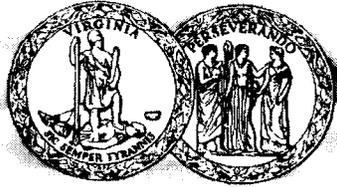


**ASSOCIATION EXAMINATION REPORT**  
**on**  
**COLONY NATIONAL INSURANCE COMPANY**  
**Richmond, Virginia**  
**as of**  
**December 31, 2014**

**COMMONWEALTH OF VIRGINIA**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Colony National Insurance Company as of December 31, 2014, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand  
and affixed to the original the seal of the Bureau at the City  
of Richmond, Virginia this 13<sup>th</sup> day of June, 2016

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Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

**TABLE OF CONTENTS**

Description ..... 1

History ..... 1

Management and Control..... 3

Related Party Transactions..... 6

Fidelity Bond and Other Insurance ..... 7

Territory and Plan of Operation ..... 8

Growth of the Company ..... 9

Reinsurance ..... 10

Scope ..... 14

Financial Statements ..... 14

Subsequent Event ..... 20

Conclusion ..... 21

Richmond, Virginia  
April 28, 2015

Honorable Jacqueline K. Cunningham  
Commissioner of Insurance  
Commonwealth of Virginia  
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by the authority of § 38.2-1317 of the Code of Virginia, a financial condition examination of the records and affairs of the

**Colony National Insurance Company**

Richmond, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

**DESCRIPTION**

The Company is a stock property and casualty insurer and is licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia. The Company was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2011. The current examination, which was called under the auspices of the National Association of Insurance Commissioners, was made by the Bureau representing the Southeastern Zone and covers the period from January 1, 2012 through December 31, 2014.

**HISTORY**

On September 29, 1988, the Company was incorporated under the laws of the State of Florida as a stock property and casualty insurer. The Company commenced business on March 10, 1989 as Preferred National Insurance Company. Until 1996, the Company principally underwrote fidelity bonds and surety bonds. Since 1996, the Company has underwritten fire and allied lines, special multi-peril, professional liability and other liability insurance.

The Company was acquired from Preferred National Financial Corporation by PNIC Holdings, Inc. on July 31, 1998. At that time, PNIC Holdings, Inc. was owned by

three wholly-owned subsidiaries of Front Royal, Inc (Front Royal). At December 31, 1998, the ownership percentages were Colony Holdings, Inc. with 12.65%, Rockwood Casualty Insurance Company (Rockwood) with 55.35%, and Colony Insurance Company (Colony) with 32%.

Effective October 1, 1999, Colony Holdings, Inc., and PNIC Holdings, Inc., were dissolved, and direct ownership of the Company was held by Colony (32%), Rockwood (55.35%) and Front Royal (12.65%). On December 11, 2000, the Company redomiciled from Florida to Virginia.

On August 23, 2001, Front Royal and its subsidiaries were acquired by Argonaut Group, Inc. (Argonaut Group). Pursuant to the transaction, Front Royal became a wholly-owned subsidiary of Argonaut Insurance Company (Argonaut), a California domestic insurer wholly owned by the Argonaut Group. Argonaut Group is engaged in the writing of property and casualty lines of business. This transaction received the necessary regulatory approval.

Effective April 1, 2002, the name of the Company was changed to Colony National Insurance Company.

In 2003, Colony purchased Front Royal's 12.65% direct ownership in the Company for \$5,141,308.

On February 6, 2004, Argonaut paid a dividend to Argonaut Group in the form of Colony, Colony's 100% ownership interest in Colony Specialty Insurance Company (CSIC) and Colony's 44.65% ownership in the Company. Argonaut received permission from the California Department of Insurance to treat this dividend as a permitted practice effective December 31, 2003. The dividend had no financial impact on the Company.

In March 2004, Rockwood paid a common stock dividend of 610,687 shares of the Company to Front Royal. As a result, direct ownership of the Company was held by Colony (44.65%), Front Royal (29.43%) and Rockwood (25.92%). In 2006, Front Royal was dissolved and its 29.43% interest in the Company was assigned to Argonaut Group. In 2007, Rockwood Holding Company was dissolved and Rockwood's 25.92% share of the Company was assigned to Argonaut.

In March 2007, PXRE Group Ltd. (PXRE) and Argonaut Group entered into a merger agreement pursuant to which Argonaut Group became a wholly-owned subsidiary of PXRE on August 7, 2007. PXRE changed its name to Argo Group International Holdings, Ltd., a Bermuda corporation, upon completion of the merger. In 2008, the organization was restructured and the U.S. holding company was renamed Argo Group US, Inc. (Argo Group US).

In December 2008, Argo Group US contributed its 25.92% interest in the Company to Colony in the form of a surplus contribution in the amount of \$27,648,228. Also in December 2008, Colony purchased Argonaut's 29.43% interest in the Company for \$31,392,259. As a result of these transactions, the Company is now wholly-owned by Colony.

### MANAGEMENT AND CONTROL

Management is vested in a board of directors, which shall consist of five members. Each director shall be elected to hold office until the next succeeding annual meeting of the shareholders or until his successor shall have been elected and qualified.

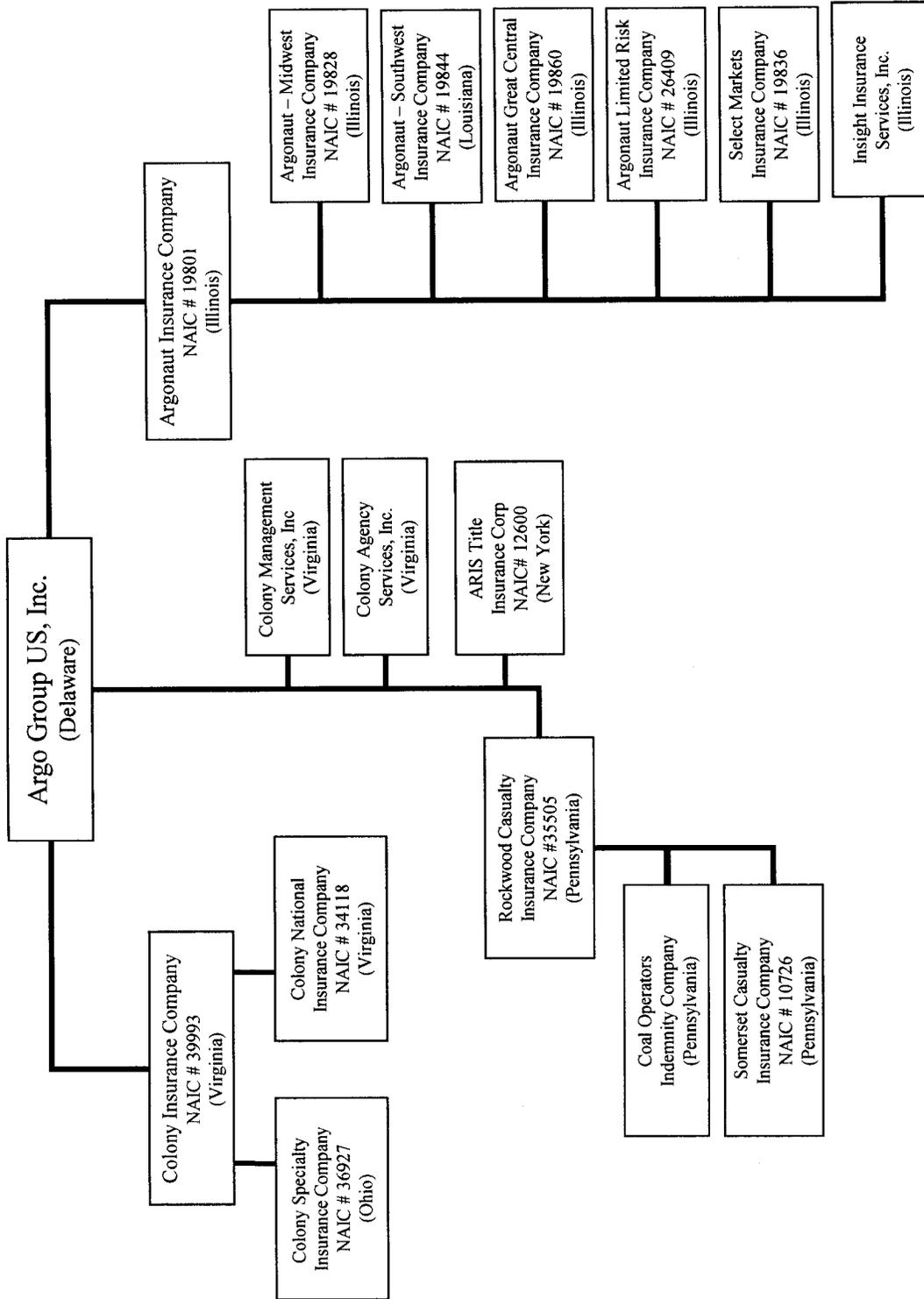
The bylaws provide for a president, a secretary and a treasurer. The board of directors or the president may appoint one or more vice presidents or other officers and assistant officers as deemed necessary. The president shall be the chief executive officer of the Company. Directors and officers at December 31, 2014 were as follows:

| <u>Director:</u>      | <u>Principal Business Affiliation:</u>   |
|-----------------------|--|
| Craig S. Comeaux      | Vice President, Secretary and<br>Deputy General Counsel<br>Argo Group US, Inc.<br>San Antonio, Texas           |
| Arthur G. Davis       | President and Chief Executive Officer<br>Colony National Insurance Company<br>Richmond, Virginia               |
| Barbara L. Sutherland | Senior Vice President, General Counsel<br>and Chief Claim Officer<br>Argo Group US, Inc.<br>San Antonio, Texas |

Officers:

|                       |  |
|-----------------------|--|
| Arthur G. Davis       | President and Chief Executive Officer  |
| Marlo M. Edwards      | Senior Vice President                  |
| Becky L. Kenyon       | Senior Vice President                  |
| Kevin J. Rehnberg     | Senior Vice President                  |
| Janice W. Zwinggi     | Vice President and Treasurer           |
| Barbara L. Sutherland | Vice President and General Counsel     |
| Craig S. Comeaux      | Vice President and Secretary           |
| Laurie E. Banez       | Vice President                         |
| Donna M. Biondich     | Vice President                         |
| Arnold J. Cottrell    | Vice President                         |
| Lynn K. Geurin        | Vice President and Assistant Treasurer |
| Daniel G. Platt       | Vice President                         |
| Mary M. Stulting      | Vice President                         |
| Melinda J. Thompson   | Vice President                         |
| Peggy E. Dhanda       | Assistant Treasurer                    |
| John P. Yediny        | Assistant Secretary                    |
| Evan L. Miller        | Assistant Secretary                    |

The Company is wholly owned by Colony, which is a wholly owned subsidiary of Argo Group US. The following chart illustrates this insurance holding company system at December 31, 2014:



## **RELATED PARTY TRANSACTIONS**

### **Service Agreements**

Effective November 30, 2011, the Company entered into an agreement with Colony Management Services, Inc. (CMS), an affiliate. The agreement states that CMS shall provide various services to the Company, including but not limited to management, administration, claims, operations, accounting and personnel. In consideration of its services pursuant to this agreement, CMS shall receive a monthly reimbursement for said services at an amount which approximates their cost.

The fees paid by the Company for these services are included in loss adjustment expenses incurred and other underwriting expenses and investment expenses which are ceded to Colony as part of the quota share reinsurance agreement.

On August 1, 1998, the Company entered into an agreement with Colony. The purpose of this agreement was to have Colony act as the disbursing agent for the Company. This agreement is a matter of convenience to both parties and Colony shall receive no cash compensation from the Company. The Company will reimburse Colony in full within 30 days following the end of the month in which Colony disbursed funds on the Company's behalf. The term of this agreement is continuous, subject to termination by either party, without cause, upon 30 days written notice.

### **Premium Allocation Agreement**

Effective December 31, 2007, the Company entered into an agreement with Colony and CSIC, collectively the Colony Companies, Argonaut-Midwest Insurance Company (Argonaut-Midwest) and Argonaut. Argonaut-Midwest and Argonaut each appoint the Colony Companies to provide services with respect to the management of the collection and transfer of premiums for designated policies of Argonaut and Argonaut-Midwest. In connection with the servicing of these designated Argonaut/Argonaut-Midwest policies, the Colony Companies shall collect premiums on behalf of Argonaut and Argonaut-Midwest from time to time. Such premiums are to be collected by the Colony Companies and deposited into the Colony Companies' bank accounts. Any such premiums collected by the Colony Companies shall be held in a fiduciary capacity. This agreement is a matter of convenience to the interested parties and the Colony Companies shall receive no cash compensation for these services from Argonaut or Argonaut-Midwest; provided, however, that with respect to CSIC, Argonaut and Argonaut-Midwest shall reimburse CSIC pursuant to this agreement in conformity with statutory accounting principles consistently applied. Such reimbursements, if any, shall be made within 45 days of the end of each calendar quarter.

### **Tax Allocation Agreement**

On January 30, 2002, the Company entered into a tax allocation agreement with Argonaut Group (now Argo Group US). Under this agreement, Argo Group US files a consolidated federal income tax return. This agreement covers the 2001 tax year and for each year thereafter for which a consolidated return is filed. Only the results for transactions occurring on or after December 31, 2001 are to be included on the consolidated federal income tax return. All settlements for income tax payments to Argo Group US, or refunds to the Company, shall be made within 30 days after the date of filing the consolidated income tax return for each respective tax year.

### **Dividends**

For the period under review, the Company paid dividends to Argo Group US as follows.

|      |              |
|------|--------------|
| 2012 | \$0          |
| 2013 | \$0          |
| 2014 | \$17,600,000 |

### **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2014, the Company was a named insured on a financial institution bond providing coverage of \$10,000,000 for a single loss, subject to a \$250,000 deductible. The Company was also a named insured on other insurance coverages as of December 31, 2014.

## TERRITORY AND PLAN OF OPERATION

The Company is domiciled and licensed in the Commonwealth of Virginia. As of December 31, 2011, the Company is licensed to write the following lines of business in Virginia:

|                                     |                            |
|-------------------------------------|----------------------------|
| Fire                                | Glass                      |
| Miscellaneous Property and Casualty | Burglary and Theft         |
| Commercial Multiple Peril           | Automobile Liability       |
| Inland Marine                       | Automobile Physical Damage |
| Liability Other Than Auto           |                            |

The Company is also licensed to write business in the States of Florida and Illinois. The Company is approved for surplus lines in the following jurisdictions:

|            |                |                      |
|------------|----------------|----------------------|
| Alabama    | Louisiana      | Oregon               |
| Arizona    | Maryland       | Pennsylvania         |
| Arkansas   | Minnesota      | South Carolina       |
| California | Mississippi    | South Dakota         |
| Colorado   | Missouri       | Tennessee            |
| Georgia    | Montana        | Texas                |
| Hawaii     | Nebraska       | Utah                 |
| Idaho      | Nevada         | Washington           |
| Indiana    | New Jersey     | West Virginia        |
| Iowa       | North Carolina | Wisconsin            |
| Kansas     | North Dakota   | Wyoming              |
| Kentucky   | Ohio           | District of Columbia |

The Company underwrites small to medium commercial lines accounts as both an admitted carrier and as an approved non-admitted surplus lines carrier.

Insurance products are written throughout the United States through licensed surplus lines brokers, with underwriting authority maintained by the Company. Commissions vary between 15% and 20% and are based on the lines of business. Those brokers who have authority to bind policies on behalf of the Company also participate in a contingent commission plan, provided they meet certain production volume and loss ratio requirements and have made timely settlement of their accounts. The commissions range between ¾% and 11% percent, and are based on gross written premiums on contract property and casualty lines of business.

**GROWTH OF THE COMPANY**

The following data, obtained from Annual Statements filed with the Bureau, and from examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2014:

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Common Capital Stock</u> | <u>Gross Paid In and Contributed Surplus</u> | <u>Unassigned Funds</u> |
|-------------|------------------------|--------------------|-----------------------------|--|-------------------------|
| 2005        | \$253,723,391          | \$193,545,469      | \$3,500,000                 | \$23,041,334                                 | \$33,636,588            |
| 2006        | 331,633,991            | 253,780,745        | 3,500,000                   | 23,041,334                                   | 51,311,912              |
| 2007        | 388,334,754            | 289,494,503        | 3,500,000                   | 23,041,334                                   | 72,298,917              |
| 2008        | 411,602,350            | 303,107,691        | 3,500,000                   | 23,041,334                                   | 81,953,325              |
| 2009        | 130,459,839            | 42,026,297         | 3,500,000                   | 23,041,334                                   | 61,892,208              |
| 2010        | 138,983,311            | 47,926,518         | 3,500,000                   | 23,041,334                                   | 64,515,459              |
| 2011        | 90,389,883             | 48,612,062         | 3,500,000                   | 23,041,334                                   | 15,236,487              |
| 2012        | 86,211,778             | 43,742,835         | 3,500,000                   | 23,041,334                                   | 15,927,609              |
| 2013        | 86,196,371             | 40,678,355         | 3,500,000                   | 23,041,334                                   | 18,976,682              |
| 2014        | 65,393,519             | 34,084,948         | 3,500,000                   | 23,041,334                                   | 4,767,237               |

| <u>Year</u> | <u>Premiums Earned</u> | <u>Loss and Loss Adjustment Expenses Incurred</u> | <u>Other Underwriting Expenses</u> | <u>Net Underwriting Gain or (Loss)</u> |
|-------------|------------------------|---|------------------------------------|--|
| 2005        | \$87,401,795           | \$54,211,380                                      | \$28,532,462                       | \$4,657,953                            |
| 2006        | 130,188,292            | 70,869,579  | 44,219,291                         | 15,099,422                             |
| 2007        | 133,598,103            | 74,547,381  | 41,572,677                         | 17,478,045                             |
| 2008        | 77,301,542             | 42,434,787  | 26,886,436                         | 7,980,319                              |
| 2009        | 0                      | 0   | 0                                  | 0                                      |
| 2010        | 0                      | 0   | 0                                  | 0                                      |
| 2011        | 0                      | 0   | 0                                  | 0                                      |
| 2012        | 0                      | 0   | 0                                  | 0                                      |
| 2013        | 0                      | 0   | 0                                  | 0                                      |
| 2014        | 0                      | 0   | 0                                  | 0                                      |

**REINSURANCE**

The Company had the following reinsurance coverage in force at December 31, 2014:

**Ceded to Non-Affiliated Reinsurers:**

| <u>Type of Agreement</u>         | <u>Class of Business</u> | <u>Company Retention</u>                               | <u>Reinsurer's Limits</u>  |
|----------------------------------|--------------------------|--|--|
| Property Per Risk Excess of Loss | Property                 | <u>First Layer</u><br>\$2,500,000 each loss, each risk | \$2,500,000 each loss, each risk, \$5,000,000 each loss occurrence; \$12,500,00 all loss occurrences                 |
|                                  |                          | <u>Second Layer</u><br>\$5,000,000 each loss           | \$5,000,000 each loss, each risk, \$5,000,000 each loss occurrence; \$10,000,00 all loss occurrences                 |
| Quota Share                      | Liability                | 40% up to \$1,000,000                                  | 60% up to \$1,000,000; subject to a maximum annual aggregate limit of liability of \$10,000,000                      |
| Excess of Loss                   | Liability                | <u>First Layer</u><br>\$2,000,000 each occurrence      | \$3,000,000 excess of \$2,000,000 each liability, subject to limit of liability of \$12,000,000 all loss occurrences |

| <u>Type of Agreement</u>              | <u>Class of Business</u> | <u>Company Retention</u>   | <u>Reinsurer's Limits</u>  |
|---------------------------------------|--------------------------|--|--|
|                                       |                          | <u>First Layer</u><br>\$5,000,000 each occurrence                | \$5,000,000 excess of \$5,000,000 each liability, subject to limit of liability of \$15,000,000 all loss occurrences |
| Excess of Loss                        | Liability                | \$10,000,000   | \$10,000,000 excess of 10,000,000 each liability, subject to limit of liability of \$20,000,000 all loss occurrences |
| Quota Share<br>(expired<br>7/15/2014) | Umbrella                 | <u>Layer1</u><br>37.5% up to<br>\$10,000,000                     | 62.5% up to<br>\$10,000,000  |
|                                       |                          | <u>Layer2</u><br>27% between<br>\$10,000,000 and<br>\$15,000,000 | 73% between<br>\$10,000,000 and<br>\$15,000,000  |
| Excess of Loss                        | Combined Casualty        | <u>Layer 1</u><br>\$2,000,000                                    | \$8,000,000 excess of \$2,000,000 per occurrence; annual aggregate limit of \$56,000,000                             |
|                                       |                          | <u>Layer 2</u><br>\$10,000,000                                   | \$5,000,000 excess of \$10,000,000 per occurrence; annual aggregate limit of \$15,000,000                            |

| <u>Type of Agreement</u> | <u>Class of Business</u>  | <u>Company Retention</u>        | <u>Reinsurer's Limits</u>  |
|--------------------------|---|---------------------------------|--|
| Excess of Loss           | Environmental Liability on Washington State UST (underground storage tank) coverage | \$75,000 each claim             | \$925,000 each claim in excess of company retention                |
| Excess of Loss           | Property Catastrophe  | <u>Layer 1</u><br>\$25,000,000  | \$50,000,000 excess of \$25,000,000 each and every loss occurrence |
|                          |   | <u>Layer 2</u><br>\$75,000,000  | 59% of \$150,000,000 excess of \$50,000,000, each and every loss   |
|                          |   | <u>Layer 3</u><br>\$125,000,000 | 30% of \$200,000,000 excess of \$225,000,000, each and every loss  |
|                          |   | <u>Layer 4</u><br>\$225,000,000 | 65% of \$100,000,000 excess of \$225,000,000, each and every loss  |
|                          |   | <u>Layer 5</u><br>\$325,000,000 | 85% of \$100,000,000 excess of \$325,000,000, each and every loss  |

| <u>Type of Agreement</u> | <u>Class of Business</u> | <u>Company Retention</u>         | <u>Reinsurer's Limits</u>  |
|--------------------------|--------------------------|----------------------------------|--|
|                          |                          | <u>Layer 6</u><br>\$425,000,000  | 64% of \$50,000,000 excess of \$425,000,000, each and every loss |
| Excess of Loss           | Aggregate Sweeper Cover  | \$25,000,000 each and every loss | \$50,000,000   |

### **Reinsurance-Related Parties**

Effective October 1, 2007, the Company and certain affiliates entered into a quota share reinsurance agreement with Peleus Reinsurance, Ltd. (Peleus), a Bermuda based affiliated reinsurer. This agreement shall apply to business underwritten by the Company. Under the original terms of this agreement, the Company ceded 30% of premiums and losses (net of inuring unaffiliated reinsurance) to Peleus. The percentage was increased to 50% effective April 1, 2008. Peleus was subsequently renamed Argo Re, Ltd. As Argo Re, Ltd. is not authorized in Virginia, the Company holds funds on deposit in order to secure reinsurance recoverables from this entity.

Effective January 1, 2009, the Company entered into a quota share reinsurance agreement with Colony and CSIC. Under the terms of this agreement, the Company and CSIC will each cede to Colony 100% of their respective net premiums written, loss and loss adjustment expenses, and other underwriting expenses, after all other reinsurance, with respect to all in force policies and business entered into after the effective date.

The Company entered into a facultative reinsurance agreement with Syndicate 1200 at Lloyd's, which is managed by Argo Group International Holdings, Ltd. Under this quota share agreement, the Company cedes up to a maximum of 50% of all risks of direct physical loss or damage, including flood and earthquake, written through the Colony Special Risks Department.

## SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2012 through December 31, 2014. Assets were verified and liabilities were established at December 31, 2014.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes 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 domestic state regulations.

The Examination was conducted by the Commonwealth of Virginia on the Association Zone Plan with Virginia acting as the lead state. The examination of the Company was conducted concurrently with the examination of the following insurers:

| <u>Insurer</u>                     | <u>Domiciliary State</u> |
|------------------------------------|--------------------------|
| Colony Insurance Company           | Virginia                 |
| Colony Specialty Insurance Company | Ohio                     |

The services of Merlinos & Associates, Inc. were employed to provide an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2014.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2014, a statement of income for the period ending December 31, 2014, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2014. The financial statements are presented in accordance with Statutory Accounting Principles.

**ASSETS**

|  | <u>Assets</u>       | <u>Nonadmitted<br/>Assets</u> | <u>Net<br/>Admitted<br/>Assets</u> |
|--|---------------------|-------------------------------|------------------------------------|
| Bonds  | \$44,057,736        |                               | \$44,057,736                       |
| Common stocks  | 9,176,826           |                               | 9,176,826                          |
| Cash and short-term investments                                      | 6,030,789           |                               | 6,030,789                          |
| Investment income due and accrued                                    | 441,082             |                               | 441,082                            |
| Uncollected premiums and agents'<br>balances in course of collection | 219,599             | 129,420                       | 90,179                             |
| Amounts recoverable from reinsurers                                  | 5,596,889           |                               | 5,596,889                          |
| Receivables from parent, subsidiaries,<br>and affiliates             | 18                  |                               | 18                                 |
| Totals   | <u>\$65,522,939</u> | <u>\$129,420</u>              | <u>\$65,393,519</u>                |

**LIABILITIES, SURPLUS AND OTHER FUNDS**

|   |                  |                                |
|---|------------------|--------------------------------|
| Taxes, licenses and fees                                      |                  | (\$847)                        |
| Current federal and foreign income taxes                      |                  | 171,237                        |
| Net deferred tax liability                                    |                  | 2,606,346                      |
| Unearned premiums   |                  |                                |
| Advance premium   |                  |                                |
| Ceded reinsurance premiums payable                            |                  | 87,287                         |
| Funds held by company under reinsurance treaties              |                  | 28,459,153                     |
| Amounts withheld or retained by company for account of others |                  | 5,000                          |
| Remittances and items not allocated                           |                  | (130,119)                      |
| Provision for reinsurance                                     |                  | 372,561                        |
| Payable to parent, subsidiaries, and affiliates               |                  | <u>2,514,330</u>               |
| <br>Total liabilities   |                  | <br>\$34,084,948               |
| <br>Common capital stock                                      | <br>\$3,500,000  |                                |
| Gross paid in and contributed surplus                         | 23,041,334       |                                |
| Unassigned funds  | <u>4,767,237</u> |                                |
| <br>Surplus as regards policyholders                          |                  | <br><u>31,308,571</u>          |
| <br>Totals  |                  | <br><u><u>\$65,393,519</u></u> |

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**STATEMENT OF INCOME**

UNDERWRITING INCOME

|                                      |     |
|--------------------------------------|-----|
| Premiums earned                      | \$0 |
| Deductions:                          |     |
| Losses incurred                      | \$0 |
| Loss adjustment expenses incurred    | 0   |
| Other underwriting expenses incurred | 0   |
| Total underwriting deductions        | \$0 |
| Net underwriting gain                | \$0 |

INVESTMENT INCOME

|                              |             |
|------------------------------|-------------|
| Net investment income earned | \$1,789,175 |
| Net realized capital gains   | 4,718,826   |
| Net investment gain          | \$6,508,001 |

OTHER INCOME

|  |             |
|--|-------------|
| Net loss from agents' or premium balances<br>charged off | \$603       |
| Aggregate write-ins for miscellaneous income (expense)   | (759,398)   |
| Total other income (expense)                             | (\$758,795) |
| Net income before federal income taxes                   | \$5,749,206 |
| Federal income taxes incurred                            | 44,424      |
| Net income   | \$5,704,782 |

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FOR PERIOD UNDER REVIEW**

|   | <u>2012</u>         | <u>2013</u>         | <u>2014</u>           |
|---|---------------------|---------------------|-----------------------|
| Surplus as regards policyholders,<br>December 31, previous year | <u>\$41,777,821</u> | <u>\$42,468,943</u> | <u>\$45,518,016</u>   |
| Net income  | \$1,175,837         | \$3,298,715         | \$5,704,782           |
| Change in net unrealized capital<br>gains or (losses)           | 996,197             | 653,403             | (2,310,967)           |
| Change in net deferred income tax                               | 37,676              | (1,415,644)         | (1,646,094)           |
| Change in nonadmitted assets                                    | 20,528              | (24,536)            | (7,445)               |
| Change in provision for reinsurance                             | (1,539,116)         | 537,135             | 1,650,279             |
| Dividends to stockholders                                       |                     |                     | <u>(17,600,000)</u>   |
| Change in surplus as regards<br>policyholders for the year      | <u>\$691,122</u>    | <u>\$3,049,073</u>  | <u>(\$14,209,445)</u> |
| Surplus as regards policyholders,<br>December 31, current year  | <u>\$42,468,943</u> | <u>\$45,518,016</u> | <u>\$31,308,571</u>   |

**CASH FLOW****Cash From Operations**

|  |                    |
|--|--------------------|
| Premiums collected net of reinsurance                                | (\$31,370)         |
| Net investment income  | 2,358,912          |
| Miscellaneous income (expense)                                       | (758,795)          |
| Total  | <u>\$1,568,747</u> |
| Benefit and loss related payments                                    | \$989,056          |
| Commissions, expenses paid and aggregate write-ins<br>for deductions | (5,695)            |
| Federal income taxes paid  | 546,908            |
| Total  | <u>\$1,530,269</u> |
| Net cash from operations   | <u>\$38,478</u>    |

**Cash From Investments**

|  |                     |
|--|---------------------|
| Proceeds from investments sold, matured or repaid: |                     |
| Bonds  | \$17,144,182        |
| Stocks   | 9,513,863           |
| Total investment proceeds                          | <u>\$26,658,045</u> |
| Cost of investments acquired (long-term only):     |                     |
| Bonds  | \$11,642,208        |
| Stocks   | 761,403             |
| Total investments acquired                         | <u>\$12,403,611</u> |
| Net cash from investments                          | <u>\$14,254,434</u> |

**Cash From Financing and Miscellaneous Sources**

|   |                       |
|---|-----------------------|
| Cash provided (applied):                            |                       |
| Dividends to stockholders                           | (\$17,600,000)        |
| Other cash applied                                  | (57,899)              |
| Net change from financing and miscellaneous sources | <u>(\$17,657,899)</u> |
| Net change in cash and short-term investments       | <u>(\$3,364,987)</u>  |

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

|   |                      |
|---|----------------------|
| Cash and short-term investments:              |                      |
| Beginning of year                             | \$9,395,776          |
| End of year                                   | 6,030,789            |
| Net change in cash and short-term investments | <u>(\$3,364,987)</u> |

**SUBSEQUENT EVENT**

The name of the Company was changed to Peleus Insurance Company effective March 4, 2015.

**CONCLUSION**

The courteous cooperation extended by the Company's officers and employees during the course of the examination is hereby gratefully acknowledged.

In addition to the undersigned, Jennifer C. Blizzard, CFE, Mario A. Cuellar, CFE, and Benjamin B. MacKercher of the Bureau participated in the work of the examination.

Respectfully submitted,



T. Bradford Earley, Jr., AIAF, CFE, CPCU  
Insurance Principal Financial Analyst  
Commonwealth of Virginia



8 June 2016

David H. Smith, CFE, CPA, CPCU  
Chief Examiner  
Bureau of Insurance  
Commonwealth of Virginia  
P.O. Box 1157  
Richmond, Virginia 23218

RE: Colony National Insurance Company  
Examination Report as of December 31, 2014

Dear Mr. Smith,

Management of the Company has received and reviewed the above referenced Report of Examination. Please accept this communication as management's acceptance of the report without exception. We will require 10 copies of the report for filing with various regulatory agencies. Thank you to you and your team for the professional manner in which the examination was conducted.

Should you have any additional questions or comments, please contact me directly at [jzwinggi@argogroupus.com](mailto:jzwinggi@argogroupus.com) or (210) 321-8411.

Best regards,

A handwritten signature in cursive script, appearing to read "Janice Board".

Janice E. Board, CPA  
VP, CFO & Treasurer, Colony National Insurance Company

Cc: Arthur Davis – President, Colony National Insurance Company  
Anastasios Omiridis – SVP, Chief Accounting Officer – Argo Group  
Brad Earley, Insurance Principal Financial Analyst, Virginia Bureau of Insurance

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