REPORT OF EXAMINATION

OF THE

FAIRMONT SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

Filed on June 23, 2016

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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 SPECIALTY INSURANCE COMPANY

(hereinafter also referred to as the Company) at its main administrative office and primary location of its books and records 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.

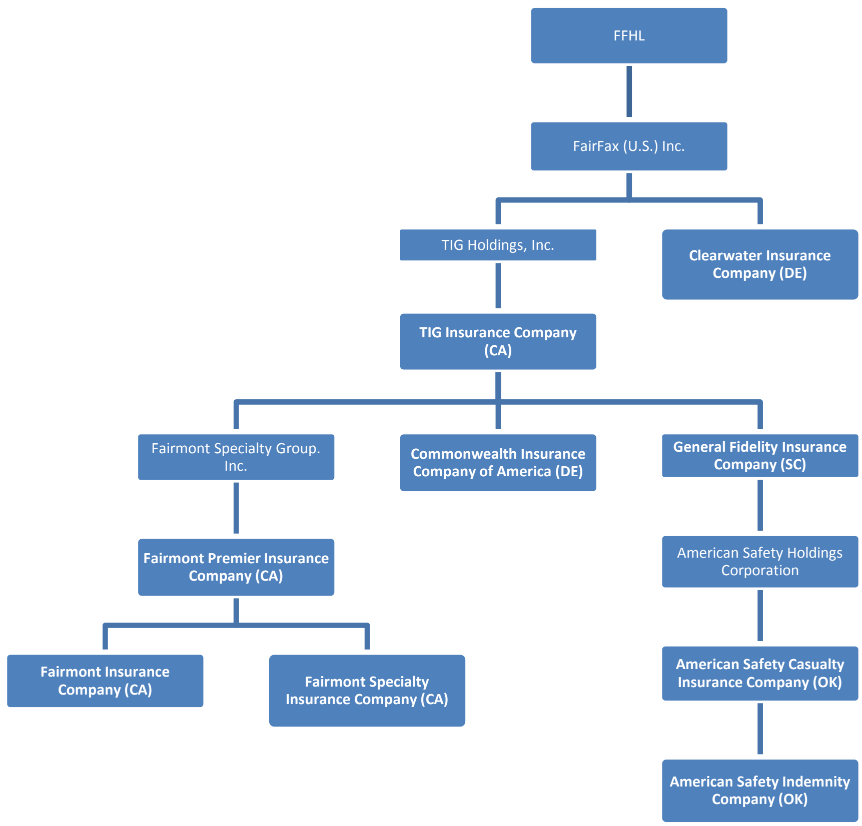
This was a coordinated examination with Delaware as the lead state for the Fairfax Financial Group (the Group). Fairfax Financial Holdings Limited ("FFHL") is a holding company incorporated and domiciled in Ontario, Canada which, through its subsidiaries, is principally engaged in property and casualty 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 of 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
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 or (received) by the Company for each year under examination were $411,394, ($325,055), and $1,778,487 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 $51,909, $4,386, and $4,481 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. The Company paid $500,245, $417,032, and $632,255 for 2012, 2013, and 2014, respectively.

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 to add the Company, Fairmont Premier Insurance Company and Fairmont Insurance Company as additional parties. The CDI approved the third amendment on November 23, 2010. Fees charged are based on actual cost of services provided. The amounts paid by the Company for each year under examination were $1,575, $1,560 and $111,343 for 2012, 2013, and 2014, respectively.

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 are based on actual cost of services provided. The amount paid by the Company for the years under examination was $285,067 in 2012.

Claims Service and Management Agreement: Effective February 19, 2009, the Company is party to a Claims Services and Management Agreement whereby RiverStone Claims Management LLC (RiverStone Claims) provides claims handling and related services including data processing and accounting services. The Claims Service and Management Agreement was approved by the CDI on February 11, 2009. Fees charged are based on actual cost of services provided. Amounts paid by the Company for each year under examination were $427,521, $629,851, and $946,415 for 2012, 2013, and 2014, respectively.

Management Agreement: Effective February 19, 2009, the Company is party to a Management 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. Amounts paid by the Company for each year under examination were $1,035,488, $1,141,472, and $1,916,928 for 2012, 2013, and 2014, respectively.

Master Administrative Services Agreement: Effective November 1, 2014, the Company entered into a 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) pursuant to 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 CDI approved this Agreement 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 Service 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 CDI approved this Agreement 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.

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 all states and the District of Columbia. The Company began discontinuing its operations in 2006 and ceded its ongoing business to an affiliate, United States Fire Insurance Company, pursuant to a 100% quota share arrangement during the transition. Prior to discontinuing its operations, the Company wrote workers' compensation, commercial multiple perils, commercial automobile liability, other liability-occurrence, and various other lines of business. The Company specialized in niche markets that required unique underwriting, claims and loss control expertise, such as propane and agriculture products. 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 (Fairmont Insurance Company, the 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 Fairmont Insurance

Company. Fairmont Premier Insurance Company then retained 20% of the business and retroceded 67% to Fairmont Specialty Insurance Company and 13% to Fairmont Insurance 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

Assumed reinsurance as a result of the aforementioned Intercompany Reinsurance Pooling Agreement amounted to a reinsurance payable on case and loss adjustment expense reserves of $30 million to Fairmont Premier Insurance Company. In addition, the Company assumed business from 62 reinsurers, voluntary and mandatory pools, and associations, including 3 affiliated reinsurers. All assumed treaties are in runoff. Business assumed from affiliates including the Intercompany Pooling Agreement represented roughly 81% of the $72.1 million of assumed case loss and loss adjustment expense reserves at December 31, 2014. Affiliated assumed reinsurance payables resulted primarily from reinsurance with United States Fire Insurance Company and Fairmont Premier Insurance Company. Material assumed case loss and loss adjustment expense reserves payable to non-affiliates included $1.5 million to Munich Reinsurance America Incorporated (Delaware) and $1.66 million to the National Workers Compensation Reinsurance Pool (New York).

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 Company's 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 totaling approximately $94,914,000, which represents more than 98.9% 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	$ 106,509,193	$	$ 106,509,193	
Common stocks	20,156,126		20,156,126	
Cash and short-term investments	13,275,943		13,275,943	
Receivable for securities	263		263	
Investment income due and accrued	1,528,592		1,528,592	
Uncollected premiums and agents balances in course of collection	303,271	303,271		
Amount recoverable from reinsurers	2,306,183		2,306,183	
Funds held by or deposited with reinsured companies	258,829		258,829	
Net deferred tax asset	2,194,871		2,194,871	
Receivable from parent, subsidiaries and affiliates	6,163,821	2,184	6,161,637	
Aggregate write-ins for other than invested assets	1,687,103	1,687,103		
Total assets	$ 154,384,195	$ 1,992,558	$ 152,391,637	
Liabilities, Surplus and Other Funds				
Losses and loss adjustment expenses			$ 45,158,424	(1)
Other expenses			781,280	
Current federal and foreign income taxes			1,619,611	
Ceded reinsurance premiums payable			80,716	
Funds held by company under reinsurance treaties			711,661	
Provision for reinsurance			2,751,056	
Payable to parent, subsidiaries and affiliates			3,244,807	
Aggregate write-ins for liabilities			2,130,851	
Total liabilities			56,478,406	
Common capital stock		$ 3,100,000		
Gross paid-in and contributed surplus		45,094,622		
Unassigned funds (surplus)		47,718,609		
Surplus as regards policyholders			95,913,231	
Total liabilities, surplus and other funds			$ 152,391,637	

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

Statement of Income

Underwriting Income		
Premiums earned		$ 88
Deductions:		
Losses and loss expenses incurred	$ (8,572,074)	
Other underwriting expenses incurred	1,272,499	
Total underwriting deductions		(7,299,575)
Net underwriting gain		7,299,663
Investment Income		
Net investment income earned	$ 5,931,427	
Net realized capital gain	61,363	
Net investment gain		5,992,790
Other Income		
Aggregate write-ins for miscellaneous income	378	
Total other income		378
Net income before federal and foreign income taxes		13,292,831
Federal and foreign income taxes incurred		1,805,800
Net income		$ 11,487,031

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2013		$ 77,423,251
Net income	$ 11,487,031	
Change in net unrealized capital gains	3,976,515	
Change in net unrealized foreign exchange capital loss	(318,124)	
Change in net deferred income tax	2,682,424	
Change in nonadmitted assets	176,848	
Change in provision for reinsurance	454,944	
Aggregate write-ins for losses in surplus	30,342	
Change in surplus as regards policyholders for the year		18,489,980
Surplus as regards policyholders, December 31, 2014		$ 95,913,231

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			$ 61,584,135
Net income	$ 26,244,324	$	
Net unrealized capital gains	3,790,721		
Change in net foreign exchange capital losses		318,124	
Change in net deferred income tax		3,963,112	
Change in nonadmitted assets	7,788,127		
Aggregate write-ins for gains and losses in surplus	383,036		
Total gains and losses	$ 38,610,332	$ 4,281,236	
Net increase in surplus as regards policyholders			34,329,096
Surplus as regards policyholders, December 31, 2014			$ 95,913,231

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 Fairmont Insurance Company, Fairmont Premier Insurance Company, the 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 Actuarial Opinion Summaries.

Based on the review, the INS estimate of the gross loss and LAE reserves of $70.105 million is higher than the Company carried reserve of $68.611 million by $1.494 million, or 2.2% of gross annual statement reserves at December 31, 2014.

The INS estimate of the net loss and LAE reserves of $41.773 million is lower than the Company carried reserve of $45.157 million by $3.384 million, or 7.5% of net annual statement reserves at December 31, 2014.

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

SUBSEQUENT EVENTS

Effective June 30, 2015, the three Fairmont Companies: Fairmont Insurance Company, the 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