

REPORT ON EXAMINATION
OF
HUDSON 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

HUDSON INSURANCE COMPANY

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

Attest By:  _____

Date: April 13, 2016



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 13th day of April, 2016.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
HUDSON 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.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 13th day of April, 2016

TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION.....	2
SUMMARY OF SIGNIFICANT FINDINGS	3
COMPANY HISTORY	3
MANAGEMENT AND CONTROL	6
TERRITORY AND PLAN OF OPERATION	14
REINSURANCE.....	16
FINANCIAL STATEMENTS	17
ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS RESULTING FROM EXAMINATION	21
COMMENTS ON FINANCIAL STATEMENT ITEMS.....	22
SUBSEQUENT EVENTS	23
SUMMARY OF RECOMMENDATIONS	24
CONCLUSION.....	24

SALUTATION

January 31, 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. 15.008, dated February 2, 2015, an examination has been made of the affairs, financial condition and management of

HUDSON INSURANCE COMPANY

hereinafter referred to as the “Company” or “Hudson” and incorporated under the laws of the State of Delaware as a stock company. The examination was conducted at the statutory home office of the Company, located at 100 William Street, 5th Floor, New York, New York 10038.

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 company within the Fairfax Insurance Group. The report for this examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The last examination covered the period of January 1, 2008 through December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2014.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and 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 course of this examination, consideration was given to work performed by the Company's external auditing firm, PricewaterhouseCoopers LLC (PwC). Certain auditor work papers have been incorporated into the work papers of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant material adverse findings or financial adjustments as a result of this examination.

COMPANY HISTORY

General

Fairfax (US) Inc. (Fairfax), a Delaware corporation, purchased the Company along with Clearwater Insurance Company (CIC), its immediate parent on May 31, 1996. The ultimate parent of Fairfax is Fairfax Financial Holdings Limited (Fairfax Holdings), a Canadian financial services holding company.

As of December 31, 2010, Hudson was 100%-owned by CIC, an insurance company domiciled in the State of Delaware. CIC was 100%-owned by Odyssey America Reinsurance Corporation (OARC), a Connecticut corporation, which was 100%-owned by Odyssey Re Holdings Corp. (ORH), which was owned ultimately 100% by Fairfax. On January 1, 2011, OARC changed its name to Odyssey Reinsurance Company (ORC).

As a result of the reorganization on January 1, 2011, ORH transferred ownership of CIC to TIG Insurance Group, Inc. (TIG), which is a Fairfax subsidiary and shareholder of ORH, in exchange for 5,921 shares of ORH common stock held by TIG. Prior to this transaction in 2010, certain CIC business (including all of the business ceded by Clearwater Select Insurance Company) was reinsured with ORC. CIC distributed by means of a stock dividend, declared by

its Board of Directors on December 9, 2010, its ownership interest in the common stock of Hudson and Clearwater Select Insurance Company (CSIC) to ORC. ORC then distributed its ownership interest in CIC to ORH by means of a stock dividend, which was declared on December 13, 2010. CIC transferred to TIG on January 1, 2011, \$5.5 million in preferred stock of CSIC and \$23.807 million in preferred stock of Hudson. As a result, effective January 1, 2011, the Company was owned directly by ORC.

In the fourth quarter of 2014, Fairfax Holdings re-organized and aligned ownership of ORH, ORC's 100% direct parent under a newly-formed, single intermediate holding company in the United States named Odyssey US Holdings Inc. (OUSHI). OUSHI, a Delaware corporation, is 100% owned by Fairfax, which is ultimately 100% owned by Fairfax Holdings.

Capitalization

The Company is authorized to issue 25,000 shares of common stock with a par value of \$300 per share. Currently, all 25,000 shares of the common stock are issued and held by ORC.

In addition, the Company is authorized to issue 25,000 shares of preferred stock with a par value of \$0.01 per share. Currently, 23,807 shares of the preferred stock are issued and held by CIC.

The following table reflects the Company's capitalization activity since the prior examination:

	<u>Capital Stock</u>	<u>Preferred Stock</u>	<u>Gross Paid-in & Contributed Surplus</u>
December 31, 2010	\$7,500,000	\$23,807,000	\$269,673,334
Activity	<u>0</u>	<u>(23,806,762)</u>	<u>23,806,763</u>
December 31, 2014	<u>\$7,500,000</u>	<u>\$ 238</u>	<u>\$293,480,097</u>

The Company paid a dividend of \$23,807,000 to CIC on January 1, 2011, in the form of 23,807 shares of its 5.5% Series A preferred stock, with a liquidation preference of \$1,000 per share and was calculated as an ordinary dividend in the amount of \$22,707,107 and an extraordinary dividend in the amount of \$1,099,893. The dividend was approved by the Delaware Department of Insurance on December 16, 2010. The new preferred stock outstanding, noted above, was issued to replace this liquidated preferred stock, as part of the corporate re-organization that occurred at the end of 2010.

Dividends

According to Company records for the years indicated, and as reflected in minutes to the Board of Directors' meetings, the following dividends were paid to the stockholders:

<u>Stock</u>	<u>Type</u>	<u>Amount</u>	<u>Paid Date</u>
Preferred	Ordinary	\$22,707,107	January 1, 2011
Preferred	Extraordinary	1,099,893	January 1, 2011
Preferred	Ordinary	327,346	May 6, 2011
Preferred	Ordinary	327,346	July 20, 2011
Preferred	Ordinary	<u>327,346</u>	October 20, 2011
		\$24,789,038	2011 Total
Preferred	Ordinary	\$1,309,385	October 22, 2012
Preferred	Ordinary	\$1,309,385	October 21, 2013
Preferred	Ordinary	\$1,309,385	October 20, 2014
Common	Ordinary	<u>4,053,423</u>	November 24, 2014
		\$5,362,808	

The common stock dividend of \$4,053,423 dated November 24, 2014, relates to the transfer of the value of Hudson Specialty Insurance Company's 2.2% ownership in Advent Capital (Holdings) Ltd. received by Hudson on November 7, 2014, and then transferred up to ORC on November 24, 2014.

MANAGEMENT AND CONTROL

Board of Directors

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).

Directors shall be elected annually by the sole shareholder and the number of directors who will constitute the entire Board, shall consist of no less than three (3) and no more than nine (9) members. The directors shall hold office until the next Annual Shareholders Meeting or until their successors are elected or appointed. The Board of Directors, duly elected in accordance with its bylaws and serving at December 31, 2014, is as follows:

<u>Individual</u>	<u>Principal Business Affiliation</u>
Jan Christiansen	Executive Vice President & Chief Financial Officer Odyssey Re Holdings Corp.
Christopher L. Gallagher	President & Chief Operating Officer Hudson Insurance Company
Michael G. Wacek	Executive Vice President Odyssey Re Holdings Corp.
Brian D. Young	President & Chief Executive Officer Odyssey Re Holdings Corp.

Officers

In accordance with its bylaws, officers serving the Company shall be a Chairman of the Board, a President, one or more Vice Presidents (as determined by the Board), a Controller, a Corporate Secretary, and other officers as may from time to time be appointed by the Board. The Vice Presidents may include Executive Vice Presidents and Senior Vice Presidents. Any two or more offices may be held by the same person, except that the President and the General

Counsel cannot be the same person. The most senior officers, duly appointed in accordance with the bylaws and serving at December 31, 2014, are as follows:

<u>Individual</u>	<u>Office</u>
Brian D. Young	Chairman & Chief Executive Officer
Christopher L. Gallagher	President & Chief Operating Officer
Christopher T. Suarez	Executive Vice President & Chief Underwriting Officer
Elizabeth A. Sander	Executive Vice President & Chief Actuary
Alane R. Carey	Executive Vice President
Jan Christiansen	Executive Vice President
James J. Hooghuis	Executive Vice President
Anthony J. Slowski	Senior Vice President & Controller
Anthony Terracciano	Senior Vice President & Chief Information Officer
John F. Verbich	Senior Vice President & Chief Financial Officer
Dina G. Daskalakis	Senior Vice President, General Counsel & Corporate Secretary

Committees of the Board

As of December 31, 2014, the Board of Directors had three constituted committees:

<u>Benefit Plan</u>	<u>Compensation</u>	<u>Investment</u>
Jan Christiansen	Jan Christiansen	Jan Christiansen
Michael G. Wacek	Michael G. Wacek	Michael G. Wacek
Brian D. Young	Brian D. Young	Brian D. Young

In 2010, the Company designated the Audit Committee of ORH as its Audit Committee and sent notification to the Delaware Department of Insurance of this event on December 22, 2010.

Corporate Records

The recorded minutes of the shareholders, Board, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events for the approval of investment transactions in accordance with 18 Del. C. §1304.

Inspection of Company files indicated that an ethics statement/conflict of interest statement was completed by all directors and employees for the examination period.

A review was performed for compliance with Code 18 Del. C. § 4919 Change of directors, officers notice. This law states “Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers.” The Company is in compliance.

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% 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 <u>Percent</u>	Voting Control <u>Percent</u>	
V. Prem Watsa and The Watsa Family Trust {1}	{2}	1.33%	43.97%	{3}
All Other Publicly Traded Shares Held {4}	{5}	98.67%	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%	
Odyssey US Holdings Inc. [DE]		100.00%	100.00%	
Odyssey Re Holdings Corp. [DE]		100.00%	100.00%	
Odyssey Reinsurance Company [CT]		100.00%	100.00%	
Hudson Insurance Company [DE]		100.00%	100.00%	
Hudson Specialty Insurance Company [NY]		100.00%	100.00%	
Hudson Excess Insurance Company [DE]				

- {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 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 subordinate 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 $100.00\% - 1.33\% \{2\} = 98.67\%$
- {6} Calculated as $100.00\% - 43.97\% \{3\} = 56.03\%$
- {7} Common shares are publicly traded on the Toronto Stock Exchange under the symbol "FFH" and secondarily on the Over-The-Counter market (OTC, or "pink sheets") in the U.S. under the symbol "FRFHF".

At December 31, 2014, FFH has 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 subordinate multiple voting common shares and 20,427,398 votes attributable to the 20,427,398 subordinate voting common shares. FFH's non-minority capital account 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 7.57% 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%.

Affiliated Agreements

Expense Sharing Agreement

The Company entered into an Expense Sharing Agreement with Fairfax, ORC, CIC, and CSIC effective January 1, 2000, with one amendment since inception. Each party to the agreement is to make the following services available to the other parties: management, consulting, underwriting, claims, accounting, financial, legal, personnel, data processing services, to be used at times and in amounts determined necessary and appropriate by the managing officers of each company. Each party provides quarterly detailed statements to each company to which it provided services during the quarter. This agreement was approved by the Delaware Department of Insurance. The Company paid \$250,091 in 2014 to ORC pursuant to this agreement.

Tax Allocation Agreement

The Company entered into a Tax Allocation Agreement with Fairfax, ORH, ORC, CSIC and Hudson Specialty Insurance Company (Hudson Specialty) effective January 1, 2000, with four amendments since inception. The Company and its U.S. affiliates file a consolidated U.S. federal income tax return in accordance with Section 1501 of the U.S. Internal Revenue Code of 1986 (as amended). Each company's tax liability is calculated based upon its respective share of consolidated income. The agreement further provides that each member receive reimbursement to the extent that its losses and other credits resulted in a reduction of the current year's consolidated tax liability, not to exceed its liability as if filed on an individual basis. This agreement was approved by the Delaware Department of Insurance on January 2, 2001. The Company received \$658,943 in 2014 from ORH pursuant to this agreement.

Tax and Compliance Services Agreement

The Company entered into a Tax and Compliance Services Agreement with Fairfax effective January 1, 2002. Fairfax provides tax compliance and consulting services to ORH and its five operating subsidiaries. The fees paid by each company are payable quarterly and include a total fixed base fee and a variable fee component that includes third party outside fees incurred on behalf of ORH and its subsidiaries. This agreement was approved by the Delaware Department of Insurance on October 17, 2001. The Company paid \$156,000 in 2014 to ORH pursuant to this agreement.

Investment Manager Agreement

The Company entered into an Investment Manager Agreement with Hamblin Watsa Investment Counsel, Ltd. (Hamblin Watsa) and Fairfax Holdings effective January 1, 2003. Hamblin Watsa manages the Company's investment portfolio in accordance with investment objectives communicated in writing by Company management, subject to investment guidelines in compliance with the investment limitation statutes of the State of Delaware. In addition, Fairfax Holdings provides investment administrative services to the Company under guidelines established by the Board or authorized committee of the Board. This agreement was approved by the Delaware Department of Insurance on March 23, 2005. The Company paid \$1,320,414 in 2014 to Hamblin Watsa and Fairfax Holdings pursuant to this agreement.

Service and Management Agreement

The Company entered into a Service and Management Agreement with American Safety Casualty Insurance Company (ASCIS) and American Safety Indemnity Company (ASIC) effective October 3, 2003. The Company provides management services to ASCIC and ASIC with respect to the insurance policies renewed under the renewal rights agreement. This

agreement was approved by the Delaware Department of Insurance on October 30, 2013. ASCIC paid \$1,573,237 in 2014 to the Company pursuant to this agreement.

Revolving Line of Credit Agreement

The Company entered into a Revolving Line of Credit Agreement with ORC effective September 16, 2014. The purpose of this agreement is to principally fund the short-term needs under the crop insurance program each September and October. The revolving line of credit may not exceed \$50 million at any time and shall bear interest at the mid-term Applicable Federal Rate prescribed by the Internal Revenue Service for the month in which the agreement is executed. Interest is payable on the 15th of January, April, July and October. The revolving line of credit will terminate when a demand for termination is made by ORC. This agreement was approved by the Delaware Department of Insurance on September 22, 2014. During 2014, the company borrowed \$23 million at an interest rate of 1.85%. The amount outstanding under the line of credit at December 31, 2014, was \$0. The Company paid interest of \$6 thousand to ORC in 2014 pursuant to this agreement.

Master Administrative Services Agreement

The Company entered into a Master Administrative Services Agreement among various U.S. operating subsidiaries of Fairfax Holdings effective November 1, 2014. Each party to the agreement may provide certain administrative services to any other party. Each party provides quarterly detailed statements to each company to which it provided services during the quarter. This agreement was approved by the Delaware Department of Insurance on August 19, 2014. The Company did not provide or receive any services or payments under this agreement in 2014.

Unaffiliated Agreements

Custodian Agreement

The Company entered into a Custodian Agreement with Bank of New York Mellon (BONY-Mellon) effective July 30, 2007. Pursuant to the agreement, BONY-Mellon acts as the custodian for the Company's portfolio of investment securities. A review of the terms of the custodian agreement indicates that the agreement contains the minimum standards required under the NAIC Handbook.

TERRITORY AND PLAN OF OPERATION

Territory

At December 31, 2014, the Company has certificates of authority to write business in all 50 U.S. States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and qualifies as an acceptable surety and/or reinsurer on Federal bonds.

For 2014, the Company wrote 75.0% of its direct business in the following jurisdictions / states and other alien territories: Native American business produced on their own land (54.5%), California (10.6%), Tennessee (4.5%), Washington (2.9%), and Texas (2.5%).

Plan of Operation

The Company, which operates as the primary admitted carrier of the ORH U.S. insurance operations, writes property and casualty products on a direct and program basis.

The Company's direct business was underwritten by employed underwriters with employees responsible for marketing, policy issuance, premium collection and billing. Direct business was produced by brokers and appointed agents. The Company provides coverage to farmers in several states for multiple peril, crop hail and other named peril exposures. The

Company also provides directors and officers' liability, personal liability, property, and medical malpractice insurance in limited states.

Regarding program business, the Company had contracts for underwriting and servicing of business within the following lines of coverage: commercial general liability, garage liability, professional liability, surety and private passenger and commercial auto liability and physical damage. The Company's program business was written through specialized agents and managing general agents (MGAs). These contracted agents write business that meets the underwriting guidelines on the Company's paper. Claims and claims management of the Company were managed through third party administrators (TPAs), claims administrators and Company personnel who specialize in the business managed.

In 2014, the Company had direct written premiums through MGAs in the amount of \$142,955,187, which represents 20.3% of the \$703,634,097 total direct written premiums, as follows:

<u>Program</u>	<u>Coverages</u>	<u>Premiums</u>
Alliant Specialty Insurance Services	Other Liability, Sovereign Nation, Workers' Compensation Automobile Liability	\$99,360,022
Transportation Insurance Services	Non-Trucking Liability	\$43,595,165

Net written premiums in 2014 by line of business (top 5) were as follows:

<u>Lines of Business</u>	<u>Premiums</u>	<u>Percentage of Total</u>
Allied Lines	\$ 301,934,225	42.9%
Other Liability - Occurrence	\$ 170,662,768	24.3%
Other Liability - Claims Made	\$ 80,394,380	11.4%
Surety	\$ 51,026,043	7.3%
Commercial Auto Liability	\$ 41,723,095	5.9%
All Others	\$ 57,893,586	8.2%
Total	<u>\$ 703,634,097</u>	<u>100.0%</u>

REINSURANCE

General

The Company reported the following distribution of net premiums written for 2014:

Direct	\$703,634,097
Reinsurance assumed from affiliates	\$ 9,388,226
Reinsurance assumed from non-affiliates	(22,124)
Total gross (direct and assumed)	\$ 9,366,102
Reinsurance ceded to affiliates	\$393,248,871
Reinsurance ceded to non-affiliates	153,169,545
Total ceded	<u>\$546,418,416</u>
Net premiums written	<u>\$166,581,783</u>

The Company retained 23.36% of its gross business in 2014.

Assumed

The Company assumed a small amount of business from affiliates in 2014 by cedent (and domicile in parentheses) as follows:

	<u>Premiums (in 000s)</u>	<u>Percent of Total</u>
American Surety Casualty Company (OK)	\$3,604	38.39%
Crum & Forster Indemnity Co. (DE)	3,979	42.38%
Odyssey Reinsurance Company (CT)	1,805	19.23%
Total	<u>\$9,388</u>	<u>100.00%</u>

Ceded

As of December 31, 2014, the Company had only one significant affiliated reinsurance agreement covering the general book of business. Of the Company's \$393.2 million in premiums ceded to affiliates in 2014, \$388.4 million was ceded to affiliate ORC pursuant to the 70% Net Line Quota Share Reinsurance Agreement effective January 1, 2008, with amendment #1 effective January 1, 2009. The Company cedes to ORC a 70% quota share of any business written or renewed by the Company on or after the effective date, net of all reinsurance protections ceded to third party reinsurers. The agreement and amendment were approved by the Delaware Department of Insurance on December 7, 2007, and December 8, 2008, respectively.

As of January 1, 2014, ORC has agreed to reinsure, on a 100% quota share basis, certain of the external reinsurance placements of the Company, Hudson Excess and Hudson Specialty, which amount ORC then retrocedes to CRC Reinsurance Limited, a Barbados reinsurer that is 100%-owned by Fairfax Holdings. This retrocession arrangement is referred to as the Fairfax Internal Reinsurance Vehicle (FIRV). The Company ceded \$3.438 million in written premiums to ORC in 2014 pursuant to this arrangement.

FINANCIAL STATEMENTS

Financial statements, as reported and filed by the Company with the State Department of Insurance, are reflected in the following:

- o Statements of assets, liabilities and surplus
- o Statement of income
- o Reconciliation of surplus for the period since the last examination
- o Supporting schedules and exhibits to the extent needed

HUDSON INSURANCE COMPANY
STATEMENT OF ASSETS
DECEMBER 31, 2014

Assets	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	\$308,167,720		\$308,167,720	1
Preferred Stocks	11,568,781		11,568,781	
Common Stocks	217,854,953		217,854,953	2
Cash and Short Term Investments	51,240,971		51,240,971	
Receivables for securities	15,000		15,000	
Investment income due and accrued	5,264,346		5,264,346	
Premiums and Considerations:				
Uncollected premiums and agents balances	8,852,527	6,587,829	2,264,698	
Deferred premium	18,884,820		18,884,820	
Reinsurance:				
Amounts recoverable from reinsurers	187,362,086		187,362,086	
Current federal and foreign income tax recoverable	1,210,617		1,210,617	
Net deferred tax asset	37,066,216	6,192,937	30,873,279	
EDP equipment and software	5,441,423	4,162,261	1,279,162	
Furniture and equipment	891,116	891,116	0	
Receivable from affiliates	4,095,343		4,095,343	
Aggregate write-ins for other than invested assets	236,137,669	33,567,822	202,569,847	3
	<hr/>	<hr/>	<hr/>	
Total Assets	\$1,094,053,588	\$51,401,965	\$1,042,651,623	

**HUDSON INSURANCE COMPANY
STATEMENT OF LIABILITES AND SURPLUS
DECEMBER 31, 2014**

		NOTES
Losses	\$155,298,341	4
Loss adjustment expenses	14,945,451	4
Commissions payable	9,771,855	
Other expenses	25,663,296	
Taxes, licenses and fees	2,226,852	
Unearned premiums	39,757,304	
Advance premiums	1,991,436	
Ceded reinsurance premiums payable	306,073,213	
Funds held by company under reinsurance	1,619,406	
Amounts withheld by company for others	11,439,075	
Provision for reinsurance	6,842,000	
Drafts outstanding	12,108,601	
Payable to affiliates	9,299,857	
Aggregate write-ins for liabilities	<u>5,439,786</u>	
Total Liabilities	<u>\$602,476,473</u>	
Common capital stock	\$7,500,000	
Preferred capital stock	238	
Gross paid in and contributed surplus	293,480,097	
Unassigned funds (surplus)	<u>139,194,815</u>	
Surplus as regards policyholders	<u>\$440,175,150</u>	
Total liabilities, surplus and other funds	<u><u>\$1,042,651,623</u></u>	

**HUDSON INSURANCE COMPANY
STATEMENT OF INCOME
DECEMBER 31, 2014**

Premiums earned	<u>\$152,768,031</u>
Deductions	
Losses incurred	\$ 94,914,877
Loss adjustment expenses incurred	29,398,692
Other underwriting expenses incurred	<u>39,466,203</u>
Total underwriting deductions	<u>\$ 163,779,772</u>
Net underwriting gain or (loss)	<u>\$ (11,011,741)</u>

Investment Income

Net investment income earned	\$ 21,908,976
Net realized capital gains (losses) less capital gains tax of \$1,531,341	<u>6,419,370</u>
Net investment gain or (loss)	<u>\$ 28,328,346</u>

Other Income

Net gain or (loss)	\$ -
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	<u>(6,545,305)</u>
Total other income	<u>\$ (6,545,305)</u>

Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$ 10,771,300
Federal and foreign income taxes incurred	<u>1,124,333</u>
Net Income	<u><u>\$9,646,967</u></u>

**HUDSON INSURANCE COMPANY
RECONCILIATION OF SURPLUS FOR THE PERIOD
SINCE THE LAST EXAMINATION
DECEMBER 31, 2014**

<u>Description</u>	<u>Aggregate Write- ins for Special Surplus Funds</u>	<u>Common Capital Stock</u>	<u>Preferred Capital Stock</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>
<i>Balance as of January 1, 2010</i>	\$ 1,053,269	\$ 7,500,000	\$ 23,807,000	\$ 269,673,334	\$ 68,870,409
2011 Operations (1)	1,222,433	-	-	-	16,520,670
2012 Operations (1)	(2,275,702)	-	-	-	12,529,815
2013 Operations (1)	-	-	-	-	15,047,423
2014 Operations (1)	-	-	-	-	26,226,498
2011 Capital Contribution (2)	-	-	(23,806,762)	23,806,763	-
<i>Balance as of December 31, 2014</i>	<u>\$ -</u>	<u>\$ 7,500,000</u>	<u>\$ 238</u>	<u>\$ 293,480,097</u>	<u>\$ 139,194,815</u>

- (1) Operations is defined as net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, dividends to stockholders, and aggregate write-ins for gains and losses to surplus.
- (2) Due to the reorganization, the capital contribution resulted from preferred shares being re-issued with a par value of \$.01.

**ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS RESULTING FROM
EXAMINATION**

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

COMMENTS ON FINANCIAL STATEMENT ITEMS**(Note 1) Bonds \$308,167,720**

The Company's bonds represented 29.6% of admitted assets at year-end 2014. 93.76% of the Company's bonds are rated as Class 1 (92.67%) or Class 2 (1.09%) by the NAIC. 33.02% of the bond portfolio is comprised of investments maturing in ten years or more. During 2014, the Company recorded \$2.813 million in total realized capital gains from fixed income investment disposals.

Bonds were comprised of the following classes:

	<u>Statement Value</u>	<u>% of Total</u>
U.S. Governments	\$ 3,023,991	1.0%
U.S. States, Territories & Possessions	2,160,782	0.7%
U.S. Special Revenues	284,519,202	92.3%
Industrial and Miscellaneous	18,463,745	6.0%
Total	<u>\$ 308,167,720</u>	<u>100.0%</u>

(Note 2) Common Stocks \$217,854,953

The Company's common stocks represented 20.9% of admitted assets at year-end 2014, and consisted primarily of ownership of affiliates as follows:

Hudson Specialty Insurance Company	\$186,778,537
Napa River Services	56,360
HWIC	<u>23,517,102</u>
Total Affiliates	<u>\$210,351,999</u>

(Note 3) Aggregate Write-ins for Other Than Invested Assets \$202,569,847

This Company's write-in asset represented 19.4% of admitted assets at year-end 2014, and is primarily made up of a Federal Crop Insurance receivable totaling \$178,480,403. The balance is properly admitted under SSAP no. 78.

(Note 4) Losses	\$155,298,341
Loss Adjustment Expenses	\$14,945,451

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.

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

There were no significant subsequent events.

SUMMARY OF RECOMMENDATIONS

Compliance with Prior Exam Recommendations

There were no recommendations in the prior examination report.

Current Exam Recommendations

There were no recommendations 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:

<u>Description</u>	<u>December 31, 2010</u>	<u>December 31, 2014</u>	<u>Increase (Decrease)</u>
Assets	\$ 667,930,697	\$ 1,042,651,623	\$ 374,720,926
Liabilities	\$ 297,026,685	\$ 602,476,473	\$ 305,449,788
Gain Loss to surplus DTA 10R	\$ 1,053,269	\$ -	\$ (1,053,269)
Common Capital Stock	7,500,000	7,500,000	-
Preferred Capital Stock	23,807,000	238	(23,806,762)
Gross Paid In and Contributed Surplus	269,673,334	293,480,097	23,806,763
Unassigned Funds (Surplus)	68,870,409	139,194,815	70,324,406
Total Surplus	<u>\$ 370,904,012</u>	<u>\$ 440,175,150</u>	<u>\$ 69,271,138</u>
Totals	<u>\$ 667,930,697</u>	<u>\$ 1,042,651,623</u>	<u>\$ 374,720,926</u>

In addition to the undersigned, Anthony Cardone, CPA, CFE, (Examination Supervisor),

Andrew Chiodini, CFE, and Samuel Kohlmeyer, CFE participated in the examination.

Respectfully submitted,

Albert M. Piccoli, Sr.
 Albert M. Piccoli, Sr., CFE
 Examiner-In-Charge
 State of Delaware