

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Anne Melissa Dowling, Deputy Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of Finial Reinsurance Company. (the "Company") as of December 31, 2012, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

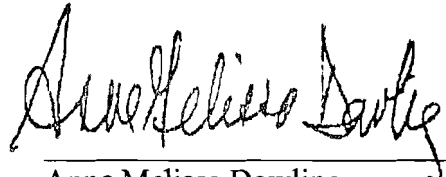
TO WIT:

1. I, Anne Melissa Dowling, Deputy Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("CGS").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On April 4, 2014, the verified Report of the Company was filed with the Connecticut Insurance Department (the "Department").
4. In accordance with CGS §38a-14(e) (3), the Company was afforded a period of thirty (30) days within which to submit to the Connecticut Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On May 7, 2014, the Company notified the Department of certain responses and comments relating to matters contained in the Report.
6. Following a review of the Report, it was deemed necessary and appropriate to modify the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

NOW, THEREFORE, it is ordered as follows:

1. That the Report of the Company hereby is adopted as filed with the Department.
2. That the Company shall comply with all of the recommendations set forth in the Report, and that the failure of the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the CGS.

Dated at Hartford, Connecticut this 8th day of May, 2014



Anne Melissa Dowling
Deputy Insurance Commissioner

Exhibit A

EXAMINATION REPORT

OF

FINIAL REINSURANCE COMPANY

AS OF

DECEMBER 31, 2012

BY THE

CONNECTICUT INSURANCE DEPARTMENT

TABLE OF CONTENTS

Salutation	1
Scope of Examination	1
History	2
Organizational Structure	4
Management and Control	4
Related Party Transactions	6
Insurance Coverage	6
Territory and Plan of Operation	7
Reinsurance	7
Information Technology Controls	8
Accounts and Records	8
Financial Statements:	9
Assets	9
Liabilities, Surplus and Other Funds	10
Statement of Income	11
Losses and Loss Adjustment Expenses	12
Capital and Surplus	13
Subsequent Event	13
Conclusion	13
Signature	14

April 4, 2014

The Honorable Thomas B. Leonardi
Insurance Commissioner
State of Connecticut Insurance Department
153 Market Street, 6th Floor
Hartford, Connecticut 06103

Dear Commissioner:

In compliance with your instructions and pursuant to the requirements of section 38a-14 of the General Statutes of the State of Connecticut (CGS), the undersigned has made an examination of the condition and affairs of

FINIAL REINSURANCE COMPANY

(hereinafter referred to as the Company or FRC); a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office located at 100 First Stamford Place, Stamford, Connecticut. The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The previous examination of FRC was conducted as of December 31, 2007, under the zone plan of the National Association of Insurance Commissioners (NAIC). The current examination, which covers the subsequent five-year period from January 1, 2008 through December 31, 2012, was conducted at the Company's statutory home office.

As part of the examination planning procedures, the Financial Regulation Division of the State of Connecticut Insurance Department (the Department) reviewed the following material submitted by the Company for the period under examination:

- Annual Statement filings;
- Audited financial reports;
- Board of Directors (Board) and other committee minutes (through the latest 2013 available);
- Management Discussion and Analysis;
- Statements of Actuarial Opinion; and
- Financial and regulatory filings submitted to the Department.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department as well as reports from the NAIC database.

FINIAL REINSURANCE COMPANY

Workpapers prepared by Deloitte & Touche LLP in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (the Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying inherent risks within the Company, and evaluating 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 compliance with the NAIC Accounting Practices & Procedures Manual (Manual) and the NAIC Property/Casualty Annual Statement Instructions.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature. Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

HISTORY

The Company's predecessor, Zurich Reinsurance Company of New York, (Zurich NY), a New York stock insurance company, commenced operations in October 1980. On October 1, 1990, Zurich Reinsurance Company of America (ZRCA) was formed as a wholly owned subsidiary of Zurich NY. Effective February 1, 1993, as part of a redomestication of Zurich NY to Connecticut, Zurich NY was merged with and into ZRCA. In January 1990, the Company relocated its administrative offices to Stamford, Connecticut.

On May 18, 1993, the Company was acquired by Zurich Reinsurance Centre Holdings, Inc. In December 1993, ZRCA changed its name to Zurich Reinsurance Centre, Inc. (ZRC).

On August 29, 1997, Centre Reinsurance Company of New York was merged with and into ZRC, with ZRC as the surviving entity. Effective September 19, 1997, ZRC amended its charter to change its corporate name to Zurich Reinsurance (North America), Inc.

In the first quarter of 2001, Zurich Financial Services (ZFS) announced that it would separate its third party assumed reinsurance business into an independent corporate structure. A new Swiss based reinsurance group would be established. Therefore, ZFS formed a new Swiss company, Converium Holding AG (Converium Holding), and through a series of transactions that took place during 2001, ZFS transferred its third party reinsurance operations to Converium Holding. On December 21, 2001, ZFS sold its shares of Converium Holding to the public by way of an initial public offering.

Effective August 31, 2004, the Company's reinsurance operations were placed into orderly run off. Certain operating restrictions, which required prior approval by the Department, were imposed on the Company's run off operations through a letter of understanding with the

FINIAL REINSURANCE COMPANY

Department. The letter of understanding was allowed to expire on April 16, 2007. The Company has agreed to provide the Department with regular updates on its status, its business plan, and increased monitoring of its reserves.

On December 13, 2006, the Company and certain affiliates were sold by Converium Holding to National Indemnity Company (NICO), a Nebraska insurance company. All shares of the Company are owned by Finial Holdings Inc. (FHI), a Delaware company, formerly Converium Holdings (North America) Inc. At this time, FHI is wholly-owned by NICO, NICO is wholly-owned by OBH LLC (OBH), a Delaware corporation, and OBH is wholly-owned by Berkshire Hathaway Inc. (BHI).

Effective September 7, 2007, the Company changed its name from Converium Reinsurance (North America) Inc. to FRC.

On November 30, 2007, the Company entered into a stock purchase agreement with Allied World Assurance Holdings (U.S.) Inc. to sell all of the issued and outstanding common stock of a subsidiary, Finial Insurance Company, formerly Converium Insurance (North America) Inc. This transaction was consummated on February 29, 2008.

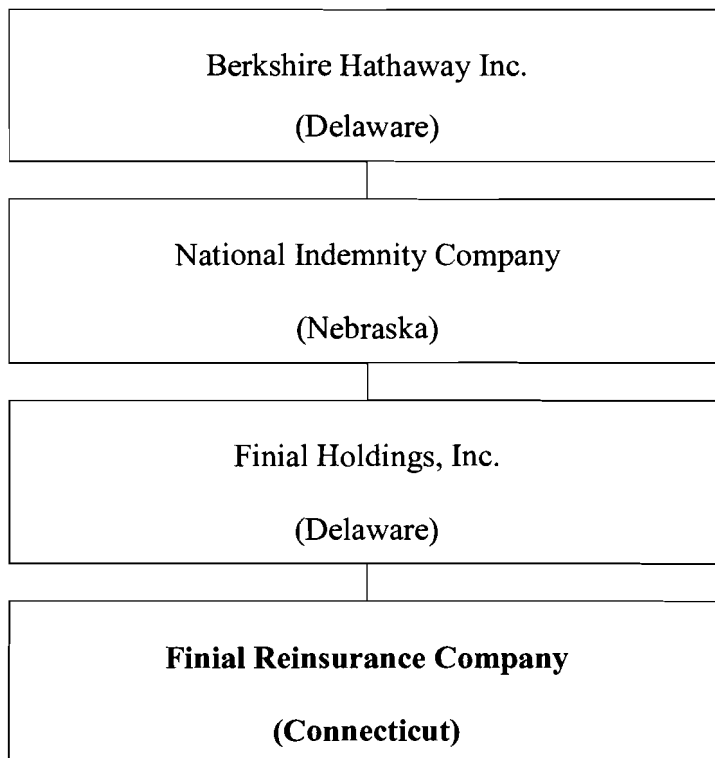
On January 1, 2012, OBH was merged into BHI with BHI being the surviving corporation. As a result BHI directly owns all common shares of NICO.

In a letter dated January 17, 2012, and acknowledged by the Company on April 20, 2012, it was agreed that the Company is no longer considered to be under enhanced monitoring by the Department.

FINIAL REINSURANCE COMPANY

ORGANIZATIONAL STRUCTURE

The following is a partial organization chart, as of December 31, 2012:



MANAGEMENT AND CONTROL

The Company's bylaws state that the property and affairs of FRC shall be managed by a Board of not less than seven nor more than twenty-one directors to be elected annually. Regular meetings of the Board shall be held immediately following the annual meeting of the shareholders at such intervals and on such dates as the Board may designate. There shall be no fewer than four regular meetings per year. The annual meeting of the shareholders shall be held at the principal office of FRC, or at such other place as prescribed by the Board, not later than June 30th of each year.

A quorum shall consist of one-third of the directors then in office but not less than five.

FINIAL REINSURANCE COMPANY

The members of the Board serving FRC at December 31, 2012, were:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
John D. Arendt	Vice President National Indemnity Company
Erika B. Duffy	Vice President and Secretary Finial Reinsurance Company
J. Michael Gottschalk	Vice President National Indemnity Company
Forrest N. Krutter	Senior Vice President National Indemnity Company
Kevin D. Lewis	Assistant Vice President National Indemnity Company
Joseph R. Liuzzi	Vice President Berkshire Hathaway Reinsurance Division
Brian G. Snover	Vice President and General Counsel Berkshire Hathaway Reinsurance Division

The officers serving FRC at December 31, 2012, were:

<u>Name</u>	<u>Title</u>
Joseph R. Liuzzi	President
Joanne S. Spalla	Senior Vice President
Carmel M. O'Sullivan	Vice President and Controller
Dale D. Geistkemper	Treasurer
Erika B. Duffy	Vice President and Secretary
David S. Friedman	Vice President
Brian G. Snover	Vice President

The bylaws require the existence of an executive committee, consisting of the president (ex officio) and not less than two other directors, to be elected by the Board.

FINIAL REINSURANCE COMPANY

The members of the executive committee at December 31, 2012, were:

Joseph R. Liuzzi
Forrest N. Krutter
Brian G. Snover

RELATED PARTY TRANSACTIONS

The Company had the following intercompany agreements in place as of December 31, 2012:

Management agreements, service contracts and cost-sharing agreements

Effective April 30, 1996, the Company and FHI entered into an Expense Sharing and Service Allocation Agreement for the provision of services, the sharing of equipment and facilities and the allocation of the related costs between them.

Effective January 31, 2007, the Company and NICO entered into an Investment Services Agreement. Pursuant to the agreement, NICO provides investment management services to the Company for a fee.

Effective February 1, 2007, the Company and NICO entered into an Intercompany Services Agreement. Pursuant to the agreement, NICO provides certain administrative and special services and makes available certain property, equipment and facilities to the Company for a fee.

Tax Allocation Agreement

Pursuant to a Federal Income Tax Allocation Agreement, the Company joined with a group of approximately 750 affiliated companies in the filing of a consolidated federal income tax return by BHI.

INSURANCE COVERAGE

The Company is covered by a fidelity bond issued by the Fidelity and Deposit Company of Maryland. The limit of liability on the policy is \$5 million which exceeded the suggested minimum limits of insurance per the Handbook.

In addition to the fidelity bond insurance, the Company is protected by the following insurance:

Insurance Company	Insurance Coverage
Great Northern Insurance Company	General liability, Automobile liability
Pacific Indemnity Company	Workers' compensation, Employers liability
Federal Insurance Company	Excess/ Umbrella liability

FINIAL REINSURANCE COMPANY

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 27 states and is an accredited and approved reinsurer in 23 other states and the District of Columbia. The Company has been in run off since 2004.

Although the Company is not writing new business, it remains licensed for the following lines of business in the North American market: fire, extended coverage and other allied lines, homeowners multiple peril, commercial multiple peril, earthquake, growing crops, ocean marine, inland marine, accident and health, workers' compensation, liability other than auto, auto liability, auto physical damage, aircraft (all perils), fidelity & surety, glass, burglary & theft, boiler & machinery, credit, and reinsurance.

REINSURANCE

GENERAL BACKGROUND

Since 2004, when the Company began running off its business, its reinsurance liabilities have been reduced through the natural process of ongoing claims settlements and through selected reinsurance commutation initiatives. As an indication of the order of magnitude of this reduction in liabilities during the period under examination, net loss and loss adjustment expenses (LAE) reserves have decreased by \$416.6 million, from \$861.7 million to \$445.1 million between December 31, 2007 and December 31, 2012.

ASSUMED REINSURANCE

Prior to run off, the Company operated in the North American market primarily as a professional reinsurer of property and casualty risks. The Company provided pro rata and excess of loss reinsurance through its treaty, individual risk and non-traditional capabilities. The treaty division provided lead-line treaty coverage for property and casualty risks including general liability, automobile liability, workers' compensation, and property exposures, primarily through reinsurance brokers. The Company underwrote facultative casualty coverages both with and without the assistance of reinsurance intermediaries. In addition, FRC provided aggregate stop-loss coverage, quota share treaties and excess of loss coverages that provided reinsureds with capped ultimate loss exposures and profit-sharing provisions.

CEDED REINSURANCE

The majority of the Company's ceded reinsurance recoverables are retrocessions related to specific assumed books of business. Approximately 90% of the ceded reinsurance recoverables at December 31, 2012, related to workers' compensation business (excluding employers' liability coverage).

FINIAL REINSURANCE COMPANY

INFORMATION TECHNOLOGY CONTROLS

An evaluation of information technology (IT) controls was conducted in accordance with NAIC requirements as outlined in the Handbook's Exhibit C Part One - Information Technology Planning Questionnaire (ITPQ) and Part Two – Information Technology Work Program (Work Program). With the Company in run off, it was determined that minimal reliance would be placed on internal controls, and accordingly, the scope of the IT review was limited. The guidance and direction used to perform the review of the Company's IT general controls was derived from the ITPQ and the corresponding controls in the Work Program.

The examination was conducted to evaluate the reasonableness of the existing IT controls, policies and procedures. Although the review was limited in scope, consideration was given to procedures in effect during 2012 as well as any control procedures implemented since the previous examination. The Company's financially significant systems that were considered include Reinsurance Accounting Process (RAP) which is utilized for the processing of the Company's reinsurance business (technical accounting) and SAP, which is utilized as the Company's general ledger system for both statutory and Generally Accepted Accounting Principles (GAAP) financial reporting. These systems are accessed through the Company's local area network. The primary objective was to determine general controls for the Company's current (and going forward) environment.

Although control deficiencies were noted, they were minor in nature and none were so serious as to impair the overall effectiveness of the IT control environment.

ACCOUNTS AND RECORDS

The company utilizes the SAP general ledger system. Other Company codes are maintained separately in SAP to facilitate GAAP and management reporting. The financial reporting process consists of running reports in SAP and inputting information into eFreedom Annual Statement software which generates the statutory financial statements.

The 2012 trial balance was reconciled to the Annual Statement.

FINIAL REINSURANCE COMPANY

FINANCIAL STATEMENTS

The following statements, as filed by the Company and as determined by the examination, reflect the assets, liabilities, and statement of income, as of December 31, 2012:

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$279,924,526		\$279,924,526
Stocks:			
Preferred stocks	86,000,000		86,000,000
Common stocks	212,734,789		212,734,789
Cash and short-term investments	603,141,151		603,141,151
Receivables for securities	373		373
Subtotal, cash and invested assets	1,181,800,839		1,181,800,839
Investment income due and accrued	5,742,131		5,742,131
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	427,064	\$427,064	0
Deferred premiums, agents' balances and installments booked but deferred and not yet due	45,028		45,028
Accrued retrospective premiums	3,396,189		3,396,189
Reinsurance:			
Amounts recoverable from reinsurers	518,282		518,282
Funds held by or deposited with reinsured companies	1,227,691		1,227,691
Current federal and foreign income tax recoverable	824,600		824,600
Net deferred tax asset	15,476,100	6,024,532	9,451,568
Aggregate write-ins for other than invested assets	1,210,587	1,210,587	0
Totals	<u>\$1,210,668,511</u>	<u>\$7,662,183</u>	<u>\$1,203,006,328</u>

FINIAL REINSURANCE COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$408,981,728
Reinsurance payable on paid loss and loss adjustment expenses	5,405,573
Loss adjustment expenses	36,115,577
Commissions payable, contingent commissions and other similar charges	1,811,975
Current federal and foreign income taxes	8,636,054
Ceded reinsurance premiums payable	36,462
Funds held by company under reinsurance treaties	3,340,923
Amounts withheld or retained by company for account of others	12,790,769
Remittances and items not allocated	1,901,050
Payable to parent, subsidiaries and affiliates	280,295
Aggregate write-ins for liabilities	7,415,480
Total liabilities	486,715,886
Common capital stock	3,500,000
Gross paid in and contributed surplus	928,797,941
Unassigned funds	(216,007,499)
Surplus as regards policyholders	716,290,442
Totals	<u>\$1,203,006,328</u>

FINIAL REINSURANCE COMPANY

STATEMENT OF INCOME

UNDERWRITING INCOME	
Premiums earned	(\$94,942)
DEDUCTIONS:	
Losses incurred	(28,096,307)
Loss adjustment expenses incurred	3,683,327
Other underwriting expenses incurred	1,627,250
Total underwriting deductions	(22,785,730)
Net underwriting gain (loss)	22,690,788
INVESTMENT INCOME	
Net investment income earned	28,399,652
Net realized capital gains (losses)	6,328,069
Net investment gain (loss)	34,727,721
OTHER INCOME	
Aggregate write-ins for miscellaneous income	60,867
Total other income	60,867
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	57,479,376
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	57,479,376
Federal and foreign income taxes incurred	10,378,780
Net income	47,100,596
CAPITAL AND SURPLUS ACCOUNT	
Surplus as regards policyholders, December 31, prior year	609,701,874
Net income	47,100,596
Change in net unrealized capital gains or (losses)	32,273,790
Change in net unrealized foreign exchange capital gain (loss)	2,397,210
Change in net deferred income tax	(5,651,663)
Change in nonadmitted assets	21,928,175
Change in provision for reinsurance	1,329,487
Cumulative effect of changes in accounting principles	7,210,973
Change in surplus as regards policyholders for the year	106,588,568
Surplus as regards policyholders, December 31, 2012	<u>\$716,290,442</u>

FINIAL REINSURANCE COMPANY

LOSSES AND LAE

\$445,097,305

The following items were included in the captioned accounts:

Losses	\$ 408,981,728
LAE	<u>36,115,577</u>
	<u>\$445,097,305</u>

The Department conducted a comprehensive actuarial analysis of the loss and LAE reserves of the Company as of December 31, 2012. The actuarial analysis was conducted in accordance with accepted loss reserving standards and principles. The Department based its review on the following information provided by the Company:

- Statutory Annual Statement for the year ended December 31, 2012;
- Statement of Actuarial Opinion for the year ended December 31, 2012;
- The actuarial report prepared by the appointed actuary in support of the December 31, 2012 Actuarial Opinion;
- The Annual Statement Schedule P (Schedule P) reconciliation of data used in the actuarial analysis; and
- Discussions with the Company's appointed actuary regarding the actuarial report.

In performing the analysis, the Department verified the accuracy of data included in Schedule P and concluded the Schedule P data could be relied upon in the analysis of the loss and LAE reserves.

The Company performs an actuarial review of its reserve requirements for each of its individual line of business groupings on a quarterly basis.

Based upon the risk-based assessment and review, no material findings were noted which affected the Company's ability to manage its reserving and liquidity risks.

FINIAL REINSURANCE COMPANY

CAPITAL AND SURPLUS

<u>COMMON CAPITAL STOCK</u>	<u>\$3,500,000</u>
<u>GROSS PAID IN AND CONTRIBUTED SURPLUS</u>	<u>\$928,797,941</u>
<u>UNASSIGNED FUNDS</u>	<u>(\$216,007,499)</u>

The following table reflects capital and surplus during the period under examination:

(in thousands)

	Outstanding Common Capital Shares	Common Capital Stock	Gross Paid in & Contributed Surplus	Unassigned Surplus	Total Capital & Surplus
December 31, 2012	100	\$3,500	\$928,798	(\$216,007)	\$716,290
December 31, 2011	100	\$3,500	\$928,798	(\$322,596)	\$609,701
December 31, 2010	100	\$3,500	\$928,798	(\$347,733)	\$584,565
December 31, 2009	100	\$3,500	\$928,798	(\$432,386)	\$499,912
December 31, 2008	100	\$3,500	\$928,798	(\$484,644)	\$447,654
December 31, 2007	100	\$3,500	\$928,798	(\$536,742)	\$395,556

The capitalization of the Company at December 31, 2012, consisted of 100 shares of common stock outstanding with a par value of \$35,000 per share. All shares are owned by FHI.

The significant increase in unassigned surplus during the examination period is attributable primarily to favorable loss development.

SUBSEQUENT EVENT

The Company submitted a formal request to the Office of the Superintendent of Financial Institutions Canada (OSFI) to withdraw all assets from Canada and surrender its Canadian license. Approval was granted by the OSFI on February 28, 2014.

CONCLUSION

The results of the examination disclosed that as of December 31, 2012, the Company had admitted assets of \$1,203,006,328, liabilities of \$486,715,886, and capital and surplus of \$716,290,442. During the period under examination, admitted assets decreased by \$120,519,153, liabilities decreased by \$441,253,385, and capital and surplus increased by \$320,734,232.

