EXAMINATION REPORT
on
COLONY 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

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
http://www.scc.virginia.gov/division/boi

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 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 13th day of June, 2016

Jacqueline K. Cunningham

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
April 28, 2016

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 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. This examination covers the period from January 1, 2012, through December 31, 2014.

HISTORY

The Company's stock was purchased by Waite Hill Assurance Ltd. in 1980. The Company was granted a license and commenced business in 1981. In 1983, Waite Hill Assurance Ltd. transferred the stock of the Company to its parent, Figgie International Inc., who in turn transferred the stock to one of its subsidiaries, Waite Hill Holdings, Inc. (Waite Hill).

The Company was licensed in Virginia on May 14, 1991 and redomiciled from Rhode Island to Virginia on May 31, 1991.

On January 28, 1992, Waite Hill transferred ownership of Cardinal Casualty Company (Cardinal), an affiliate, to the Company. In January 1995, Cardinal changed its name to Front Royal Insurance Company (FRIC) and in April 2002, FRIC changed its name to Colony Specialty Insurance Company (CSIC). CSIC is an Ohio domestic insurer and is approved as a surplus lines carrier in Virginia.

On December 30, 1994, the Company was purchased by Front Royal, Inc. (Front Royal), a North Carolina corporation.

In July 1998, the Company purchased 16.2% of the stock of its affiliate, PNIC Holdings, Inc., parent of Preferred National Insurance Company (PNIC), for $6,000,000. In July and December 1998, Front Royal contributed additional stock of PNIC Holdings, Inc. to the Company, which increased the Company's ownership of PNIC Holdings, Inc. to 32%. In 1999, PNIC Holdings, Inc. was dissolved and a 32% interest in PNIC was transferred directly to the Company. In April 2002, PNIC changed its name to Colony National Insurance Company (CNIC). In 2003, the Company purchased an additional 12.65% of CNIC from Front Royal.

On August 23, 2001, the Company's parent, 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.

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

On June 24, 2004, the Company amended its Articles of Incorporation to change the number of authorized shares to 350,000. Such shares shall have a par value of $10 per share. On June 29, 2004, the Company issued an additional 150,000 shares of common stock to Argonaut Group for a total of 350,000 shares.

In 2005, Argonaut Group entered into an agreement with Interstate Insurance Group, a subsidiary of Fireman's Fund Insurance Company, to acquire certain operating assets and renewal rights of its binding authority business segment. The operating assets consisted primarily of underwriting, claims, actuarial and operations personnel responsible for the acquisition and servicing of the renewal rights business and were assimilated into the Colony Group's operations.

During 2006 and 2007, the Company received surplus contributions of $20,000,000 and $37,000,000, respectively, from Argonaut Group.

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 CNIC to the Company. This transaction was valued at $27,648,228. Also in December 2008, the Company purchased a 29.43% interest in CNIC from Argonaut. This transaction was valued at $31,392,259. As a result, the Company now owns 100% of CNIC.

MANAGEMENT AND CONTROL

Management is vested in a board of directors, which shall consist of three 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.

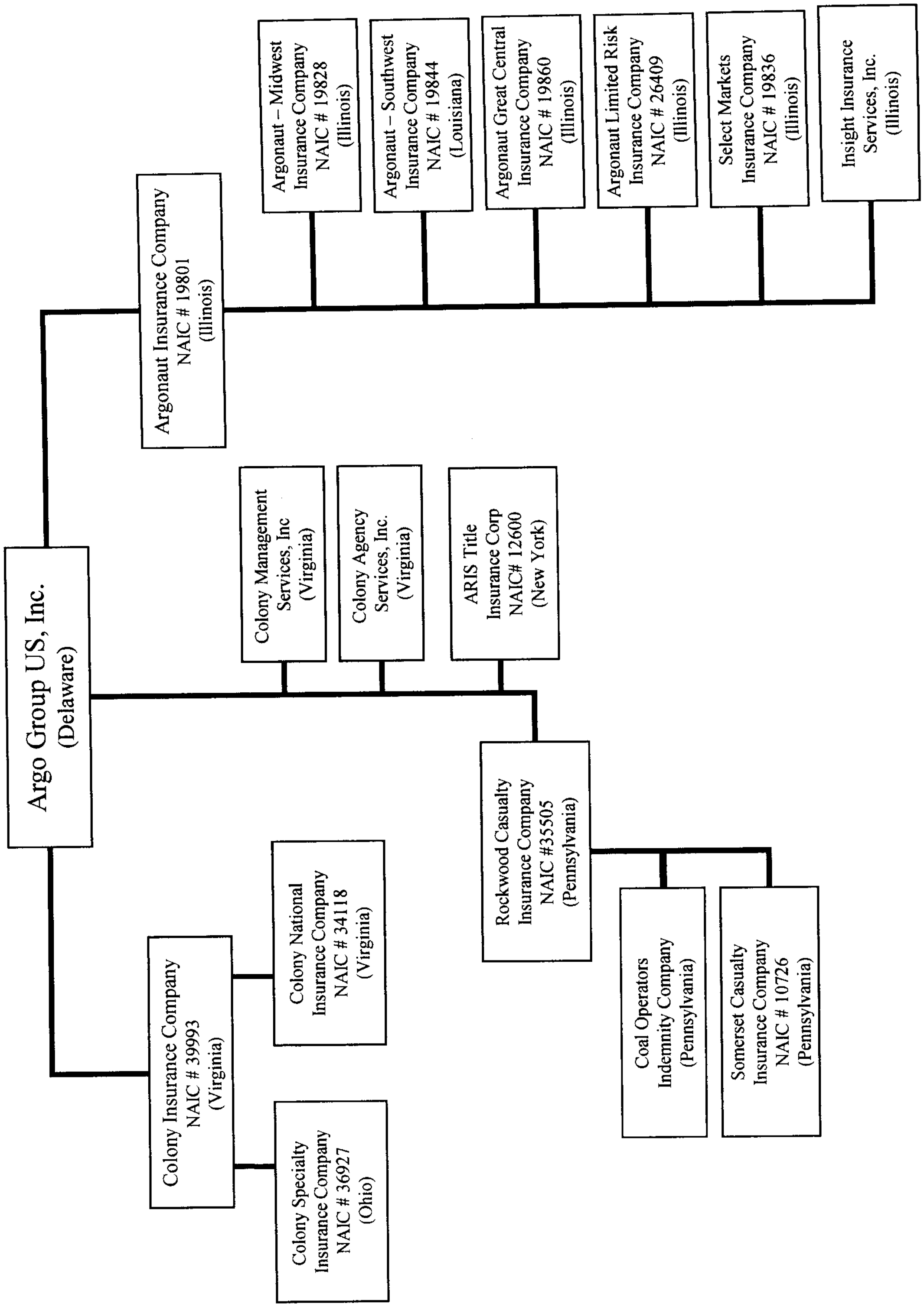
The bylaws provide for a president, a secretary and a treasurer. The board of directors or the president may appoint one or more vice presidents or other officers and assistant officers as deemed necessary. The president shall be the chief executive officer of the Company. Directors and officers at December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

Director:	Principal Business Affiliation:
Craig S. Comeaux	Vice President, Secretary and Deputy General Counsel Argo Group US, Inc. San Antonio, Texas
Arthur G. Davis	President and Chief Executive Officer Colony Insurance Company Richmond, Virginia
Barbara L. Sutherland	Senior Vice President, General Counsel and Chief Claim Officer Argo Group US, Inc. 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 a wholly-owned subsidiary of the Argo Group US, which is a wholly-owned subsidiary of Argo Financial Holding, an Ireland corporation. The following chart illustrates this insurance holding company system at December 31, 2014:


Argo Group US, Inc.
(Delaware)
Argonaut Insurance Company
NAIC # 19801
(Illinois)
Argonaut – Midwest
Insurance Company
NAIC # 19828
(Illinois)
Argonaut – Southwest
Insurance Company
NAIC # 19844
(Louisiana)
Argonaut Great Central
Insurance Company
NAIC # 19860
(Illinois)
Argonaut Limited Risk
Insurance Company
NAIC # 26409
(Illinois)
Select Markets
Insurance Company
NAIC # 19836
(Illinois)
Insight Insurance
Services, Inc.
(Illinois)
Colony Management
Services, Inc
(Virginia)
Colony Agency
Services, Inc.
(Virginia)
ARIS Title
Insurance Corp
NAIC# 12600
(New York)
Rockwood Casualty
Insurance Company
NAIC #35505
(Pennsylvania)
Coal Operators
Indemnity Company
(Pennsylvania)
Somerset Casualty
Insurance Company
NAIC # 10726
(Pennsylvania)
Colony Insurance Company
NAIC # 39993
(Virginia)
Colony National
Insurance Company
NAIC # 34118
(Virginia)
Colony Specialty
Insurance Company
NAIC # 36927
(Ohio)

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 Company paid fees for these services in the amount of $66,906,008, $71,187,491 and $65,388,883, during 2012, 2013 and 2014 respectively.

On June 1, 1997, the Company entered into an agreement with CSIC. The purpose of this agreement was to have the Company act as the disbursing agent for CSIC. This agreement is a matter of convenience to both parties and the Company shall receive no cash compensation from CSIC for this service. CSIC will reimburse the Company in full within 30 days following the end of the month in which the Company disbursed funds on CSIC's behalf. The term of this agreement is continuous, subject to termination by either party, without cause, upon 30 days written notice. The Company entered into an identical agreement with CNIC on August 1, 1998.

Effective July 1, 2005, the Company and Argonaut entered into a claim checks disbursement services agreement. The purpose of this agreement is to have the Company act as the disbursing agent for certain claim checks written on behalf of Argonaut serviced policies. This agreement is a matter of convenience to both parties and the Company shall receive no cash compensation from Argonaut for this service. Argonaut will reimburse the Company within 30 days following the end of the month in which the Company's funds were disbursed to fund claims on behalf of the Argonaut serviced policies. 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 CSIC and CNIC, 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 the 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 both 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, which began with the 2001 tax year, Argo Group US files a 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 extraordinary dividends to Argo Group US as follows:

2012	$60,000,000
2013	$80,000,000
2014	$60,000,000

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, 2014, the Company was approved to write the following lines of business in Virginia:

- Fire
- Miscellaneous Property and Casualty
- Farmowners Multiple Peril
- Homeowners Multiple Peril
- Commercial Multiple Peril
- Ocean Marine
- Inland Marine
- Workers Compensation-Employers Liability
- Liability Other Than Auto
- Automobile Liability
- Automobile Physical Damage
- Aircraft Liability
- Aircraft Physical Damage
- Fidelity
- Surety
- Glass
- Burglary and Theft
- Boiler and Machinery
- Animal
- Water Damage
- Home Protection

In addition, the Company is approved for surplus lines in the District of Columbia, the Virgin Islands, and every state in the United States.

The Company primarily underwrites small to medium commercial business as an approved non-admitted surplus lines carrier. The Company's focus is on specialty excess and surplus lines. The Company deems small to medium commercial business to be exposures not exceeding $1,000,000 per occurrence for Casualty business, and $5,000,000 per occurrence for Property business.

Insurance operations are conducted throughout the United States through general agents, with ultimate 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%, 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:

Year	Admitted Assets	Liabilities	Special Surplus Funds	Common Capital Stock	Gross Paid In and Contributed Surplus	Unassigned Funds
2005	$624,065,563	$427,419,462		$3,500,000	$121,266,800	$71,879,301
2006	789,333,194	507,037,687		3,500,000	158,266,800	120,528,707
2007	878,933,866	563,833,935		3,500,000	158,266,800	153,333,131
2008	1,040,276,901	657,356,000		3,500,000	185,915,028	193,505,873
2009	1,452,874,526	1,084,527,652	10,770,039	3,500,000	185,915,028	168,161,807
2010	1,426,530,443	1,047,950,582	10,770,039	3,500,000	185,915,028	178,394,794
2011	1,313,170,620	978,525,781	10,435,805	3,500,000	185,915,028	134,794,006
2012	1,277,148,028	949,133,426		3,500,000	185,915,028	138,599,574
2013	1,309,794,023	985,441,390		3,500,000	185,915,028	134,937,605
2014	1,318,763,766	998,918,784		3,500,000	185,915,028	130,429,954

Year	Premiums Earned	Losses and Loss Adjustment Expenses Incurred	Other Underwriting Expenses	Net Underwriting Gain or (Loss)
2005	$160,236,623	$99,387,534	$52,309,514	$8,539,575
2006	238,678,527	129,927,558	81,068,701	27,682,268
2007	244,929,852	136,638,756	76,461,614	31,829,482
2008	141,719,508	73,484,914	50,802,194	17,432,400
2009	229,375,025	136,427,809	81,062,815	11,884,401
2010	197,433,013	103,883,985	60,218,354	33,330,674
2011	163,664,531	73,820,347	53,876,068	35,968,116
2012	156,445,467	72,060,896	67,316,102	17,068,469
2013	177,260,609	75,312,309	71,191,321	30,756,979
2014	215,249,030	93,220,138	81,886,326	40,142,566

REINSURANCE

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

Ceded to Non-Affiliated Reinsurers:

Type of Agreement	Class of Business	Company Retention	Reinsurer's Limits
Property Per Risk Excess of Loss	Property	First Layer $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
		Second Layer $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	First Layer $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

Type of Agreement	Class of Business	Company Retention	Reinsurer's Limits
		Second Layer $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 (expired 7/15/2014)	Umbrella	Layer1 37.5% up to $10,000,000	62.5% up to $10,000,000
		Layer2 27% between $10,000,000 and $15,000,000	73% between $10,000,000 and $15,000,000
Excess of Loss	Combined Casualty	Layer 1 $2,000,000	$8,000,000 excess of $2,000,000 per occurrence; annual aggregate limit of $56,000,000
		Layer 2 $10,000,000	$5,000,000 excess of $10,000,000 per occurrence; annual aggregate limit of $15,000,000

Type of Agreement	Class of Business	Company Retention	Reinsurer's Limits
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	Layer 1 $25,000,000	$50,000,000 excess of $25,000,000 each and every loss occurrence
		Layer 2 $75,000,000	59% of $150,000,000 excess of $50,000,000, each and every loss
		Layer 3 $125,000,000	30% of $200,000,000 excess of $125,000,000, each and every loss
		Layer 4 $225,000,000	65% of $100,000,000 excess of $225,000,000, each and every loss
		Layer 5 $325,000,000	85% of $100,000,000 excess of $325,000,000, each and every loss

Type of Agreement	Class of Business	Company Retention	Reinsurer's Limits
		Layer 6 $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 CNIC and CSIC. Under the terms of this agreement, CNIC and CSIC will each cede to the Company 100% of their respective net premiums written, loss and loss adjusting expenses and underwriting expenses, after all other reinsurance, with respect to all in force policies and business entered into after the effective date.

Effective August 1, 1997, the Company entered into an intercompany quota share agreement with Rockwood. Under the terms of this agreement, the Company cedes to Rockwood 100% of its workers' compensation business, all of which is managed by Rockwood.

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:

Insurer	**Domiciliary Sate**
Colony National 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

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$737,586,483		$737,586,483
Preferred stocks	1,676,415		1,676,415
Common stocks	212,927,965		212,927,965
Cash and short-term investments	53,239,116		53,239,116
Derivatives	1,134,133		1,134,133
Other invested assets	174,226,726		174,226,726
Receivables for securities	17,271		17,271
Investment income due and accrued	15,691,316		15,691,316
Uncollected premiums and agents' balances in course of collection	60,151,104	6,186,967	53,964,137
Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,160,965		9,160,965
Amounts recoverable from reinsurers	15,995,420		15,995,420
Funds held by or deposited with reinsured companies	22,660,479		22,660,479
Net deferred tax asset	13,939,433		13,939,433
Receivables from parent, subsidiaries, and affiliates	6,543,907		6,543,907
Totals	$1,324,950,733	$6,186,967	$1,318,763,766

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$287,452,867
Reinsurance payable on paid losses and loss adjustment expenses		1,576,956
Loss adjustment expenses		117,315,243
Commissions payable, contingent commissions and other similar charges		2,086,871
Taxes, licenses and fees		9,464
Current federal income taxes		1,373,558
Unearned premiums		205,033,507
Ceded reinsurance premiums payable		24,433,270
Funds held by company under reinsurance treaties		347,409,427
Amounts withheld or retained by company for account of others		232,664
Remittances and items not allocated		2,947,377
Provision for reinsurance		5,333,668
Payable to parent, subsidiaries, and affiliates		3,713,912
Total liabilities		$998,918,784
Common capital stock	$3,500,000	
Gross paid in and contributed surplus	185,915,028	
Unassigned funds (surplus)	130,429,954	
Surplus as regards policyholders		319,844,982
Totals		$1,318,763,766

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME	
Premiums earned	$215,249,030
Deductions:	
Losses incurred	$63,447,562
Loss adjustment expenses incurred	29,772,576
Other underwriting expenses incurred	81,886,326
Total underwriting deductions	$175,106,464
Net underwriting gain	$40,142,566
INVESTMENT INCOME	
Net investment income earned	$55,277,968
Net realized capital gains	11,028,421
Net investment gain	$66,306,389
OTHER INCOME	
Net gain (loss) from agents' or premium balances charged off	($47,067)
Aggregate write-ins for miscellaneous income (expense)	(8,580,323)
Total other income (expense)	($8,627,390)
Net income before federal income taxes	$97,821,565
Federal income taxes incurred	16,754,124
Net income	$81,067,441

RECONCILIATION OF CAPITAL AND SURPLUS

	2012	2013	2014
Surplus as regards policyholders, December 31, previous year	$334,644,839	$328,014,602	$324,352,633
Net income	$39,636,801	$46,876,422	$81,067,441
Change in net unrealized capital gains or (losses)	13,870,116	24,148,121	(16,555,929)
Change in net unrealized foreign exchange capital gain (loss)	199,234	263,420	(2,331,495)
Change in net deferred income tax	(1,917,183)	2,721,806	(5,615,339)
Change in nonadmitted assets	2,615,724	(140,396)	(148,622)
Change in provision for reinsurance	(1,034,929)	2,468,658	(923,707)
Cumulative effect of changes in accounting principles			
Dividends to stockholders	(60,000,000)	(80,000,000)	(60,000,000)
Change in surplus as regards policyholders for the year	($6,630,237)	($3,661,969)	($4,507,651)
Surplus as regards policyholders, December 31, current year	$328,014,602	$324,352,633	$319,844,982

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	$233,714,408
Net investment income	55,977,549
Miscellaneous income (expense)	(8,627,390)
Total	$281,064,567
Benefits and loss related payments	$92,337,343
Commissions, expenses paid and aggregate write-ins	95,831,620
Federal income taxes paid	20,425,981
Total	$208,594,944
Net cash from operations	$72,469,623

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$354,725,847
Stocks	21,479,346
Other invested assets	14,484,455
Net gains on cash and short-term investments	15,849
Micellaneous proceeds	4,242,017
Total investment proceeds	$394,947,514
Cost of investments acquired (long-term only):	
Bonds	$338,036,539
Stocks	42,010,329
Other invested assets	84,549,357
Miscellaneous applications	1,134,132
Total investments acquired	$465,730,357
Net cash from investments	($70,782,843)

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	($60,000,000)
Other cash provided (applied)	(3,468,735)
Net change from financing and miscellaneous sources	($63,468,735)
Net change in cash and short-term investments	($61,781,955)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	$115,021,071
End of year	53,239,116
Net change in cash and short-term investments	($61,781,955)

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 K. Crawley, 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
Representing the Southeastern Zone, NAIC

ARGO GROUP

STATE CORP COMMISSION
BUREAU OF INSURANCE

16 JUN -9 AM 8:20

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 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 or (210) 321-8411.

Best regards,

Janice Board

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

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