REPORT OF EXAMINATION

OF THE

FAIRMONT INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

Filed on June 23, 2016

TABLE OF CONTENTS

PAGE

Los Angeles, California
April 12, 2016

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

FAIRMONT INSURANCE COMPANY

(hereinafter also referred to as the Company) at its main administrative office and primary location of its books and records at 250 Commercial Street, Suite 5000, Manchester, New Hampshire 03101. The Company's statutory home office is 11440 West Bernardo Court, Suite #120, 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, 2011. This examination covered the period from January 1, 2012 through December 31, 2014.

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. The examination also included identifying and evaluating significant risks that could cause the insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment was 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.

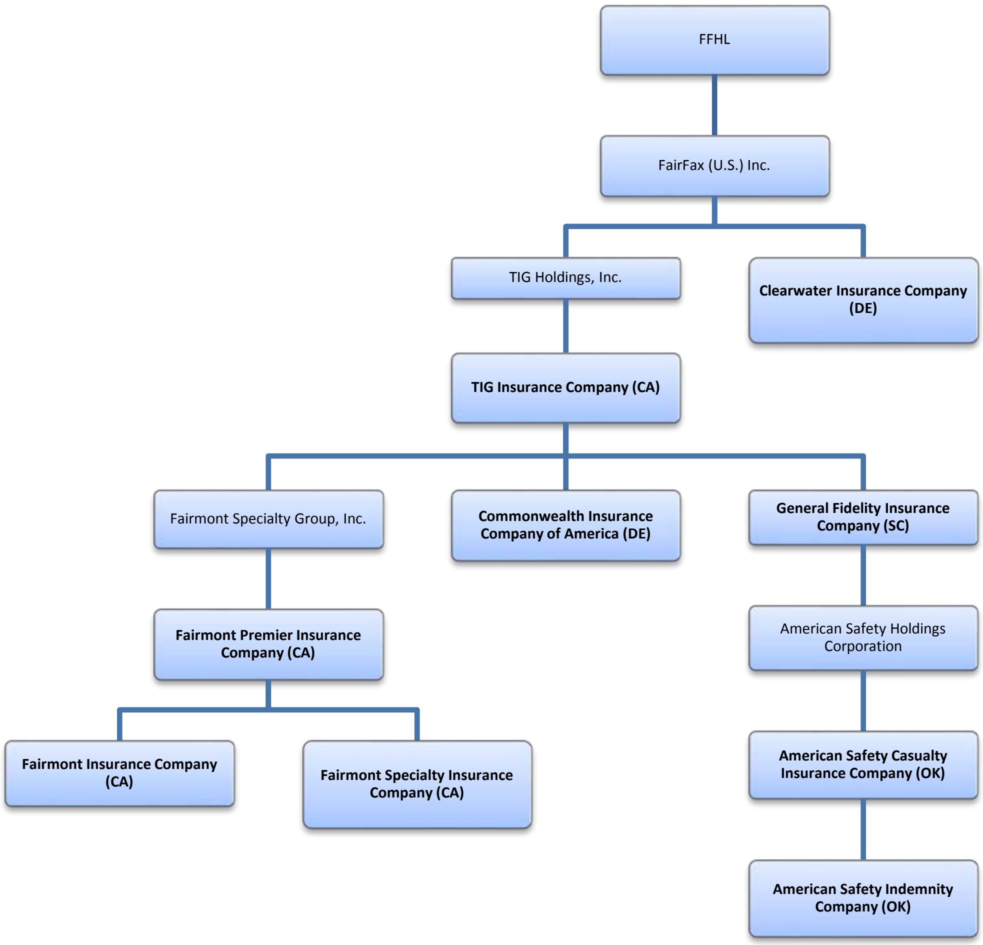
This was a coordinated examination with Delaware as the lead state for the Fairfax Financial Group (the Group). Fairfax Financial Holdings Limited ("FFHL") is a holding company incorporated in Ontario, Canada which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and the associated investment management. California is the facilitating state of the TIG Group, a subsidiary of the Group, which includes the following California domestic companies: Fairmont Insurance Company, Fairmont Specialty Insurance Company, Fairmont Premier Insurance Company, and TIG Insurance Company. The examination was conducted concurrently with other insurance entities in the holding company group, including the Crum and Forster Holdings Corporation, Odyssey Re Holdings Corporation, and Zenith National Insurance Corporation. Delaware and Oklahoma participated on the TIG Group examination which included the examination of the Company.

COMPANY HISTORY

The Company has been in runoff since 2006. On June 30, 2015, the Company was merged with and into TIG Insurance Company. See the Subsequent Events section of this report for additional information.

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 and all of the subsidiaries and affiliates of the TIG Group is contractually provided by RiverStone Resources, LLC, an indirect subsidiary of FFHL. The following abridged organizational chart depicts the interrelationship of the Company and its affiliates within Fairfax (U.S.) Inc., a wholly-owned subsidiary FFHL as of December 31, 2014. All ownership is 100%.



The four members of the board of directors, who are elected annually, manage the business and affairs of the Company. Following are members of the board and principal officers serving at December 31, 2014:

Directors

Name and Location	Principal Business Affiliation
John J. Bator Bedford, New Hampshire	Senior Vice President, Chief Financial Officer and Treasurer RiverStone Resources, LLC
Nicholas C. Bentley Exeter, New Hampshire	President and Chief Executive Officer RiverStone Resources, LLC

Name and Location	Principal Business Affiliation
Frank J. DeMaria (1) Windham, New Hampshire	Senior Vice President RiverStone Resources, LLC
Nina L. Caroselli Manchester, New Hampshire	Senior Vice President RiverStone Resources, LLC

Principal Officers

Name	Title
Nicholas C. Bentley	President and Chief Executive Officer
John J. Bator	Senior Vice President, Chief Financial Officer and Treasurer
Nina L. Caroselli	Senior Vice President
Frank J. DeMaria (1)	Senior Vice President
Richard J. Fabian	Senior Vice President
James K. Kelly	Senior Vice President
Gary J. McGeddy	Executive Vice President

(1) Frank J. DeMaria retired effective April 1, 2015.

Management Agreements

The following are the principal intercompany management agreements in place during the period under examination.

Tax Allocation Agreement: Effective January 1, 2000, the Company is 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 basis and settles with its parent. The California Department of Insurance (CDI) approved the Agreement on January 1, 2001. Tax amounts paid by the Company for each year under examination were: $9,555, $34,589, and $511,554 for 2012, 2013, and 2014, respectively.

Tax Services Agreement: The Company has a tax services arrangement with Fairfax (U.S.) Inc. An amendment to the Tax Services Agreement between TIG Insurance

Company and Fairfax (U.S.) Inc. was approved by the CDI on October 17, 2013. The amendment added the Company, among others, as a party to the Agreement. Tax service amounts paid by the Company for each year under examination were $368,320, $375,310, and $307,709 for 2012, 2013, and 2014, respectively.

Investment Agreement: Effective January 1, 2003, the Company is 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. The agreement was approved by the CDI on December 3, 2003. No fees were paid by the Company for the years under examination.

Information Technology Services Agreement: TIG Insurance Company is party to an Information Technology Agreement with affiliate Fairfax Information Technology Services, Inc. (FITS) effective August 1, 2001. Pursuant to this agreement, FITS is authorized to manage and provide information technology services to the Company. The CDI approved the initial agreement on September 17, 2001 and subsequent amendments on November 16, 2005 and June 4, 2009. The agreement was further amended a third time to add the Company, Fairmont Specialty Insurance Company, and Fairmont Premier Insurance Company as additional parties. The CDI approved this amendment on November 23, 2010. Fees charged are based on actual cost of services provided. The amount paid by the Company during the examination period was $21,185 in 2014.

Claims Service and Management Agreement: Effective January 1, 2006, the Company is party to a Claims Service and Management Agreement under which claims and management services are provided by United States Fire Insurance Company to the Fairmont Specialty Group companies, including the Company. The Claims Service and Management Agreement was approved by the CDI on December 30, 2005. Fees charged based on this agreement are based on actual cost of services provided. No amounts were paid by the Company for the years under examination.

Management Agreement: Effective February 19, 2009, the Company is party to an agreement, whereby RiverStone Resources LLC (RiverStone Resources) provides financial services, reinsurance services, claims management, legal related services, and administrative and management services to the Company. The Management Agreement was approved by the CDI on February 11, 2009. Fees charged are based on actual cost of services provided. No amounts were paid by the Company for the years under examination.

Master Administrative Services Agreement: Effective November 1, 2014, the Company entered into Master Administrative Services Agreement with various FFHL 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, actuarial matters, legal services and human resources. The CDI approved this agreement on September 15, 2014. Fees charged are based on actual cost of services provided. No amounts were paid by the Company for the years under examination.

Claims Administrative Agreement: Effective March 1, 2013, the Company entered into a Claims Administrative Agreement with Zenith Insurance Company (Zenith) under which Zenith will provide claims handling administration for the Company's workers compensation claims. This agreement was amended effective January 1, 2015 to change the fee structure. The CDI approved the Agreement on February 27, 2013 and the amendment on December 22, 2014. Fees charged are based on actual cost of services provided. No amounts were paid by the Company for the years under examination.

Broker Service Agreement: Effective May 4, 2009, the Company is party to a Broker Service Agreement with RiverStone Management Ltd. ("RSML"). Pursuant to the

Agreement, RSML provides reinsurance collection services in connection with reinsurance recoverables in the London market. The Agreement was approved by CDI on December 18, 2009. Fees charged are based on actual cost of services provided. No amounts were paid by the Company for the years under examination.

Claims Services Agreement: Effective February 1, 2009, the Company is party to a Claims Services Agreement with RSML. Pursuant to the Agreement, RSML provides claims services for assumed reinsurance. The Agreement was approved by CDI on December 18, 2009. Fees charged are based on actual cost of services. No amounts were paid by the Company for the years under examination.

The Company was also party to the following agreements, as part of the 2004 restructuring: Discontinued Lines Reinsurance and Services Agreement between the Company and TIG Insurance Company effective January 1, 2004, and Fairmont Specialty Business Transitions Period Reinsurance Agreement between the Company and TIG Insurance Company effective January 1, 2004. Since the merger of the Company with and into TIG Insurance Company, effective June 30, 2015, these agreements are no longer in force.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2014, the Company was licensed to transact multiple lines of property and casualty insurance in the District of Columbia and all states except Alabama, Florida, Maine, New Hampshire, New Jersey, Pennsylvania, Vermont, and Virginia. The Company participated in a 2004 pooling agreement with Fairmont Premier Insurance Company and Fairmont Specialty Insurance Company. In 2006, the Company went into runoff and ceded its business to an affiliate, United States Fire Insurance Company, pursuant to a 100% quota share arrangement and continued to run-off the remaining liabilities from the 2004 pooling agreement. Prior to discontinuing its operations, the Company wrote private passenger automobile liability, commercial automobile liability, automobile physical damage, homeowners, and various other lines of business. On June 30, 2015, the Company was merged with and into TIG Insurance Company.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

As of December 31, 2014, the three Fairmont Companies (the Company, Fairmont Specialty Insurance Company and Fairmont Premier Insurance Company) participated in the remaining liabilities from a 2004 pooling agreement, whereby Fairmont Premier Insurance Company assumed 100% of the premium, losses and loss adjustment expenses of both Fairmont Specialty Insurance Company and the Company. Fairmont Premier Insurance Company then retained 20% of the business and retroceded 67% to Fairmont Specialty Insurance Company and 13% to the Company. This pool effectively ended in December 2005 and effective January 1, 2006, the Fairmont Companies (including the Company) were placed into run-off.

Assumed

The aforementioned Intercompany Reinsurance Pooling Agreement resulted in a reinsurance payable on case and loss adjustment expense reserves of $5.8 million to Fairmont Premier Insurance Company. This is the only assumed reinsurance in place at December 31, 2014.

Ceded

The Company is in runoff and there are no recently enacted treaties currently in place as of December 31, 2014. The following schedule depicts the most recent active reinsurance ceded:

Line of Business and Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Limit
Casualty Lines:			
First Casualty Excess Liability Workers' Compensation	Swiss Reinsurance America Corp - 80% nSpire Re Ltd* – 20%	$1.5 million	$4.5 million excess $1.5 million
Second Casualty Clash Liability Workers' Compensation	Arch Reinsurance - 25%, Endurance Specialty Ins. Ltd. - 20%, Lloyds Syndicates - 25%, nSpire Re. Ltd *- 10%, Platinum Underwriters Reinsurance - 20%	$6 million	$5 million excess $6 million
Third Casualty Clash Liability Workers' Compensation	Arch Reinsurance - 25%, Endurance Specialty Ins. Ltd. - 20%, Lloyds Syndicates - 25%, Hannover Life Reinsurance - 10%, Platinum Underwriters Reinsurance - 20%	$11 million	$9 million excess $11 million
Specialty Umbrella Quota Share Casualty Loss Occurrence	Swiss Reinsurance America Corp - 80%	$1 million primary plus 20% of $5 million Umbrella	80% of $5 million after the primary
Hawaii Umbrella Quota Share Casualty Risk attach	General Reinsurance Co. 80%	$1 million primary plus 20% of $5 million Umbrella	80% of $5 million after the primary
Property Lines:			
Boiler and Machinery property Quota Share, Risks attached	Hartford Steam Boiler	Zero	100% of $25 million
Property per risk excess of loss occurrence	General Reinsurance Co. 100%	$1 million	$1 million excess $1 million
Property per risk excess of loss occurrence	General Reinsurance Co. 100%	$2 million	$3 million excess $2 million
Property per risk excess of loss occurrence	General Reinsurance Co. 100%	$5 million	$5 million excess $5 million
Hawaii property per risk excess of loss occurrence	General Reinsurance Co. 100%	$1 million	$1 million excess $1 million
Hawaii property per risk excess of loss occurrence	General Reinsurance Co. 100%	$2 million	$3 million excess $2 million
Property Catastrophe per risk excess of loss	General Reinsurance Co. 100%	$2 million and 5% of $18 million excess	95% of $18 million excess $2 million

* nSpire Re's participation was commuted in September 2011.

As a run-off company, the Company no longer actively participates in the prospective reinsurance market. The vast majority of the reinsurance activities consist of the collection of amounts recoverable from reinsurers and the potential for negotiations resulting in contract commutations. The Company reported reinsurance recoverable on paid losses and LAE and reinsurance recoverable on case, IBNR and LAE reserves from affiliates totaling $475,000 which represents less than 3% of reported surplus at December 31, 2014.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements as filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. These financial statements were prepared by management and are the responsibility of management. No adjustments were made to the statutory financial statements filed by the Company.

Statement of Financial Condition as of December 31, 2014

Underwriting and Investment Exhibit for the Year Ended December 31, 2014

Reconciliation of Surplus as Regards Policyholders from December 31, 2011 through December 31, 2014

Statement of Financial Condition
as of December 31, 2014

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 21,335,601	$	$ 21,335,601	
Common stocks	1,541,273		1,541,273	
Cash and short-term investments	3,148,722		3,148,722	
Investment income due and accrued	143,320		143,320	
Uncollected premiums and agents balances in course of collection	58,844	58,844		
Amount recoverable from reinsurers	447,468		447,468	
Funds held by or deposited with reinsured companies	50,221		50,221	
Net deferred tax asset	993,882	324,165	669,717	
Aggregate write-ins for other than invested assets	313,374	313,374		
Total assets	$ 28,032,705	$ 696,383	$ 27,336,322	
Liabilities, Surplus and Other Funds				
Losses and loss adjustment expenses			$ 8,762,083	(1)
Other expenses			151,592	
Current federal and foreign income taxes			175,454	
Ceded reinsurance premiums payable			15,661	
Funds held by company under reinsurance treaties			138,083	
Payable to parent, subsidiaries and affiliates			1,572,689	
Aggregate write-ins for liabilities			413,451	
Total liabilities			11,229,013	
Common capital stock		$ 8,340,000		
Gross paid-in and contributed surplus		231,671		
Unassigned funds (surplus)		7,535,638		
Surplus as regards policyholders			16,107,309	
Total liabilities, surplus and other funds			$ 27,336,322	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2014

Statement of Income

Underwriting Income		
Premiums earned		$ 17
Deductions:		
Losses and loss expenses incurred	$ (1,663,238)	
Other underwriting expenses incurred	246,903	
Total underwriting deductions		(1,416,335)
Net underwriting gain		1,416,352
Investment Income		
Net investment income earned	$ 899,292	
Net realized capital gain	107,704	
Net investment gain		1,006,996
Other Income		
Aggregate write-ins for miscellaneous income	77	
Total other income		77
Net income before federal and foreign income taxes		2,423,425
Federal and foreign income taxes incurred		467,715
Net income		$ 1,955,710

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2013		$ 13,400,326
Net income	$ 1,955,710	
Change in net unrealized capital gains	218,386	
Change in net unrealized foreign exchange capital loss	(63,625)	
Change in net deferred income tax	911,040	
Change in nonadmitted assets	(320,415)	
Aggregate write-ins for gains and losses in surplus	5,887	
Change in surplus as regards policyholders for the year		2,706,983
Surplus as regards policyholders, December 31, 2014		$ 16,107,309

Reconciliation of Surplus as Regards Policyholders
from December 31, 2011 through December 31, 2014

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2011			$ 10,987,550
Net income	$ 4,375,232	$	
Net unrealized capital gains	84,096		
Change in net foreign exchange capital losses		63,625	
Change in net deferred income tax		1,837,363	
Change in nonadmitted assets	2,487,099		
Aggregate write-ins for gains and losses in surplus	74,320		
Total gains and losses	$ 7,020,747	$ 1,900,988	
Net increase in surplus as regards policyholders			5,119,759
Surplus as regards policyholders, December 31, 2014			$ 16,107,309

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

INS Consultants, Inc. (INS) has been retained by the Delaware Department of Insurance to perform actuarial services on the multi-state coordinated financial condition examination of the Fairfax Group as of December 31, 2014. Four of the companies included in the scope of this examination are the Company, Fairmont Specialty Insurance Company, Fairmont Premier Insurance Company and TIG Insurance Company. All of these entities are domiciled in the state of California. INS has been authorized to provide actuarial services for the California Department of Insurance (California) 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 2014 Annual Statements, the related 2014 Statements of Actuarial Opinion (SAO) signed by the entities' Appointed Actuary, Matthew Kunish, FCAS, MAAA, of RiverStone Resources, LLC; the Actuarial Report accompanying the SAO; and the entities' Actuarial Opinion Summaries.

Based on the review, the INS estimate of the gross loss and LAE reserve of $13.603 million is higher than the Company carried reserve of $13.311 million by $292,000, or 2.2% of gross annual statement reserves at December 31, 2014.

The INS estimate of the net loss and LAE reserve of $8.105 million is lower than the Company carried reserve of $8.761 million by $656,000, or 7.5% of net annual statement reserves at December 31, 2014.

INS finds the Company's booked net loss and LAE reserves as of December 31, 2014 are reasonably stated.

SUBSEQUENT EVENTS

Effective June 30, 2015, the three Fairmont Companies: the Company, Fairmont Specialty Insurance Company, and Fairmont Premier Insurance Company were merged with and into TIG Insurance Company with TIG Insurance Company being the surviving entity. The merger was approved by the California Department of Insurance on June 23, 2015.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Management and Control – Tax Services Agreement (Page 6): It was recommended that a written tax services agreement be prepared and submitted to the California Department of Insurance (CDI) for approval in accordance with California Insurance Code (CIC) Section 1215.4. The Company has complied with the recommendation.

Accounts and Records – Information Systems Controls (Page 10): It was recommended that the Company should evaluate the recommendations and make appropriate changes to strengthen its information system controls. The Company has complied with the recommendation.

Accounts and Records – Bank Custodial Agreement (Page 10): The existing custodial agreement, between the Company and the BNY Western Trust Company, had not been submitted to the CDI for approval as specified by CIC Section 1104.9(c). It was recommended that the Company submit the custodial agreement to the CDI for approval per CIC Section 1104.9(c). The Company complied with the recommendation.

ACKNOWLEDGMENT

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

Respectfully submitted,

__/S/_________________________

William M. Fedak, CFE
Contract Examiner-In-Charge
Department of Insurance
State of California

__/S/__________________________

Aram Shahenian, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California