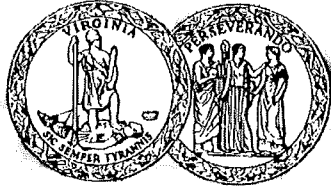


EXAMINATION REPORT
on
COLONY INSURANCE COMPANY
Richmond, Virginia
as of
December 31, 2017

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Scott A. White, 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, 2017, 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 19th day of June 2019

A handwritten signature in cursive script, reading 'Scott A. White', positioned above a horizontal line.

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
May 1, 2019

Honorable Scott A. White
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

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.

SCOPE OF THE EXAMINATION

The Company was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2014. This examination covers the period from January 1, 2015 through December 31, 2017.

The 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, 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 may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

The examination was conducted by the Bureau on a coordinated basis with the following insurers:

Insurer

Peleus Insurance Company
 Colony Specialty Insurance Company

Domiciliary State

Virginia
 Ohio

The services of Oliver Wyman Actuarial Consulting, Inc. were employed to provide an actuarial analysis as to the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2017.

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.

HISTORY

The Company is a stock property and casualty insurer licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia. The Company's stock was purchased by Waite Hill Assurance Ltd. in 1980. The Company 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. 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, ownership of Cardinal Casualty Company, an affiliate, was transferred to the Company. Cardinal subsequently changed its name to Front Royal Insurance Company in January 1995 and to Colony Specialty Insurance Company (CSIC) in April 2002. 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 PNIC Holdings, Inc., parent of Preferred National Insurance Company (PNIC), for \$6,000,000. In July and December 1998, additional stock of PNIC Holdings, Inc. was contributed to the Company, thereby increasing its ownership 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, Front Royal was 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. 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. As a result, 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 and the Company purchased an additional 29.43% interest from Argonaut. As a result, the Company now owns 100% of CNIC (name changed to Peleus Insurance Company in 2016 and is hereby referred to as Peleus from this point forward).

Effective March 31, 2016, Argo Group US contributed the ownership of its 350,000 common shares of the Company to Argonaut.

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.

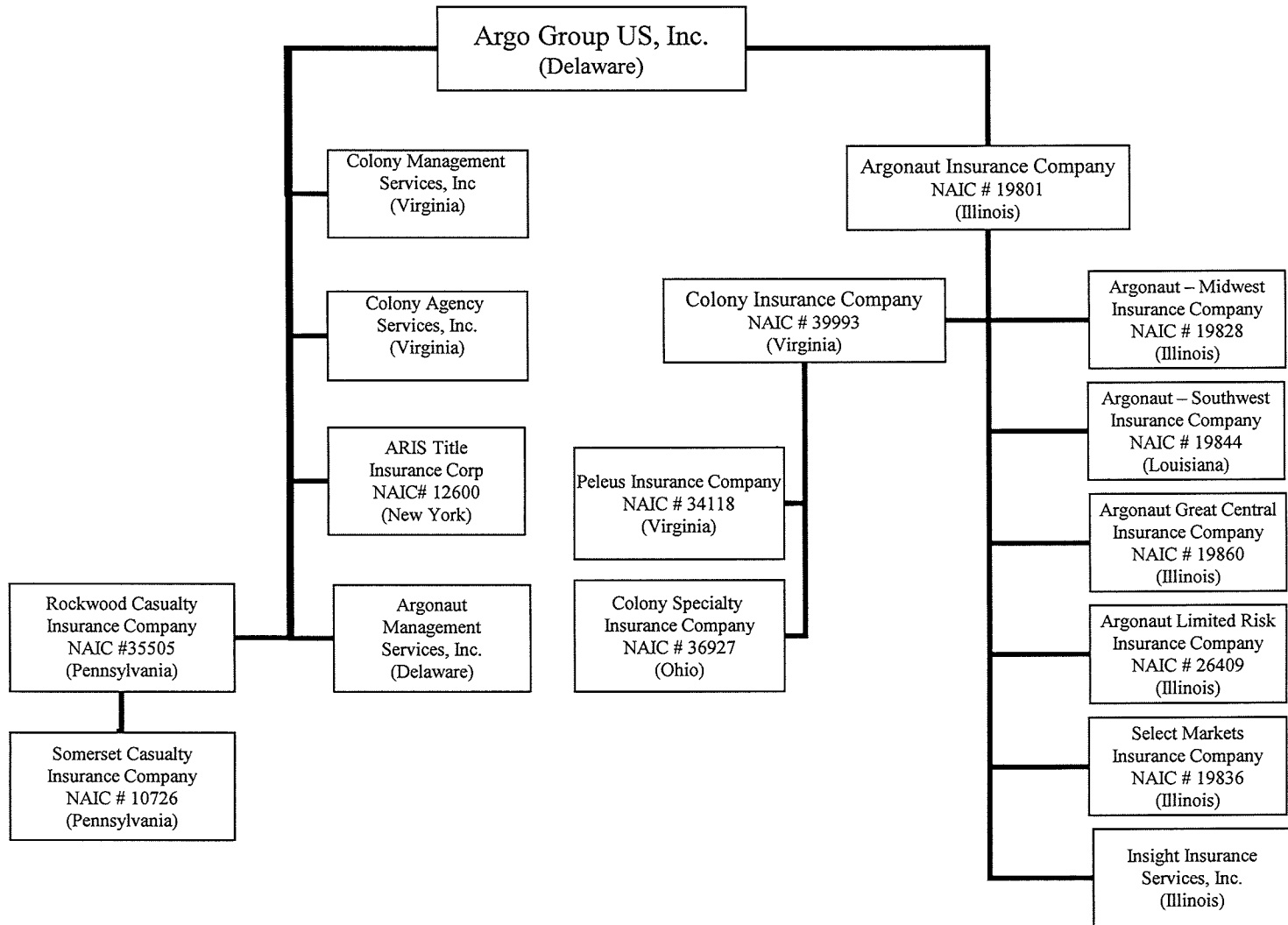
The bylaws provide for a president, a secretary and a treasurer. The board of directors or the president may appoint one or more vice presidents or other officers and assistant officers as deemed necessary. The president shall be the chief executive officer of the Company. Directors and officers at December 31, 2017 were as follows:

<u>Director:</u>	<u>Principal Business Affiliation:</u>
Craig S. Comeaux	Vice President, Secretary and Deputy General Counsel Argo Group US, Inc. San Antonio, Texas
Ronald M. Vindivich	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:

Ronald M. Vindivich	President and Chief Executive Officer
Marlo M. Edwards	Senior Vice President
Oscar Guerrero	Senior Vice President and Chief Financial Officer
Michael B. Mandziara	Senior Vice President
Phillip I Vedell	Senior Vice President
Mark G. Wade	Senior Vice President
Barbara L. Sutherland	Vice President and General Counsel
Craig S. Comeaux	Vice President and Secretary
Crag E. Landi	Vice President
Leandra R. Ryan	Vice President - Claims
Mary M. Stulting	Vice President
Dale L. Scholl, II	Vice President - Tax
Julian C. Westbrook, III	Vice President
Lauren T. Welch	Assistant Vice President, Head of U.S. Segment Accounting

The Company is a wholly-owned subsidiary of Argonaut, 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, 2017:



RELATED PARTY TRANSACTIONS

Service Agreements

Effective January 1, 2017, the Company entered into an agreement with Argonaut Management Services, Inc. (AMS), an affiliate. The agreement states that AMS 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, AMS 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 \$76,657,474, \$88,089,576 and \$82,273,372, during 2015, 2016 and 2017 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 Peleus 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 an extraordinary dividend of \$34,959,527 to Argonaut in 2016.

TERRITORY AND PLAN OF OPERATION

The Company is domiciled and licensed in the Commonwealth of Virginia. As of December 31, 2017, the Company was approved to write the following lines of business in Virginia:

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

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, 2017:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Special Surplus Funds</u>	<u>Common Capital Stock</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds</u>
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
2015	1,409,387,455	1,059,792,183		3,500,000	185,915,028	160,180,244
2016	1,494,738,799	1,125,794,255		3,500,000	185,915,028	179,529,516
2017	1,698,579,866	1,274,099,815		3,500,000	185,915,028	235,065,023

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gain or (Loss)</u>
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
2015	258,570,303	145,068,368	86,706,278	26,795,657
2016	251,959,548	150,064,439	76,379,028	25,516,081
2017	253,300,587	143,797,744	105,573,891	3,928,952

REINSURANCE

The Company had the following reinsurance coverage in force at December 31, 2017:

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> \$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> \$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> \$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>Second Layer</u> \$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	<u>Layer 1</u> 37.5% up to \$10,000,000	62.5% up to \$10,000,000
		<u>Layer 2</u> 27% between \$10,000,000 and \$15,000,000	73% between \$10,000,000 and \$15,000,000
Excess of Loss	Combined Casualty	<u>Layer 1</u> \$2,000,000	\$8,000,000 excess of \$2,000,000 per occurrence; annual aggregate limit of \$56,000,000
		<u>Layer 2</u> \$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> \$25,000,000	\$50,000,000 excess of \$25,000,000 each and every loss occurrence
		<u>Layer 2</u> \$75,000,000	20% of \$50,000,000 excess of \$75,000,000, each and every loss
		<u>Layer 3</u> \$125,000,000	45% of \$50,000,000 excess of \$125,000,000, each and every loss
		<u>Layer 4</u> \$175,000,000	75% of \$65,000,000 excess of \$175,000,000, each and every loss
		<u>Layer 5</u> \$240,000,000	85% of \$100,000,000 excess of \$240,000,000, 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> \$340,000,000	85% of \$100,000,000 excess of \$340,000,000, each and every loss
		<u>Layer 7</u> \$440,000,000	100% of \$32,000,000 excess of \$440,000,000, each and every loss
		<u>Layer 8</u> \$472,000,000	100% of \$57,000,000 excess of \$472,000,000, each and every loss
		<u>Layer 9</u> \$529,000,000	100% of \$50,000,000 excess of \$529,000,000, each and every loss
		<u>Layer 10</u> \$579,000,000	100% of \$30,000,000 excess of \$579,000,000, 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 Reinsurance), 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 Reinsurance. 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, 2018, the reinsurance agreement was amended to reduce the percentage of ceded premiums to 20%. Effective December 31, 2018, this reinsurance agreement was terminated.

Effective January 1, 2009, the Company entered into a quota share reinsurance agreement with Peleus and CSIC. Under the terms of this agreement, Peleus 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.

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Company for the period ending December 31, 2017. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2017.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$1,003,495,137		\$1,003,495,137
Preferred stocks	1,655,458		1,655,458
Common stocks	263,423,775		263,423,775
Cash and short-term investments	104,299,137		104,299,137
Other invested assets	169,814,971		169,814,971
Receivables for securities	840,307		840,307
Investment income due and accrued	8,385,073		8,385,073
Uncollected premiums and agents' balances in course of collection	87,678,734	5,210,159	82,468,575
Deferred premiums, agents' balances and installments booked but deferred and not yet due	16,533,191	1,653,319	14,879,872
Amounts recoverable from reinsurers	15,809,240		15,809,240
Funds held by or deposited with reinsured companies	24,026,843		24,026,843
Net deferred tax asset	5,942,456		5,942,456
Receivables from parent, subsidiaries, and affiliates	2,153,553		2,153,553
Aggregate write-ins for other than invested assets	1,385,469		1,385,469
	<u>1,385,469</u>	<u>5,210,159</u>	<u>1,385,469</u>
Totals	<u>\$1,705,443,344</u>	<u>\$6,863,478</u>	<u>\$1,698,579,866</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$343,383,226
Reinsurance payable on paid losses and loss adjustment expenses		91,811
Loss adjustment expenses		121,617,166
Commissions payable, contingent commissions and other similar charges		2,921,140
Other expenses		1,857,843
Taxes, licenses and fees		3,442
Current federal income taxes		6,406,009
Unearned premiums		267,360,233
Ceded reinsurance premiums payable		54,497,088
Funds held by company under reinsurance treaties		445,837,297
Amounts withheld or retained by company for account of others		0
Remittances and items not allocated		2,575,545
Provision for reinsurance		2,498,646
Payable to parent, subsidiaries, and affiliates		18,502,554
Derivatives		612,882
Payable for securities		4,639,950
Aggregate write-ins for liabilities		<u>1,294,983</u>
Total liabilities		\$1,274,099,815
Common capital stock	\$3,500,000	
Gross paid in and contributed surplus	185,915,028	
Unassigned funds (surplus)	<u>235,065,023</u>	
Surplus as regards policyholders		<u>424,480,051</u>
Totals		<u><u>\$1,698,579,866</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$253,300,587</u>
Deductions:	
Losses incurred	\$105,194,692
Loss adjustment expenses incurred	38,603,052
Other underwriting expenses incurred	<u>105,573,891</u>
Total underwriting deductions	<u>\$249,371,635</u>
Net underwriting gain	<u>\$3,928,952</u>

INVESTMENT INCOME

Net investment income earned	\$28,280,946
Net realized capital gains	<u>8,130,636</u>
Net investment gain	<u>\$36,411,582</u>

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	(\$1,027,691)
Aggregate write-ins for miscellaneous income	<u>(11,618,015)</u>
Total other income	<u>(\$12,645,706)</u>
Net income before federal income taxes	\$27,694,828
Federal income taxes incurred	<u>9,257,051</u>
Net income	<u><u>\$18,437,777</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Surplus as regards policyholders, December 31, previous year	<u>\$319,844,982</u>	<u>\$349,595,272</u>	<u>\$368,944,544</u>
Net income	\$32,426,622	\$30,330,658	\$18,437,777
Change in net unrealized capital gains or (losses)	(7,372,893)	18,531,525	43,693,660
Change in net unrealized foreign exchange capital gain (loss)	(2,305,135)	(1,086,638)	8,296,217
Change in net deferred income tax	796,140	9,412,413	(13,724,264)
Change in nonadmitted assets	3,358,094	(2,917,390)	(1,117,214)
Change in provision for reinsurance	2,847,462	38,231	(50,669)
Dividends to stockholders	<u> </u>	<u>(34,959,527)</u>	<u> </u>
 Change in surplus as regards policyholders for the year	 <u>\$29,750,290</u>	 <u>\$19,349,272</u>	 <u>\$55,535,507</u>
 Surplus as regards policyholders, December 31, current year	 <u><u>\$349,595,272</u></u>	 <u><u>\$368,944,544</u></u>	 <u><u>\$424,480,051</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$305,459,617
Net investment income	31,598,368
Miscellaneous income	(12,645,706)
Total	<u>\$324,412,279</u>
Benefits and loss related payments	\$92,360,513
Commissions, expenses paid and aggregate write-ins	141,023,628
Federal income taxes paid	7,822,705
Total	<u>\$241,206,846</u>
Net cash from operations	<u>\$83,205,433</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$509,753,356
Stocks	63,827,957
Other invested assets	9,294,969
Net gains on cash and short-term investments	4,829
Miscellaneous proceeds	523,066
Total investment proceeds	<u>\$583,404,177</u>
Cost of investments acquired (long-term only):	
Bonds	\$663,626,694
Stocks	39,394,343
Other invested assets	1,528,667
Miscellaneous applications	7,166,363
Total investments acquired	<u>\$711,716,067</u>
Net cash from investments	<u>(\$128,311,890)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	<u>57,939,277</u>
Net change from financing and miscellaneous sources	<u>\$57,939,277</u>
Net change in cash and short-term investments	<u>\$12,832,820</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$91,466,317
End of year	<u>104,299,137</u>
Net change in cash and short-term investments	<u>\$12,832,820</u>

ACKNOWLEDGMENT

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. Blizzard, CFE, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,



T. Bradford Earley, Jr., AIAF, CFE, CPCU
BOI Manager
Commonwealth of Virginia
Representing the Southeastern Zone, NAIC



David 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, 2017**

Dear Mr. Smith,

Management of Colony Insurance Company has received and reviewed the above referenced Report of Examination ("Report"). Please accept this communication as management's acceptance of the Report without exception. 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 aking@argogroupus.com or (210) 321-6704.

Sincerely,

A handwritten signature in black ink, appearing to read "Austin King".

Austin King
Sr. Regulatory Counsel

Cc: Gary Grose – President, Colony Insurance Company
Lauren Welch – Head of US Segment Accounting, Colony Insurance Company
Brad Earley – Insurance Principal Financial Analyst, Virginia Bureau of Insurance