REPORT ON EXAMINATION

OF THE

CLEARWATER 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

CLEARWATER INSURANCE COMPANY

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

Attest By: ______________________

Date: May 31, 2016

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 31st day of May, 2016.

Insurance Commissioner of the State of Delaware

____
Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT OF EXAMINATION

OF THE

CLEARWATER 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.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 31st day of May, 2016

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

TABLE OF CONTENTS

SALUTATION 1
SCOPE OF EXAMINATION 2
SUMMARY OF SIGNIFICANT FINDINGS 3
COMPANY HISTORY 4
MANAGEMENT AND CONTROL 6
Board of Directors 7
Officers 7
Committees 8
Conflict of Interest 8
Insurance Holding Company System 8
Intercompany Management and Service Agreements 11
TERRITORY AND PLAN OF OPERATION 14
REINSURANCE 15
FINANCIAL STATEMENTS 18
Assets 19
Liabilities, Surplus and Other Funds 20
Statement of Income 21
Reconciliation of Surplus for the exam period 22
SCHEDULE OF EXAMINATION ADJUSTMENTS 22
NOTES TO FINANCIAL STATEMENTS 23
SUBSEQUENT EVENTS 28
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS 29
SUMMARY OF RECOMMENDATIONS 29
CONCLUSION 30

SALUTATION

April 12, 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. 15.011, dated February 3, 2015, a risk focused examination has been made of the affairs, financial condition and management of the

CLEARWATER INSURANCE COMPANY

hereinafter referred to as the "Company" and incorporated under the laws of the State of Delaware. The Company's registered office in the State of Delaware is located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the main administrative office of the Company, located at 250 Commercial Street, Suite 5000, Manchester, New Hampshire 03101.

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 of the US insurers which are subsidiaries of Fairfax Financial Holdings Limited (Fairfax

Holdings or Fairfax Insurance Group). The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The last examination was completed as of December 31, 2010. This examination covered the period of January 1, 2011, through December 31, 2014, and encompassed a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2014. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners* (NAIC) *Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to Delaware state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to Delaware state regulations. 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, 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 (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 examination, consideration was given to work performed by the Company's external accounting firm, PricewaterhouseCoopers LLP (PwC), Boston, Massachusetts. Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or specific recommendations as a result of this examination.

During the fourth quarter of 2014, Fairfax (US) Inc. made a $25 million capital contribution to the Company, as noted in the "Capitalization" section below, in exchange for 1,710.45 shares of common stock. The Company reported the entire amount as contributed capital and did not reflect the increase in common stock of $513,135 (computed as 1,710.45 *

$300 per share). As of December 31, 2014, $513,135 should be reclassified from Contributed capital to Common Capital Stock.

COMPANY HISTORY

General

The Company, domiciled in the State of Delaware, is a wholly owned-subsidiary of Fairfax (US) Inc. The ultimate corporate parent Company is Fairfax Insurance Group, a Canadian financial services holding company that, through its subsidiaries, is engaged in property, casualty and life insurance, investment management and insurance claims management.

Fairfax (US) Inc., purchased the Company (formerly Skandia America Reinsurance Corporation) and its then subsidiary, Hudson Insurance Company (HIC), on May 31, 1996. On April 13, 1999, Fairfax (US) Inc. purchased the TIG Insurance Group. Included in that group was TIG Reinsurance Company (TIG Re). Subsequent to its acquisition, the name of TIG Re was changed to Odyssey America Reinsurance Corporation (Odyssey Re). On September 15, 1999, the Delaware Insurance Department approved the Company's request to realign the companies so that the Company became the subsidiary of Odyssey Re. During 1999, the Company stopped accepting new reinsurance business.

On July 19, 1996 the Company's name was changed from Skandia America Reinsurance Corporation to Odyssey Reinsurance Corporation and on December 4, 2003 its name was changed from Odyssey Reinsurance Corporation to its current name, Clearwater Insurance Company. The name was changed to better reflect the change of the Company from a professional reinsurer to a direct writer. The Company began writing direct business in 2004, however, during 2010 ceased writing direct business and has committed to facilitate the run off of prior business both direct and reinsurance.

On January 1, 2011, Odyssey Re Holdings Corp. (ORH) transferred ownership of Clearwater Insurance Company to TIG Insurance Group, Inc. (TIG), which was a Fairfax (US) Inc. subsidiary. Prior to this transaction, certain Company business (including all of the business ceded by Clearwater Select Insurance Company (CSIC) to the Company) was reinsured with Odyssey Re on January 1, 2011. The Company distributed by means of a dividend, declared by Company’s Board of Directors on December 9, 2010, its 100% ownership interest in the common stock of HIC and CSIC to Odyssey Re; Odyssey Re then distributed its ownership interest in the Company to ORH by means of a dividend, which was declared on December 13, 2010. Included in the balance sheet of the Company that was transferred to TIG as of January 1, 2011 were $5.5 million in preferred shares of CSIC and $23.8 million in preferred shares of HIC.

TIG merged with and into TIG Insurance Company effective December 24, 2014. The Company, formerly a subsidiary of TIG, is now a subsidiary of Fairfax (US) Inc. Prior to the merger, TIG distributed the Company, to TIG Holdings, Inc., which in turn distributed the Company to Fairfax (US) Inc. TIG Holdings, Inc. is a direct subsidiary of Fairfax (US) Inc.

The Company is managed by its affiliate, RiverStone Resources LLC (RiverStone). RiverStone is a subsidiary of Fairfax Holdings. The Company’s primary on-going focus is the orderly resolution of claims, settlement of Company obligations and collections of reinsurance and other recoverable balances. Any remaining written premium activity primarily represents the impact of final premium adjustments and cancellations.

Capitalization

As of December 31, 2010, the date of the prior examination, the Company’s authorized capital was $7,500,000, consisting of 25,000 issued and outstanding shares of common capital stock with a par value of $300 per share. On December 22, 2011, the Company's Board of Directors authorized the issuance of 2,986.86 shares of common stock to TIG Insurance Group Inc. in exchange for a promissory note in the amount of $50 million. This issuance was recorded by increasing capital common stock in the amount of $896,058 (2,986.86 shares of $300 par value) and an additional $49.1 million in additional paid in capital. This transaction and the admissibility of the promissory note were approved by the Delaware Department of Insurance. During the fourth quarter of 2014, Fairfax (US) Inc. made a $25 million capital contribution to the Company in exchange for 1,710.45 shares of common stock. As of December 31, 2014, the Company’s common capital stock was $8,909,193 consisting of approximately 29,697.31 issued and outstanding shares with a par value of $300 per share. Gross Paid-in & Contributed Surplus is $332,322,076 as of December 31, 2014.

Dividends

According to Company records for the examination period, and as reflected in minutes to the Board of Directors’ meetings, no dividends were paid to the sole stockholder.

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 (Board).

The bylaws provide that the number of directors that shall constitute the whole Board shall not be less than three members nor more than nine, with the exact number to be fixed within the limits specified by approval of the Board of Directors or the Shareholders in the manner provided by the bylaws. Each director shall be elected for a term of one year and serve until such director's successor is elected and qualified.

Board of Directors

The Board of Directors, duly elected in accordance with the Company's bylaws and serving as of December 31, 2014 were as follows:

Individual	Principal Business Affiliation
Nicholas Craig Bentley Exeter, New Hampshire	Chairman, Chief Executive Officer and President Clearwater Insurance Company
John Joseph Bator Bedford, New Hampshire	Chief Financial Officer, Treasurer, and Senior Vice President Clearwater Insurance Company
Nina Lynn Caroselli Bedford, New Hampshire	Senior Vice President Clearwater Insurance Company
Richard Joseph Fabian Windham, New Hampshire	General Counsel and Senior Vice President Clearwater Insurance Company

Officers

The bylaws of the Company state that officers shall be elected or appointed by the Board. As of December 31, 2014, the Company's principal officers and their respective titles were as follows:

Individual	Title
Nicholas Craig Bentley	Chairman, Chief Executive Officer and President
John Joseph Bator	Chief Financial Officer, Treasurer, and Senior Vice President
Nina Lynn Caroselli	Senior Vice President
Richard Joseph Fabian	General Counsel and Senior Vice President
Sherryl Scott	Secretary
Frank Joseph DeMaria	Senior Vice President

Committees

The Board of Directors may appoint an Executive Committee from among its members, to consist of such number of Directors, not less than three (3), as may be fixed by the Board. The Executive Committee shall have the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation (except the power to declare dividends and to adopt, amend, or repeal bylaws) as shall be delegated to it by the Board of Directors. The Board of Directors may from time to time appoint other committees and shall prescribe the powers and authority of such committees.

The Company does not have its own Audit Committee. Equivalent activities of an Audit Committee are currently undertaken by the full board of the Company, as well as the Audit Committee of TIG Insurance Company, its sister affiliate. All members of the Company's Board are invited to attend the TIG Audit Committee, and three members of the Company's Board are also members of the TIG Audit Committee.

Corporate governance is administered at the full board level.

Conflict of Interest

The Company has in place an established conflict of interest policy and procedure for the disclosure of any material interest or affiliation by any director, officer or employee, which is likely to conflict with their official duties.

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 percent 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 Percent	Voting Control Percent	
V. Prem Watsa and The Watsa Family Trust {1}	{2}	1.51%	43.97%	{3}
All Other Publicly Traded Shares Held {4}	{5}	98.49%	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%	
Clearwater Insurance Company [DE]		100.00%	100.00%	

{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 multiple 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 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% - 1.51% {2} = 98.49%

{6} Calculated as 100.00% - 43.97% {3} = 56.03%

{7} Subordinate voting common shares are publicly traded on the Toronto Stock Exchange in Canadian dollars under the symbol "FFH" and in U.S. dollars under the symbol "FFH.U".

At December 31, 2014, FFH had 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 multiple voting common shares and 20,427,398 votes attributable to the 20,427,398 subordinate voting common shares. Shareholders' equity attributable to shareholders of Fairfax 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 7.75% 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%.

Intercompany Management and Service Agreements

The Company was party to the following affiliated agreements, among others, in effect as of December 31, 2014.

Tax and Compliance Services Agreement

Effective May 10, 2001, the Company entered into a Tax Services Agreement with Fairfax (US) Inc. Under the provisions of this agreement, Fairfax (US) Inc. provides the Company with tax consulting and compliance services. Tax services include federal and state tax planning, preparation of federal and state returns, preparation of checks and wires for tax filings, and compliance related to tax reporting on financial statements. Fees are based on a pro-rata (cost) basis.

Tax Allocation Agreement

As a result of the 2009 acquisition by Fairfax of all of the issued and outstanding shares of common stock of ORH that it did not already own, effective October 28, 2009, ORH and subsidiaries (including the Company) rejoined the U.S. tax group of Fairfax (US) Inc., and therefore the Company has rejoined the Intercompany Tax Allocation Agreement (2000 Tax Allocation Agreement) among Fairfax and certain of its subsidiaries. The 2000 Tax Allocation Agreement was originally effective January 1, 2000. Under terms of the agreement, the affiliated group exercises the privileges granted under IRS Code Section 1501 to file a consolidated return.

Each company in the consolidated group computes and remits its tax liability on a separate company basis. Entities are reimbursed for their operating losses, capital loss and credits to the extent such can be used at their separate company basis in the current year or carryback regardless of their use at the consolidated Fairfax US level.

<u>Investment Agreement</u>

Effective January 1, 2003, the Company entered into an investment agreement with Hamblin Watsa Investment Counsel, Ltd (Hamblin Watsa), and Fairfax Holdings. Under terms of the agreement, Hamblin Watsa manages, on a continuous basis, the Company's investment account in accordance with investment objectives communicated in writing by Company management. The Company pays a base fee of .20% per annum on marketable securities managed, plus a graduated incentive fee for equity investment performance greater than the S&P 500, plus 200 basis points. All fees are paid by the Company to Fairfax Holdings and Fairfax Holdings reimburses HWIC for investment management services.

<u>Expense Sharing Agreement</u>

Effective January 1, 2000, Fairfax (US) Inc., Odyssey America Reinsurance Corporation, the Company, and HIC entered into an expense sharing agreement. Under provisions of this agreement, each company is to make available to the others: management, underwriting, claims, accounting, financial, legal, personnel, data processing services, and consulting, to be used at times and in amounts determined necessary or appropriate by the managing officers of each company. The Delaware Department of Insurance (DE DOI) approved the agreement on December 20, 1999. This agreement was terminated as to the Company as of December 31, 2010 and effective January 1, 2011, the Company entered into a new Claims Administration Services Agreement with Odyssey America Reinsurance Corporation (“OARC”), pursuant to which OARC provides the Company certain insurance and reinsurance claims administrative services and ceded reinsurance management and recovery services.

Management Agreement

On January 1, 2011, the Company became party to an ongoing Services Agreement, with RiverStone Resources LLC (RiverStone Resources), which continues in effect during the period covered by this examination. The services provided include financial services, legal services, and various other services necessary for the daily operation of the Company necessary for a portion of the Company’s operations.

Claims Management Services Agreement

The Company is party to a Claims Service and Management Agreement, effective December 31, 2011, with RiverStone Claims Management LLC (RiverStone Claims). RiverStone Claims is providing claims managerial services for a portion of the Company’s operations on an actual cost reimbursement basis.

Master Administrative Services Agreement

Effective November 1, 2014, the Company entered into Master Administrative Services Agreement with various Fairfax affiliates pursuant to which the affiliated parties may provide and receive administrative services such as those related to accounting, underwriting, claims, reinsurance, preparation of regulatory reports and actuarial matters. The parties have not had any transactions under this agreement.

Administrative Services Agreement

The Company is a party to an Administrative Services Agreement with United States Fire Insurance Company (USF) effective December 31, 2011, pursuant to which USF provides certain services in connection with the Company's reinsurance of USF and its affiliates.

Financial Support Agreement

As a prerequisite to the DE DOI approval for the dividend and restructuring on January 1, 2011, the Company entered into a Financial Support Agreement with Fairfax (US) Inc. Under the agreement Fairfax (US) Inc. provides funding to the Company to ensure the ratio of losses and LAE reserves of the Company, net of ceded reinsurance, to surplus as regards policyholders of the Company, as reported in any quarterly and annual statement filed by the Company with DE DOI hereafter, will be 3:1 or lower. The total adjusted capital of the Company as of December 31 of each year must be equal to, or greater than, 200% of authorized control level risk-based capital of the Company calculated in accordance with the risk-based capital instructions adopted by the NAIC as in effect as of December 31, 2010.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is licensed in the District of Columbia, and all states, with the exception of Maine and Massachusetts. The Company is licensed as a reinsurer only in the states of Connecticut, Nevada, and Puerto Rico. The Company is an approved reinsurer in Massachusetts and qualifies for reinsurance credit in Maine. The Company is a qualified or accredited reinsurer in the states of Colorado, Florida, Maine and Minnesota.

Plan of Operation

The Company has no current plans to write new business and is in run off, other than the acquisition of legacy books of business on an opportunistic basis. The Company's primary on-going focus is the orderly resolution of claims, settlement of its obligations and collection of reinsurance and other recoverable balances. Any remaining written premium activity primarily represents the impact of final premium adjustments and cancellations and is currently at immaterial levels. The Company's day to day operations are managed by its affiliate, RiverStone.

REINSURANCE

Assumed

The Company's assumed asbestos and environmental business from non-affiliates has been in run-off since 1999.

The Company and its former subsidiary, Clearwater Select Insurance Company (CSIC), entered into a Novation Agreement, effective November 15, 2004, pursuant to which the Company replaced Overseas Partners Re Limited, CSIC's former parent company, as 75% reinsurer of CSIC. In this agreement, the Company assumes from CSIC losses up to $10 million on a 75% quota share basis, business relating to environmental losses which has been in run-off since 2002. The Company, CSIC and Odyssey Reinsurance Company (Odyssey Re), entered into a Novation Agreement, replacing Odyssey Re for the Company as the reinsurer under the agreement, effective January 1, 2011.

The Company entered into reinsurance agreements with its affiliates USF, the North River Insurance Company, Crum & Forster Indemnity Company and Crum and Forster Insurance Company (the Ceding Companies), effective December 31, 2011. All of the Ceding

Companies are 100% owned by Fairfax Holdings. Under the reinsurance agreements, the Company has reinsured the gross liabilities for all the insurance and reinsurance contracts entered into by the Ceding Companies with effective dates on or prior to December 31, 1998, exclusive of workers' compensation and surety. An Amendment to the Reinsurance Agreement was entered into on June 1, 2012 to provide that the Company will establish a trust account for the benefit of the Ceding Companies in order to secure payment of certain of the covered losses and reinsurance extra-contractual obligations, and to clarify that the Reinsurer is entitled to all of the Ceding Companies' rights of recovery, contribution, salvage and subrogation with respect to the policies, regardless of when the loss or expense was paid, subject to certain exceptions. A Second Amendment to the Reinsurance Agreement was entered into on December 31, 2013, to include First Mercury Insurance Company ("First Mercury"). Under the amended reinsurance agreement the Company included First Mercury Insurance Company to the "Ceding Companies" and reinsured gross liabilities as follows: certain general liability products placed on First Mercury Insurance Company paper with effective dates prior to December 31, 2012, all of which is assumed and reinsured by USF; certain products placed on USF paper with effective dates prior to December 31, 2012; and the "Short Excess Retrocessional Agreement: First Mercury" with an effective date of December 26, 2009 and all remaining retrocessional contracts subscribed to by First Mercury all of which is assumed and reinsured by USF. This will enable First Mercury to directly transfer to the Company the rights of recovery under inuring insurance and reinsurance agreements and avoid modification to other agreements, including the reinsurance agreement dated July 1, 2011 between USF and First Mercury whereby First Mercury cedes all liabilities to USF net of collectible third party reinsurance and minimize year-end accounting complexities. On December 31, 2013 the liabilities of these policies were estimated to be $68.6 million net of third party reinsurance, inclusive of approximately $1.6 million of unallocated loss adjustment expense reserves. Existing reinsurance associated with the gross reserves being reinsured under the reinsurance agreements of approximately $7.7 million were concurrently assigned to the Company. The Company received cash proceeds equivalent to the total net liability.

The Company and Hudson Insurance Company (HIC), an affiliate, entered into a Reinsurance Agreement dated December 31, 2012 pursuant to which HIC would cede and the Company would assume the gross liabilities of HIC for Excess and Surplus lines policies issued by HIC on or after January 1, 1981 through December 31, 1985. The Company also assumes responsibility for the administration of claims handling and reinsurance collection associated with such liabilities, which it will in turn delegate to other affiliates pursuant to existing service agreements. The net liabilities assumed include case, case expense and IBNR reserves which totaled $16.8 million. The Company received cash proceeds equivalent to the total liability.

Ceded

As part of its on-going run-off of asbestos and environmental business, beginning in 1999, the Company still has in effect reinsurance coverage under which recoverables are generated. As of year-end, recoverables related to this business totaled approximately $21.5 million. A review of these balances showed that no individual balance due from reinsurers was material and that they were being settled.

Effective January 1, 2008, the Company entered into a Net Line Quota Share Reinsurance Agreement with Odyssey America Reinsurance Corporation (Odyssey Re), pursuant to which the Company cedes to Odyssey Re a 70% quota share of the Company’s liability under certain program business written or renewed by the Company on or after the effective date, net of all reinsurance protections ceded to third party reinsurers. In connection with the transfer of the Company to TIG Insurance Company on January 1, 2011, the agreement was amended effective January 1, 2009 to change the quote share percentage from 70% to 100%.

FINANCIAL STATEMENTS

Financial statements, as reported and filed by the Company with the Delaware Department of Insurance, as of December 31, 2014, are reflected in the following:

- o Statement of Assets
- o Statement of Liabilities, Surplus and Other Funds
- o Statement of Income
- o Reconciliation of surplus for the period since the last examination

Clearwater Insurance Company
Assets
For the Year Ended December 31, 2014

	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	$ 407,163,185		$ 407,163,185	1
Preferred stocks	65,171,039		65,171,039	2
Common stocks	292,704,240		292,704,240	3
Cash, cash equivalents and short-term investments	101,188,042		101,188,042	4
Derivatives	11,938,049		11,938,049	5
Other invested assets	221,213,549		221,213,549	6
Receivable for Securities	2,345,690		2,345,690	
Subtotals	$ 1,101,723,794		$ 1,101,723,794	
Investment income due and accrued	6,708,854		6,708,854	
Uncollected premiums and agents' balances	913,032	424,308	488,724	
Accrued retrospective premium	900,000	900,000		
Amounts recoverable from reinsurers	21,527,672		21,527,672	
Funds held by or deposited with reinsured companies	4,082,724		4,082,724	
Current federal and foreign income tax recoverables	387,484		387,484	
Net deferred tax asset	55,899,031	25,234,830	30,664,201	
Receivables from parent, subsidiaries and affiliates	84,057		84,057	
Aggregate write-ins for other than invested assets:				
Deposit Account	35,642,501		35,642,501	
Total Assets	$ 1,227,869,149	$ 26,559,138	$ 1,201,310,011	

Clearwater Insurance Company
Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2014

			Note
Losses	$	578,377,561	7
Reinsurance payable on paid losses and loss adjustment expenses	$	14,271,078	
Loss adjustment expenses		194,108,517	7
Other expenses		3,038,764	
Ceded reinsurance premiums payable		218,409	
Funds held by company under reinsurance treaties		4,179,216	
Provision for reinsurance		15,935,626	
Payable to parent, subsidiaries and affiliates		5,219,393	
Derivatives		14,070,955	5
Payable for securities		723,903	
Aggregate write-ins for liabilities			
Deposit on Assumed Reinsurance		33,010,155	
Other liabilities		850,228	
Total Liabilities	$	864,003,805	
Common capital stock	$	8,909,193	
Gross paid in and contributed surplus		332,322,076	
Unassigned funds (surplus)		(3,925,063)	
Surplus as Regards Policyholders	$	337,306,206	
Total Liabilities, Surplus & Other Funds	$	1,201,310,011	

Clearwater Insurance Company
Statement of Income
For the Year Ended December 31, 2014

Underwriting Income	
Premiums earned	$ 129,735
Deductions	
Losses incurred	98,305,641
Loss adjustment expenses incurred	16,073,329
Other underwriting expenses incurred	23,207,007
Total underwriting deductions	137,585,977
Net underwriting (loss)	(137,456,242)
Investment Income	
Net investment income earned	23,538,963
Net realized capital gains	15,508,088
Net investment gain	39,047,051
Other Income	
Aggregate write-ins for miscellaneous income	4,374,683
Total other income	4,374,683
Net income before federal & foreign income taxes	(94,034,508)
Federal income taxes incurred	(26,727,699)
Net loss	$ (67,306,809)

Clearwater Insurance Company
Reconciliation of Surplus for the exam period
For The Year Ended December 31, 2014

	Common Capital Stock	Paid In & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2010	$ 7,500,000	$ 258,731,812	$ 20,728,036	$286,959,848
2011				
Operations (1)			44,425,713	44,425,713
Capital stock (2)	896,058	49,103,942		50,000,000
2012				
Operations (1)			(32,489,133)	(32,489,133)
2013				
Operations (1)			31,190,295	31,190,295
2014				
Operations (1)			(67,779,974)	(67,779,974)
Contribution (3)	513,135	24,486,322		24,999,457
December 31, 2014	$ 8,909,193	$ 332,322,076	$ (3,925,063)	$337,306,206

(1) Operations is defined as: net income, change in net unrealized capital gains or (losses), change in net unrealized foreign exchange capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance and aggregate write-ins for gains and losses in surplus.

(2) On December 22, 2011, the Company's Board of Directors authorized the issuance of 2,986.86 shares of common stock to TIG Insurance Group Inc. in exchange for a promissory note in the amount of $50 million. This issuance was recorded by increasing capital common stock in the amount of $896,058 (2,986.86 shares of $300 par value) and an additional $49.1 million in additional paid in capital.

(3) Fairfax (US) Inc. made a $25 million capital contribution to the Company during the fourth quarter of 2014 in exchange for the issuance of 1,710.45 shares of common stock to Fairfax (US), Inc.

SCHEDULE OF EXAMINATION ADJUSTMENTS

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by this examination:

Surplus as Regards Policyholders December 31, 2014, per Annual Statement				$337,306,206
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
*No Adjustments				
LIABILITIES and SURPLUS:				
Capital Common Stock	$8,396,058	$8,909,193	($513,135)	
Paid In & Contributed Surplus	$332,835,211	$332,322,076	$513,135	
Net Change in Surplus:				$0
Surplus as Regards Policyholders December 31, 2014, Per Examination				$337,306,206

NOTES TO FINANCIAL STATEMENTS

Note 1

Bonds **$ 407,163,185**

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

The Company's bond holdings totaled approximately $407.2 million and were approximately 33.9% of total admitted assets and 36.9% of the Company's total cash and invested assets. Security composition for the year ending 2014 was comprised of the following:

U.S. Governments	$ 42.9 million
U.S. States, Territories and Possessions	$ 135.2 million
U.S. Special Revenues	$ 216.7 million
Industrial & Miscellaneous	$ 12.4 million
Total	$ 407.2 million

Approximately 97% of the Company's bonds are Class "1" designation with respect to NAIC credit quality standards.

As required by various state departments of insurance or by contract, the Company has pledged certain investment securities in support of business operations. The following table summarizes securities on deposit (in thousands):

Purpose of Deposit	Statement Value	Fair Value
State insurance departments	$ 20,297	$ 24,370
Reinsurance Trusts	214,284	244,004
Collateral for derivative contracts	50,520	54,473
Other	2,109	2,666
	$ 287,210	$ 325,513

Note 2

Preferred Stocks **$ 65,171,039**

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

The Company's preferred stocks holdings totaled approximately $65.2 million and were approximately 5.4% of total admitted assets and 5.9% of the Company's total cash and invested assets. The preferred stock amount is comprised entirely of investments in affiliates as follows:

TIG Capital Trust	$ 35.9 million
Hudson Insurance Company	$ 23.8 million
Clearwater Select Insurance Company	$ 5.5 million
Total	$ 65.2 million

Note 3

Common Stocks **$ 292,704,240**

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

The Company's common stocks holdings totaled approximately $292.7 million and were approximately 24.4% of total admitted assets and 26.6% of the Company's total cash and invested assets.

Investments in affiliated common stock totaled $114.8 million or 39% of total common stocks comprised of $75.8 million in TRG Holdings Corporation and $39 million in HWIC Asia Fund. The remaining $177.9 million or 61%, are invested in non-affiliated common stock.

Note 4

Cash, cash equivalents and short-term investments **$ 101,188,042**

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

The Company's cash, cash equivalents and short-term investments totaled approximately $101.2 million and were approximately 8.4% of total admitted assets and 9.2% of the Company's total cash and invested assets.

U.S. Treasury Bills totaled $33.6 million with the remaining $67.6 million held in depository and sweep accounts classified as cash and cash equivalents.

Note 5

A.7 Derivatives	**$ 11,938,049**
L.20 Derivatives	**$ (14,070,955)**

The above-captioned amounts, which are the same as reported by the Company in its Annual Statement, have been accepted for purposes of this report.

The Company's derivative investments totaled approximately $11.9 million and were approximately 1.0% of total admitted assets and 1.1% of the Company's total cash and invested assets. The derivatives are comprised of forward currency contracts to manage its foreign currency exchange rate risk on a macro basis and short equity and short equity index total return swaps as a level of protection for its equity and equity-related holdings against potential future broad declines in equity markets.

Note 6

Other Invested Assets	**$221,213,549**

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

The Company's Other Invested Assets totaled approximately $221.2 million and were approximately 18.4% of total admitted assets and 20% of the Company's total cash and invested assets. The Other Invested Assets were comprised of the following categories

Unaffiliated Joint Ventures	$ 67.3 million
Affiliated Joint Ventures	$ 4.8 million
Affiliated Non-collateral Loans	$ 70.0 million
Other – Insurance Trust	$ 79.1 million
Total	$ 221.2 million

Liabilities
Note 7

Losses	**$ 578,377,561**
Loss Adjustment Expense	**$ 194,108,517**

The above-captioned amounts, which are the same as reported by the Company in its Annual Statement, have been accepted for purposes of this report.

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.

INS finds that the Company's carried net and gross loss and LAE reserves are reasonably stated as of December 31, 2014, however, based on the INS review, the INS estimate of the gross loss and LAE reserve of $996.866 million is higher than the Company's carried reserve of $960.251 million by $36.615 million, or 3.8% of December 31, 2014 gross Annual Statement reserves. The INS estimate of the net loss and LAE reserve of $830.719 million is higher than the Company's carried reserve of $772.486 million by $58.233 million, or 7.5% of December 31, 2014 net Annual Statement reserves and 17.3% of December 31, 2014 Policyholder Surplus of $337.306 million. As noted previously in the "Subsequent Events" section of this examination report, as of December 31, 2015, the Company recognized a $90.9 million deficiency for accident years 2014 and prior, which is 11.8% of December 31, 2014 net Annual Statement reserves and 26.9% of December 31, 2014 Policyholder Surplus. December 31, 2015 Policyholder Surplus is $304.499 million, which is a decrease in Policyholder Surplus of 9.7% from December 31, 2014 to December 31, 2015.

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

On April 23, 2015, Everest Reinsurance Holdings, Inc., a Delaware corporation (Seller), and the Company entered into a Stock Purchase Agreement (Purchase Agreement), pursuant to which Seller agreed to sell to the Company all of the outstanding shares of capital stock of Mt. McKinley Insurance Company, a Delaware domiciled insurance company and a wholly-owned subsidiary of Seller.

On July 13, 2015, with the approval of the Delaware Department of Insurance, the Company purchased Mt. McKinley Insurance Company from Seller. The purchase price was approximately $20.2 million and equal to the statutory book value of Mt. McKinley Insurance Company as of July 13, 2015, in accordance with NAIC instructions. There was no resulting goodwill from this purchase.

Effective December 31, 2015, with the approval of the Delaware Department of Insurance, the Company's wholly owned subsidiary, Mt. McKinley Insurance Company, merged with and into the Company. As a result of the merger, all assets, rights and privileges of Mt. McKinley Insurance Company, transferred to and vested in the Company, and all liabilities of Mt. McKinley Insurance Company became the obligations of the Company.

Reserve Development and subsequent capital contribution

During 2015, $112.5 million was paid for claims and claim adjustment expenses attributable to insured events of prior years. Net reserves remaining from prior years as of December 31, 2015 are approximately $750.9 million resulting in a $90.9 million unfavorable prior-year development since December, 31, 2014, primarily due to reserve strengthening.

In accordance with the Financial Support Agreement, discussed in the "Intercompany Management and Service Agreements" section of this examination report, Fairfax (US), Inc. made a $59 million capital contribution to the Company during the fourth quarter of 2015, in exchange for 5,635 additional shares of common stock. The transaction resulted in a $57.4 million increase in gross paid in capital.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The prior examination report, as of December 31, 2010, was prepared by the Delaware Department of Insurance and disclosed no comments or recommendations.

SUMMARY OF RECOMMENDATIONS

No recommendations were made 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:

Description	December 31, 2010	December 31, 2014	Increase (Decrease)
Assets	$ 1,318,524,407	$1,201,310,011	$ (117,214,396)
Liabilities	$ 1,031,564,559	$ 864,003,805	$ (167,560,754)
Common Capital Stock	7,500,000	8,909,193	1,409,193
Gross Paid In and Contributed Surplus	258,731,812	332,322,076	73,590,264
Unassigned Funds (Surplus)	20,728,036	(3,925,063)	(24,653,099)
Total Surplus as Regards Policyholders	$ 286,959,848	$ 337,306,206	$ 50,346,358
Totals	$ 1,318,524,407	$1,201,310,011	$ (117,214,396)

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and the consulting information technology specialist with INS Services, Inc. is acknowledged. In addition to the undersigned, Anthony Cardone, CPA, CFE, (Examination Supervisor), participated in the examination.

Respectfully submitted,

Kelly Willison, CPA, CFE
Examiner-In-Charge
State of Delaware