36,615,977 in shares of common stock of Seaspan Corporation, and $10,750,000 in shares of common stock of Eurobank Ergasias.

(2) The composition of 2019 paid-in contribution was funded in cash, with $12,000,000 being recorded as a Type I subsequent admitted asset receivable at December 31, 2019, whose treatment was approved by the CDI on February 26, 2020.

Dividends

On November 16, 2015, the Company paid an extraordinary cash dividend of $10,642,680 to its preferred stock shareholder, The Resolution Group, Inc. The CDI approved the dividend on February 17, 2015. No other dividends were issued during the examination period.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system. Fairfax Financial Holdings Limited (FFHL), a Canadian Company, is the ultimate controlling entity. Management of the Company is contractually provided by RiverStone Resources, LLC, an indirect subsidiary of FFHL. The following abridged organizational chart depicts the interrelationship of the Company within FFHL, as of December 31, 2019.

- Fairfax Financial Holdings Limited (Canada)
  - CRC Reinsurance Limited (Barbados)
    - TRG Holding Corporation (Delaware)
  - Hamblin Watsa Investment Counsel Ltd. (Canada)
  - Advent Capital (Holdings) LTD (England & Wales)
  - FFHL Group Ltd. (Canada)
    - Northbridge Financial Corporation (Canada)
      - Northbridge General Insurance Corporation (Canada)
    - Brit Limited (England & Wales)
      - Brit Insurance Holdings Limited (England & Wales)
        - Brit Insurance USA Holdings, Inc. (Illinois)
          - Commonwealth Insurance Company of America (Delaware)
      - Fairfax (Barbados) International Corp. (Barbados)
        - TIG Insurance (Barbados) Limited (Barbados)
    - Fairfax Luxembourg Holdings S.à.r.l. (Luxembourg)
      - Colonnade Insurance S. A. (Luxembourg)
        - TIG (Bermuda) Ltd. (Bermuda)
    - Fairfax (US) Inc. (Delaware)
      - Crum & Forster Holdings Corp. (Delaware)
        - United States Fire Insurance Company (Delaware)
          - American Underwriters Insurance Company (Arkansas)
          - The Redwoods Group, Inc. (North Carolina)
          - Bail USA (Pennsylvania)
          - Crum & Forster Indemnity Company (Delaware)
          - Crum & Forster SPC (FKA Int'l Travel Ins. Seg. Port.) (Cayman Islands)
          - Crum and Forster Insurance Company (New Jersey)
          - The North River Insurance Company (New Jersey)
            - Brownyard Programs, Ltd. (New York)
            - Seneca Insurance Company, Inc. (New York)
              - MTAW Insurance Company (Delaware)
              - Seneca Specialty Insurance Company (Delaware)
          - Crum & Forster Insurance Brokers, Inc. (Texas)
          - Crum & Forster Specialty Insurance Company (Delaware)
          - First Mercury Insurance Company (Delaware)
        - C & F Insurance Agency, Inc (Ohio)

CoverX Corporation (Michigan)
Travel Insured International, Inc. (Connecticut)
DMC Insurance, Inc. (Indiana)
Wag'n Pet Club, Inc (Texas)
RiverStone Group LLC (Delaware)
RiverStone Resources LLC (Delaware)
RiverStone Services LLC (Delaware) *
RiverStone Claims Management LLC (Delaware)
E.R. Quinn Co., Inc. (New York)
Loyola Group, Inc. (New York)
Rockville Risk Management Associates, Inc. (New York)
Rockville Quinn Management, LLC (New York)
FFI (U.S.) Inc. (Delaware)
GMPCI Insurance Company, Ltd. (Cayman Islands)
American Safety Holdings II Corporation (Delaware)
Bluestone Agency, Inc. (Arizona)
Bluestone Surety, Ltd. (Cayman Islands)
TRG Holding Corporation (Delaware)
Odyssey US Holding, Inc. (Delaware)
Odyssey Group Holdings, Inc. (Delaware)
Odyssey Reinsurance Company (Connecticut)
Greystone Insurance Company (Connecticut)
Hudson Insurance Company (Delaware)
Hudson Crop Insurance Services (Delaware)
Hudson Specialty Insurance Company (New York)
Hudson Excess Insurance Company (Delaware)
Napa River Insurance Services, Inc. (California)
Pacific Surety Insurance Agency, Inc. (California)
Odyssey Holdings Latin America, Inc. (Delaware)
Resolution Group Reinsurance (Barbados) Limited (Barbados)
TIG Insurance Company (California)
Zenith National Insurance Corp. (Delaware)
Zenith Insurance Company (California)
ZNAT Insurance Company (California)
Zenith of Nevada, Inc. (Nevada)
1390 Main Street LLC (Delaware)
Zenith Insurance Management Services, Inc. (Florida)
Zenith Captive Insurance Company (Vermont)
Zenith Development Corp. (Nevada)

*RiverStone Services, LLC is new in 2020 and is included as a participant in a Administrative Services Contract effective December 14, 2020, as noted in the Subsequent Events section on page 28 of this examination report.

Management of the Company is vested in a board of directors of not less than four, but not more than seven members, who are elected annually. Following are members of the board and principal officers of the Company serving at December 31, 2019:

Directors

Name and Location	Principal Business Affiliation
Nicholas C. Bentley Exeter, New Hampshire	President and Chief Executive Officer RiverStone Resources LLC
Richard J. Fabian Windham, New Hampshire	Executive Vice President RiverStone Resources LLC
Deborah A. Irving Auburn, New Hampshire	Executive Vice President, Chief Financial Officer, and Treasurer RiverStone Resources LLC
Robert J. Sampson Hooksett, New Hampshire	Executive Vice President RiverStone Resources LLC

Principal Officers

Name	Title
Nicholas C. Bentley	President and Chief Executive Officer
Deborah A. Irving	Executive Vice President, Chief Financial Officer, and Treasurer
John W. Bauer	Secretary
Nina Lynn Caroselli	Executive Vice President
Richard J. Fabian	Executive Vice President and General Counsel
Matthew W. Kunish	Executive Vice President
Karen I. Malmquist	Executive Vice President
Tyler M. Morse	Executive Vice President
Robert J. Sampson	Executive Vice President
Joseph Torti, III	Senior Vice President

Management Agreements

Tax Allocation Agreement: Effective January 1, 2000, the Company is a party to a Tax Allocation Agreement with TIG Holdings, Inc., whereby it files its federal income taxes on a consolidated basis along with various other affiliated companies. Each company computes its federal income tax liability on a separate return basis and settles with its parent. Fairfax (US) Inc. is the successor to TIG Holdings, Inc. relative to this agreement.

The California Department of Insurance (CDI) approved the agreement on January 1, 2001. Tax amounts paid or (recovered) by the Company for each year under examination were $11,951,983, $(23,975,192), $8,115,302, $7,772,447, and $104,842 for the years 2015, 2016, 2017, 2018, and 2019, respectively.

Services and Expense Sharing Agreement: Effective June 1, 2008, the Company is a party to a Services and Expense Sharing Agreement with Fairfax (US) Inc. pursuant to which Fairfax (US) provides a variety of tax-related services, including Federal, State, and International Tax return preparation; Federal, State, and International tax planning; preparation of checks and wires for Federal, State, and International tax filings; bank reconciliation and escheat compliance with respect to the preparation of checks; and research and compliance related to tax reporting in financial statements, as well as certain regulatory advice and consultation to the Company. The Company provides Fairfax (US) with human resources as well as benefit administration services. This agreement was approved by the CDI on June 4, 2009. This agreement was amended on April 22, 2013, to include the following affiliates as parties to the agreement: Fairmont Premier Insurance Company, Fairmont Insurance Company, and Fairmont Specialty Insurance Company. Effective June 30, 2015, the Company's subsidiaries Fairmont Premier Insurance Company, Fairmont Specialty Insurance Company, and Fairmont Insurance Company (collectively, the Fairmont Companies) merged with and into the Company. Compensation paid by the Company for each year under examination were $740,000, $1,070,000, $450,000, $395,000, and $395,000 for 2015, 2016, 2017, 2018, and 2019, respectively.

Investment Agreement: Effective January 1, 2003, the Company is a party to an affiliated Investment Agreement with Hamblin Watsa Investment Counsel Ltd. (HWIC) and Fairfax Financial Holdings Limited (FFHL). Pursuant to the agreement, HWIC manages the investments of the Company in accordance with specific investment objectives. All fees are paid by the Company to FFHL, and FFHL reimburses HWIC for investment management services. Fees are based on portfolio size and profitability. This agreement was approved by the CDI on December 3, 2003. Investment fees paid by the Company were $4,234,806, $6,726,408, $5,545,197, $5,195,721, and $4,027,588 for the years

2015, 2016, 2017, 2018, and 2019, respectively.

Services Agreement (RiverStone Resources agreement): Effective August 11, 1999, the International Insurance Company of Illinois (IIC) entered into a Services Agreement with RiverStone Resources LLC (RiverStone Resources). The Company became a party to this agreement as a result of its merger with IIC in December 2002. The services provided include financial services, legal services, and various other services necessary for the daily operation of the Company. Fees charged are based on the actual cost of services provided. Certain Company agreements are now settled and billed through the RiverStone Resource agreement. The amounts paid by the Company were $65,592,028, $73,989,459, $76,030,900, $48,416,212, and $85,676,586 for the years 2015, 2016, 2017, 2018, and 2019, respectively.

Master Administrative Services Agreement: Effective November 1, 2014, the Company is a party to a Master Administrative Services Agreement with various Fairfax affiliates. Pursuant to this agreement, the affiliated parties may provide and receive administrative services such as accounting, underwriting, claims, reinsurance, preparation of regulatory reports, and actuarial matters. Fees charged are based on the actual cost of services provided. This agreement was approved by the CDI on December 22, 2014. The Company received no services and paid no fees under this agreement; however, it remains in effect as a strategic agreement for possible use in the future and its necessity continues to be evaluated.

Claims Service and Management Agreement: Effective December 31, 2000, the Company is a party to a Claims Service and Management Agreement with RiverStone Claims Management LLC (RiverStone Claims). RiverStone Claims provides claims managerial services for the Company on an actual cost reimbursement basis. This agreement was approved by the CDI on December 26, 2000. The amounts paid by the Company were $0 due to direct settlements through and with the RiverStone Resources agreement.

Reinsurance Service Agreement: Effective December 31, 2000, concurrent with the aforementioned Claims Service and Management Agreement, the Company also entered into a Reinsurance Service Agreement with RiverStone Reinsurance Services LLC (RiverStone Reinsurance). RiverStone Reinsurance provides reinsurance collection services for the Company on an actual cost reimbursement basis. This agreement was approved by the CDI on December 26, 2000. Effective December 6, 2012, RiverStone Reinsurance was merged with and into RiverStone Resources, which became the successor to RiverStone Reinsurance's rights and obligations in this agreement. The amounts paid by the Company were $0 due to direct settlements through and with the RiverStone Resources agreement.

Claims Administration Agreement: Effective March 1, 2013, the Company is a party to a Claims Administration Agreement with Zenith Insurance Company (Zenith). Pursuant to this agreement, Zenith provides claims handling administration for the Company's worker's compensation claims. On January 1, 2015, this agreement was amended to change the fee structure. This agreement was approved by the CDI on February 28, 2013 and the amendment was approved on December 22, 2014. Fees charged are based on a formula that includes the cost of services and a multiplier to determine the fee paid. The amounts paid by the Company were $8,719,393, $8,750,320, $9,122,121, $8,768,846, and $8,014,809, for the years 2015, 2016, 2017, 2018, and 2019, respectively.

Broker Service Agreement: Effective May 4, 2009, the Company is a party to a Broker Service Agreement with RiverStone Management Ltd. (RSML). Pursuant to this agreement, RSML provides reinsurance collection services in connection with reinsurance recoverable in the London market. This agreement was approved by the CDI on December 18, 2009. The amounts paid by the Company were $0 due to direct settlements through and with the RiverStone Resources agreement.

Claims Services Agreement: Effective February 1, 2009, the Company is a party to a Claims Services Agreement with RSML. Pursuant to this agreement, RSML provides claims services for assumed reinsurance. This agreement was approved by the CDI on December 18, 2009. Fees charged are based on actual cost of services provided. The amounts paid by the Company were $0 due to direct settlements through and with the RiverStone Resources agreement.

Claims Administrative Services Agreement: Effective January 1, 2011, Odyssey America Reinsurance Corporation (OARC) (now known as Odyssey Reinsurance Company) and Clearwater Insurance Company (Clearwater) entered into a Claims Administrative Services Agreement for certain insurance and reinsurance claims administrative services, ceded reinsurance management, and recovery services. The Company became a party to this agreement as a result of Clearwater being merged with and into the Company, effective September 30, 2016. The amounts paid by the Company were $7,228,767, $5,769,083, $3,932,018, and $820 for the years 2016, 2017, 2018 and 2019, respectively.

Administrative Services Agreement: Effective December 31, 2011, Clearwater entered into an Administrative Services Agreement with the United States Fire Insurance Company (USF), where USF provides certain services in connection with Clearwater's reinsurance of USF and its affiliates. The Company became a party to this agreement as a result of Clearwater being merged with and into the Company, effective September 30, 2016. The amounts paid by the Company were $281,459, $202,140, $153,679, and $117,872 for the years 2016, 2017, 2018 and 2019, respectively.

Service and Management Agreement: Effective October 3, 2013, American Safety Casualty Insurance Company (ASCIC) and American Safety Indemnity Company (ASIC) entered into a Service and Management Agreement with Hudson Insurance Company (HIC), pursuant to which HIC will provide ASIC and ASCIC the following management and administrative services with respect to the portion of business transferred under the HIC Renewal Rights Agreement (described below) that is issued on ASIC/ASCIC policy forms (as applicable): underwriting services, administration services, including handling of endorsements, billing, premium collection and remittance services, accounting and other services related to preparation of statutory financial statements, financial services, and claims management services, including investigating, adjusting, compromising, defending, litigating, managing, supervising, settling and paying claims, and the selection and management of counsel and other third party providers. In return for the services provided by HIC, ASCIC, and ASIC will be charged a fee equal to their respective shares of the costs, overhead, and general expenses incurred by Hudson in providing these services. The Company became a party to this agreement when ASIC/ASCIC merged with and into the Company, effective June 30, 2016. The amounts paid by the Company were $502,679, $458,044, $126,978, and $91,355 for the years 2016, 2017, 2018, and 2019, respectively.

Administrative Services Agreement: Effective April 27, 2018, as a component of the sale of Commonwealth Insurance Company of America (CICA) to Brit Insurance USA Holdings Inc. (BRIT), the Company and CICA entered into an Administrative Services Agreement to provide administrative services in connection with the orderly run-off and administration of the business assumed as part of this sale. This agreement was approved by the CDI and the Delaware Insurance Department as part of the sale transaction to BRIT. There are no fees for the services being provided as they are part of the obligation of the reinsurance assumption.

Northbridge Services Agreement: Effective April 11, 2018, the Company entered into Services Agreement with Northbridge General Insurance Corporation and Northbridge Financial Corporation. The services to be provided under this agreement includes: payment and adjustment of claims, preparing financial reports, providing all administrative, clerical and other support functions, maintaining books and records relative to CICA's legacy business, and providing space necessary to conduct the CICA business. This agreement was approved by the CDI on April 19, 2019. Fees charged are based on the actual cost of services provided. The amounts paid by the Company were $19,735 and $27,300 for the years 2018 and 2019, respectively.

Mt. McKinley Insurance Company: As a result of the Mt. McKinley Insurance Company (Mt. McKinley) merger into Clearwater and Clearwater's merger with and into the Company, the Company succeeded in the following Mt. McKinley and Clearwater agreements:

- A Claims Service Agreement between Mt. McKinley and Everest Reinsurance Company (Everest) (a non-affiliated company) dated July 13, 2015.
- An Administrative Services Agreement for services to Everest between Everest and Mt. McKinley was made effective July 13, 2015.
- An Administrative Services Agreement for services to Mt. McKinley between

Everest and Mt. McKinley was made effective as of July 13, 2015.

The Company has a number of other management and service agreements with its affiliated companies at December 31, 2019, that were considered to be immaterial for the purposes of disclosure in this report. The principal agreements were reviewed and found to be materially compliant with the California Insurance Code and were filed with the CDI as required.

Related Party Transactions

The Company's direct intermediate parent company, Fairfax (US) Inc., has provided a guarantee via a Financial Support Agreement to the Company. Fairfax (US) Inc. owns all of the remaining companies in the U.S. Run-Off operations. The guarantee to the board of the Company is that the ratio of surplus to Authorized Control Level for Risk Based Capital (RBC) purposes will be at least 200 percent as of each December 31, and the Company will maintain a net statutory reserve to the surplus ratio of 3 to 1 or less at all times. The guarantee is primarily accomplished through capital contributions by Fairfax (US) Inc. to ensure the aforementioned metrics are met. The Company met this requirement for 2015, 2016, 2017, and 2018. For 2019, the Company requested a permitted practice under Statement of Statutory Accounting Principles No. 72, to recognize a $12,000,000 capital contribution from the parent, as Type I subsequent admitted asset receivable in its 2019 Annual reporting to meet the 200 percent RBC requirement. The transaction was approved by the CDI on February 26, 2020.

Promissory Notes and Loan Agreements:

1. Effective December 19, 2011, Fairfax (US) Inc. issued a promissory note to TIG Holdings, Inc., which was ultimately assigned to Clearwater, in the amount of $50,000,000, payable on December 19, 2021, with interest. The principal amount remaining from time to time unpaid and outstanding bore interest at a rate of 7% per annum. The Company succeeded to this agreement as a result of Clearwater's merger with and into the Company on September 30, 2016. This note was

canceled on December 23, 2019, following repayment facilitated through a daylight loan facility as a condition precedent to entering into the note described in #6 below.

2. Effective December 26, 2014, Fairfax (US) Inc. issued a promissory note in favor of the Company in the amount of $350,000,000. The note bore interest at 5.2% per year and was required to be repaid in equal installments over a ten-year period, with any remaining principal being paid on December 26, 2024. This note was canceled on December 23, 2019, following repayment of outstanding principal facilitated through a daylight loan facility as a condition precedent to entering into the note described in #3 below.
3. Effective November 1, 2017, the Company entered into a loan agreement in favor of RiverStone Resources LLC for $2,000,000. The loan bore interest at 1.56% per year, and the loan principal and interest were paid off on November 2, 2020 in a total amount of $2,093,685.
4. Effective October 15, 2018, the Company entered into a loan agreement in favor of RiverStone Resources LLC for $3,400,000. The loan bears interest at 2.96% This loan obligation was assigned to RiverStone Group LLC, effective December 1, 2020.
5. Effective June 14, 2019, the Company entered into a loan agreement in favor of RiverStone Resources LLC. The loan bears interest at 2.46% per year, with a principal payment of $1,000,000 and interest thereon being due on June 1, 2022, with the remaining principal installments of $750,000 and interest being paid on the anniversary thereof. This loan obligation was assigned to RiverStone Group LLC, effective December 1, 2020.
6. On December 23, 2019, the Company received cash of $260,000,000 from Fairfax (US) Inc. as repayment for two loans with then-outstanding principal of $210,000,000 and $50,000,000, respectively. On the same day, the Company loaned $350,000,000 to Fairfax (US) Inc., which bears interest at 4.5% per year, payable semi-annually on June 1 and December 1 of each year, with the principal to be paid on December 1, 2024. This loan also facilitated and financed the Company's sale of 496 Class 1 shares of TRG Holding Corporation to Fairfax (US)

Inc. for $71,845,295. On the same day, the Company received a cash capital contribution from Fairfax (US) Inc. of $120,154,705, with $18,154,705 loaned from the Company to Fairfax (US) Inc. through the note described in this paragraph.

Pledged Assets:

1. In December 2009, the Company pledged investments in municipal securities of $68,000,000 in a trust in support of another Fairfax affiliate, United States Fire Insurance Company (USF), in accordance with contractual provisions under a reinsurance agreement requiring the Company to provide collateral in the event USF requires the support to write certain types of business. Trust assets were market valued at $95,563,032 as of March 31, 2019, with a carrying value of $102,516,963. Effective August 16, 2019, the trust assets were merged into a single trust with those trust assets described in #2 below.
2. In 2012, Clearwater pledged investments of $245,609,349 in a trust in support of USF and in accordance with contractual provisions under a reinsurance agreement between the two parties. Clearwater collateralizes its reinsurance obligations under the agreement in order for USF to meet United States Treasury (Treasury) requirements to maintain USF's Treasury listing to write certain types of business. Trust assets were market valued at $393,027,905 as of March 31, 2019, with a carrying value of $367,231,261. The Company succeeded to the agreement and the trust as a result of Clearwater's merger with and into the Company on September 30, 2016. Effective August 16, 2019, the trust assets were merged into a single trust with those trust assets described in #1 above.
3. On August 16, 2019, the trusts described in the prior #1 and #2 above were merged into a single trust for the same purposes in support of USF as the then-existing trusts. The trust assets had a market value of $471,287,902 with a carrying value of $468,098,233, as of March 31, 2020.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was licensed to transact multiple lines of property and casualty insurance and is admitted in all 50 states and the District of Columbia. However, the Company is currently in run-off. The Company has no current plans to write new business. The Company announced its intention to enter into an orderly run-off in late 2002, and aside from the acquisition of other run-off companies or legacy portfolios of business, has not issued any new policies. Because of contractual requirements with certain Managing General Agents and Managing General Underwriters, the Company continued to write substantial amounts of business through 2003.

Prior to discontinuing writing new business, the Company and its subsidiaries offered reinsurance, personal lines, workers' compensation, and commercial products, primarily throughout the United States. Premiums were generated through brokers, independent agents, and a limited number of general agents.

The Company's primary on-going focus is the orderly resolutions of claims, settlement of its obligations, and collection of reinsurance and other recoverable balances. The Company's day-to-day operations are managed by its affiliate, RiverStone Resources LLC.

REINSURANCE

Assumed

The Company assumed business from 296 cedants composed of voluntary and mandatory pools and associations, including nine affiliated reinsurers. All assumed treaties are in run-off. Business assumed from affiliates represented approximately 35.4% of the $600.0 million of assumed case losses and loss adjustment expense reserves on December 31, 2019. Affiliated assumed reinsurance payables resulted primarily from reinsurance with Crum & Forster Indemnity Company, North River Insurance Company, and United States Fire Insurance Company in the amounts of $71.8 million, $71.4 million, and $66.9 million, respectively. The material unaffiliated assumed case losses and loss and loss adjustment expense reserves payable to non-affiliates include Metropolitan Property and Casualty Insurance Company (Rhode Island), American Home Assurance Company (New York), Granite State Insurance Company (Illinois), Allstate Insurance Company (Illinois), Everest Reinsurance Company (Delaware), Lexington Insurance Company (Delaware), Utica Mutual Insurance Company (New York), and Continental Insurance Company (Pennsylvania) in the amounts of $31.9 million, $27.9 million, $19.6 million, $19.1 million, $16.5 million, $15.1 million, $12.3 million, and $10.7 million, respectively.

As a component of the sale of Commonwealth Insurance Company of America (CICA) to Brit Insurance USA Holdings, Inc. (BRIT), effective April 27, 2018, the Company entered into a Reinsurance Agreement with CICA pursuant to which the Company will assume all of CICA's gross liabilities under any policies, binders, riders, endorsements, certificates, treaties and contracts of insurance and reinsurance issued or renewed by CICA prior to the closing of the sale of CICA to BRIT. In addition, effective April 27, 2018, the Company entered into an Assumption Agreement with CICA pursuant to which the Company assumes, releases and discharges CICA from all of its liabilities and obligations arising out of or related to its operations or existence prior to the closing, other than those liabilities and obligations assumed by the Company pursuant to the aforementioned reinsurance agreement or the administrative services agreement entered into as part of the sale.

Ceded

The Company has a very complex reinsurance ceded program, involving both authorized and unauthorized reinsurers. Many of the reinsurers had several treaties with the Company, all in run-off. As a run-off company, the Company no longer actively participates in the prospective reinsurance market while existing reinsurance contracts are periodically amended through either novation or commutation. As of December 31, 2019, net amount recoverable for all reinsurers totaled $726.8 million or approximately 150.4% of surplus as regards policyholders. Approximately $249.2 million of the above net amount recoverable was from affiliated authorized and unauthorized reinsurers, with the remaining $477.6 million coming from non-affiliated authorized and unauthorized reinsurers and pools.

The following are a selection of material ceded transactions that the Company entered into during the examination period:

On December 19, 2019, with the approval of the California Department of Insurance, the Company entered into an Adverse Development Cover Reinsurance Agreement (TIG ADC) to reinsure certain direct and assumed asbestos, pollution, and other latent or emerging exposures to one of its affiliates, Resolution Group Reinsurance (Barbados) Limited (RGR). The TIG ADC, which was effective on October 1, 2019, has a limit of $300.0 million in excess of the net carried reserves of $490.3 million as of September 30, 2019, plus, effective December 20, 2019, the Mt. McKinley Insurance Company net carried reserves of $80.0 million as of September 30, 2019. As consideration, the Company paid reinsurance premium of $205.0 million to RGR, which consisted of various investment securities. At December 31, 2019, the Company recorded ceded losses and loss adjustment expense reserves as to the TIG ADC of $180.0 million.

On December 19, 2019, the Company (as successor to American Safety Casualty Insurance Company (ASCIC) and American Safety Indemnity Company (ASIC)) (collectively referred to as American Safety) entered into a Novation Agreement with two affiliates, TIG Insurance (Barbados) Limited (TIGB) and Resolution Group Reinsurance (Barbados) Limited (RGR), whereby effective October 1, 2019, TIGB, as reinsurer of the American Safety business transferred its liabilities and rights thereunder to RGR, and RGR assumed such liabilities and rights (the American Safety Novation). The American Safety Novation transferred the assumed loss and loss adjustment expense reserves as to the American Safety business from TIGB to the RGR totaling $57.6 million and assets from the trust established by TIGB for the reinsurance of the American Safety portfolio, consisting of cash and investment securities, in the same amount.

On December 20, 2019, the Company (as successor to Mt. McKinley Insurance Company) entered into a commutation of a retrocessional quota share contract among Everest Reinsurance (Bermuda) Ltd. (Everest Re), RGR, and the Company that resulted in the commutation of certain of the Company's business that had been retroceded from Everest Re to RGR, and the Company entered into an amendment to a loss portfolio transfer reinsurance agreement among Everest Re, RGR, and the Company, whereby certain of the Company's business was partially commuted to the Company, but Everest Re will continue to provide reinsurance for certain of the Company's business above an attachment point of approximately $450.3 million. In association with the commutation of the above agreements, on December 23, 2019, the Company received $76.8 million of short and long-term bonds from RGR in proceeds following the cancellation of a trust agreement previously held by RGR for the Company's benefit. During the first quarter of 2020, the Company returned $14.3 million to RGR, an amount that represented an overpayment from RGR to the Company.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on financial statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2019

Statement of Financial Condition
as of December 31, 2019

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 794,968,662	$	$ 794,968,662	
Preferred stocks	29,299,000		29,299,000	
Common stocks	201,934,985		201,934,985	
Cash and short-term investments	287,459,210		287,459,210	
Derivatives	1,302,702		1,302,702	
Other invested assets	519,632,716		519,632,716	
Investment income due and accrued	5,981,943		5,981,943	
Premiums and agents' balances in course of collection	5,058,500		5,058,500	
Amount recoverable from reinsurers	34,283,906		34,283,906	
Funds held by or deposited with reinsured companies	2,772,003		2,772,003	
Other amounts receivable under reinsurance contracts	60,186		60,186	
Current federal and foreign income tax recoverable and interest thereon	3,811,299		3,811,299	
Net deferred tax asset	3,851,657	1,925,829	1,925,828	
Electronic data processing equipment and software	5,349,288	5,349,288		
Receivables from parent, subsidiaries and affiliates	27,554,740	124,390	27,430,350	
Aggregate write-ins for other than invested assets	78,560,062	1,013,477	77,546,585	(1)
Total assets	$ 2,001,880,859	$ 8,412,984	$ 1,993,467,875	

Liabilities, Surplus and Other Funds	Current Year	Notes
Losses and loss adjustment expenses	$ 1,381,911,172	(2)
Reinsurance payable on paid loss and loss adjustment expenses	6,801,120	
Commissions payable, contingent commissions and other similar charges	2,211,180	
Other expenses	6,404,222	
Taxes, licenses and fees	(242,191)	
Ceded reinsurance premiums payable	131,548	
Funds held by company under reinsurance treaties	8,487,255	
Amounts withheld or retained by company for account of others	1,335,287	
Provision for reinsurance	21,842,000	
Payable for parent, subsidiaries and affiliates	14,488,304	
Derivatives	4,797,830	
Payable for securities	250	
Aggregate write-ins for liabilities	62,011,953	
Total liabilities	1,510,179,930	
Common capital stock	4,329,920	
Preferred capital stock	57,528	
Gross paid-in and contributed surplus	1,176,631,185	
Unassigned funds (surplus)	(697,730,688)	
Surplus as regards policyholders	483,287,945	
Total liabilities, Surplus, and other funds	$ 1,993,467,875	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2019

State of Income

Underwriting Income	Current Year
Premium earned	$ (205,001,066)
Deduction:	
Losses and loss expenses incurred	$ 53,932,906
Other underwriting expenses incurred	73,357,289
Total underwriting deductions	127,290,295
Net underwriting loss	(332,291,261)

Investment Income	
Net investment income earned	$ 43,828,562
Net realized capital gain	74,438,115
Net investment gain	118,266,677

Other Income	
Aggregate write-ins for miscellaneous income	(673,691)
Total other income	(673,691)
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes	(214,698,275)
Federal and foreign income taxes incurred	(11,224,443)
Net loss	$ (203,473,832)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		$ 528,573,767
Net loss	$ (203,473,832)	
Change in net unrealized capital losses	(72,250,909)	
Change in net unrealized foreign exchange capital gain	14,898,304	
Change in net deferred income tax	9,640,943	
Change in nonadmitted assets	70,447,930	
Change in provision for reinsurance	3,263,170	
Surplus adjustments:		
Paid-in	132,154,705	
Aggregate write-ins for losses in surplus	33,867	
Change in surplus as regards policyholders for the year		(45,285,822)
Surplus as regards policyholders, December 31, 2019		$ 483,287,945

Reconciliation of Surplus as Regards to Policyholders from December 31, 2014 through December 31, 2019

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2014			$ 980,256,212
Net income	$	$ 570,686,149	
Net unrealized capital losses		215,072,305	
Change in net foreign exchange capital losses		6,395,089	
Change in net deferred income tax		139,293,483	
Change in nonadmitted assets	117,715,863		
Change in provision for reinsurance	38,713,823		
Capital changes – Paid In	1,690,500		
Surplus adjustment: Paid-in	308,871,645		
Dividends to stockholders		10,642,680	
Aggregate write-ins for gains and losses in surplus		21,870,392	
Total gains and losses	$ 466,991,831	$ 963,960,098	
Net decrease in surplus as regards policyholders			(496,968,267)
Surplus as regards policyholders, December 31, 2019			$ 483,287,945

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Aggregate Write-ins for Other Than Invested Assets

The admitted asset amounts included in this line item are as follows:

Capital Contribution Receivable [a]		$ 12,000,000
Funds on Deposit with Affiliated Third-Party Claim Administrators:		
RiverStone Claims Management LLC	57,667,551	
Zenith Insurance Company	3,469,078	
Crum & Forster Insurance Company	943,715	
Hudson Insurance Company	358,723	
Total Funds on Deposit with Affiliated Third-Party Administrators		62,439,067
Funds on Deposit with Unaffiliated Third-Party Claim Administrators		(1,088,828)
Collateral Guarantee Funds		2,095,354
Surety Collateral Held by Zenith Insurance Company		1,335,287
Various Involuntary Underwriting Pool Equities		564,621
Various Miscellaneous Assets		201,084
Total Aggregate write-ins for other than invested assets		$ 77,546,585

(a) Refer to Page 15, Related Party Transactions, and Page 26, Subsequent Events, for details on the approval of this receivable and its subsequent settlement.

Beginning with the March 2020 quarterly statement, the Company moved amounts deposited with affiliated companies to the “Receivables from parent, subsidiaries and affiliates” line item in its financial statements.

(2) Losses and Loss Adjustment Expenses Incurred

INS Consultants, Inc. (INS) has been retained by the Delaware Department of Insurance (Delaware) to perform actuarial services on the multi-state coordinated financial condition examination of the Fairfax Group as of December 31, 2019. As such, the Company was included in the scope of this examination. INS has been authorized to provide actuarial services for the California Department of Insurance (CDI) in the examination of these companies as part of the multi-state coordinated exam. The CDI actuarial staff monitored, reviewed, and agreed to the analysis plan and conclusions of the review performed by INS.

The INS analysis of loss and loss adjustment expense (LAE) reserves is performed gross and net of reinsurance. The INS analysis does not address the collectability of reinsurance recoverables. There would be additional contingent liabilities should any of the reinsurers fail to fulfill their obligations as stated in their contracts with the Company.

INS reviewed the Company's 2019 Annual Statements, the related 2019 Statements of Actuarial Opinion (SAO) signed by the Company's Appointed Actuary, Matthew W. Kunish, FCAS, FIA, FSA, MAAA, of RiverStone Resources LLC, the Actuarial Report accompanying the SAO, and the Actuarial Opinion Summaries.

Based on the analysis by INS and the review of their work by a Casualty Actuary from the CDI, the Company's December 31, 2019 reserves for losses and LAE were found to be reasonably stated and have been accepted for the purpose of this examination.

SUBSEQUENT EVENTS

Effective January 24, 2020, the Company entered into a Loan Agreement in favor of RiverStone Resources LLC for $2,500,000. The loan bears interest at 2.55% per year, and the principal and interest thereon are required to be paid on February 1, 2023. This loan obligation was assigned to RiverStone Group LLC, effective December 1, 2020.

On February 26, 2020, the Company received approval by the CDI and received a capital contribution of $12,000,000, in the form of cash from its immediate parent, Fairfax (US) Inc.

On March 11, 2020, the World Health Organization declared coronavirus disease (COVID-19) a pandemic. The pandemic has triggered unprecedented government mandates and health and safety measures which have significantly impacted the U.S. and global financial markets. The examination reviewed the potential impact of the pandemic to the Company and noted minimal impact on the Company's business operations as of the date of this report. However, a significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy, and the Company at large. The CDI continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

Effective March 31, 2020, the Company received cash of $10,870,133 from Fairfax (Barbados) International Corp., an affiliated company, for 16,157,938 shares of Advent Capital Holdings, Ltd, an affiliated company.

On April 17, 2020, the Company requested a permitted practice under Statement of Statutory Accounting Principles No. 72, to recognize a $50,000,000 capital contribution, from the parent, as Type I subsequent admitted asset receivable in its March 31, 2020, Quarterly reporting to meet the 200 percent RBC requirement. The negative effects on its investment portfolio caused by the COVID-19 fueled market volatility in the first quarter of 2020 drove the need for this capital contribution. The transaction was approved by the CDI on April 28, 2020. On the same date, the Company received a capital contribution of $50,000,000, in the form of cash, from its immediate parent, Fairfax (US) Inc.

On October 23, 2020, RiverStone Resources LLC, the Company's affiliate, entered into a $8,500,000 loan with the Company due and payable on October 23, 2025, with an interest rate of 1.33% annually. This loan obligation was assigned to RiverStone Group LLC, effective December 1, 2020.

On November 2, 2020, RiverStone Resources LLC, the Company's affiliate, transferred $2,093,685 for repayment of the $2,000,000 principal and $93,685 of interest pursuant to the loan that came due on November 1, 2020, with interest accrued at 1.56% annually.

On December 2, 2020, Fairfax Financial Holdings Limited (FFHL) announced that it has entered into a binding agreement with CVC Capital Partners (CVC) to sell all of its interests in RiverStone Europe to CVC Strategic Opportunities Fund II. OMERS, the pension plan for Ontario, Canada’s municipal employees, has also agreed to sell all of its interests in RiverStone Europe as part of the transaction. The purchase price to be received by FFHL on the closing of the transaction is approximately $750 million. FFHL will also be entitled to receive up to $235.7 million post-closing under a contingent value instrument. This transaction does not have a material impact on the operations of the

Company or its immediate affiliates.

Administrative Services Agreement: Effective December 14, 2020, Fairfax Financial Holdings Limited, Fairfax (US) Inc., RiverStone Resources LLC, RiverStone Services LLC, Resolution Group Reinsurance (Barbados) Limited, Rockville Quinn Management LLC, Rockville Risk Management Associates, Inc., and the Company entered into the Administrative Services Agreement where each party agrees to provide to and accept from any other applicable administration and general services (such as assistance with accounting, telecommunications, preparation of regulatory reports, procurement, consulting, other administrative, and management services). Although this agreement has a continuous term, it may be terminated by any party without cause upon sixty (60) days' notice to the other parties to this agreement; in addition, this agreement provides that after each three (3) consecutive year period, the parties will re-evaluate and, if appropriate, renegotiate the terms of this agreement.

On December 3, 2020, and December 4, 2020, the Company sold several corporate debt securities to BRIT Syndicates Ltd., an affiliate, for $33,869,532 for cash.

On December 18, 2020, the Company purchased common stock of 2,207,200 shares with a fair market value of $11,000,167 of Dexterra Group Inc., an affiliate, from Fairfax (US) Inc., the Company's immediate parent.

On December 21, 2020, the Company sold common stock of 16,157,938 shares with a fair market value of $13,832,003 of RiverStone Barbados, Ltd., to Fairfax (US) Inc., the Company's immediate parent.

As of December 31, 2020, the Company recognized $4.0 million of favorable net loss and loss adjustment expense (LAE) reserve development for accident years 2019 and prior, which is 0.3% of December 31, 2019 net Annual Statement reserves. Excluding the $120.0 million increase in ceded loss and LAE to the Adverse Development Cover Reinsurance Agreement, net loss and LAE developed adversely by $116.0 million, or 8.4% of December 31, 2019 net Annual Statement reserves.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

Joseph G. Jacobs

Digitally signed by Joseph G. Jacobs
DN: cn=Joseph G. Jacobs, o=The INS Companies, ou=Financial Examinations, email=jjacobs@insris.com, c=US
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Joseph G. Jacobs, CFE
Examiner-In-Charge
Financial Examination Senior Specialist
The INS Companies

Asuncion, Grace

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Grace Asuncion, CFE
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