

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Katharine L. Wade, 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, 2016, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

TO WIT:

1. I, Katharine L. Wade, as the 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 October 13, 2017, the verified Report of the Company was filed with the Connecticut Insurance Department ("Insurance Department").
4. In accordance with Section 38a-14(e)(3) of the CGS, the Company was afforded a period of thirty (30) days within which to submit to the Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On December 28, 2017, the Company notified the Insurance Department of certain responses and comments on certain items contained in the Report.
6. Following 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 Insurance Department.
2. That the Company shall comply with all of the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the CGS.
3. **Section 38a-14(e)(4)(A) of the CGS requires that:**

“The secretary of the board of directors or similar governing body of the entity shall provide a copy of the report or summary to each director and shall certify to the commissioner, in writing, that a copy of the report or summary has been provided to each director.”

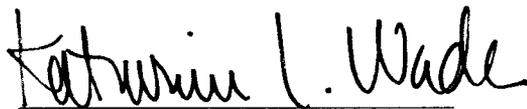
Please address the certification to the commissioner but send[ing] to the care/attention of William Arfanis, Supervising Examiner, of the Financial Regulation Division.

4. **Section 38a-14(e)(4)(B) of the CGS requires that:**

“Not later than one hundred twenty days after receiving the report or summary, the chief executive officer or the chief financial officer of the entity examined shall present the report or summary to the entity's board of directors or similar governing body at a regular or special meeting.”

This will be verified by the Insurance Department either through analysis or examination follow-up.

Dated at Hartford, Connecticut, this 4th day of January, 2018.



Katharine L. Wade
Insurance Commissioner

Exhibit A

EXAMINATION REPORT

OF

**FINIAL REINSURANCE COMPANY
(NAIC #39136)**

AS OF

DECEMBER 31, 2016

BY THE

CONNECTICUT INSURANCE DEPARTMENT



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October 13, 2017

The Honorable Katharine L. Wade
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, 2012, under the zone plan of the National Association of Insurance Commissioners (NAIC). The current examination, which covers the subsequent four-year period from January 1, 2013 through December 31, 2016, 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 2017 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.

The examination of the Company was part of a coordinated examination of certain companies within the Berkshire Hathaway Inc. (BHI) insurance group. The coordinated exam was led by the Nebraska Department of Insurance. The examination of the National Indemnity Company (NICO) group of companies within the BHI insurance group, which includes the Company, included representatives from the states of California, Colorado, Iowa, and New York.

HISTORY

The Company's predecessor, Zurich Reinsurance Company of New York (Zurich NY), a New York stock insurance company, commenced operations in October 1980. Effective February 1, 1993, as part of a redomestication of Zurich NY to Connecticut, Zurich NY was merged with and into Zurich Reinsurance Company of America (ZRCA).

On May 18, 1993, the Company was acquired by Zurich Reinsurance Centre Holdings, Inc. In the first quarter of 2001, Zurich Financial Services (ZFS) formed a new Swiss company, Converium Holding AG (Converium Holding), and during 2001, ZFS transferred its third party reinsurance operations (including the Company) to Converium Holding. On December 13, 2006, the Company and certain affiliates were sold by Converium Holding to NICO.

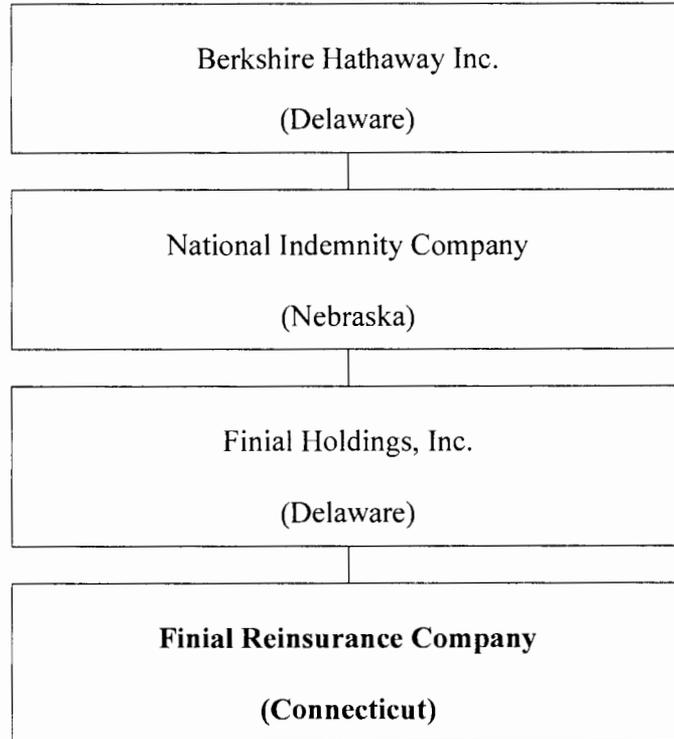
Effective September 7, 2007, the Company changed its name from Converium Reinsurance (North America) Inc. to FRC.

All shares of the Company are owned by Finial Holdings Inc. (FHI), a Delaware company. FHI is wholly-owned by NICO which is wholly-owned by BHI.

FINIAL REINSURANCE COMPANY

ORGANIZATIONAL STRUCTURE

The following is a partial organization chart, as of December 31, 2016:



MANAGEMENT AND CONTROL

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. At each annual meeting, directors shall be elected to hold office for one year until their successors are elected. The holders of the outstanding stock entitled to vote at any meeting shall constitute a quorum.

The Company's bylaws, revised as of March 9, 2016, state that the business and property 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. Special meetings of the Board may be called by the chairman of the Board, the president or upon written request of any two members of the Board.

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, 2016, were:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
John Duane Arendt	Vice President Berkshire Hathaway Reinsurance Division
J. Michael Gottschalk	Vice President and Secretary National Indemnity Company
Bruce John Byrnes	Vice President Berkshire Hathaway Reinsurance Division
Kevin Donald Lewis	Vice President Berkshire Hathaway Reinsurance Division
Brian Gerard Snover	Senior Vice President and General Counsel Berkshire Hathaway Reinsurance Division
Brennan Scott Neville	Assistant Secretary National Indemnity Company
Carmel Mary O'Sullivan	Vice President and Controller Resolute Management Inc.

The officers serving FRC at December 31, 2016, were:

<u>Name</u>	<u>Title</u>
Brian Gerard Snover	President
Bruce John Byrnes	Vice President and Secretary
Joanne Sarah Spalla	Senior Vice President
Carmel Mary O'Sullivan	Vice President and Controller
Dale David Geistkemper	Treasurer
David Stephen Friedman	Vice President

FINIAL REINSURANCE COMPANY

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.

The members of the Executive Committee at December 31, 2016, were:

Bruce John Byrnes
Brian Gerard Snover
John Duane Arendt

In addition to the Executive Committee, the Board established an Audit Committee. The members of the Audit Committee at December 31, 2016 were:

Bruce John Byrnes
J. Michael Gottschalk

RELATED PARTY AGREEMENTS

The Company had the following intercompany agreements in place as of December 31, 2016:

- 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 for the provision of investment management services to the Company for a fee.
- Effective February 1, 2007, the Company and NICO entered into an Intercompany Services Agreement for the provision of certain administrative and special services and makes available certain property, equipment and facilities to the Company for a fee.
- Effective July 1, 2014, the Company and Resolute Management Inc. (RMI) entered into an Intercompany Service Agreement for the provision of certain administrative and special services for the Company, and to make available to the Company certain property, equipment and facilities.
- Pursuant to a Federal Income Tax Allocation Agreement, the Company joined with a group of approximately 800 affiliated companies in the filing by BHI of a consolidated federal income tax return.

INSURANCE COVERAGE

NICO and affiliates, including the Company, are covered by a fidelity institutional bond issued by the Great American Insurance Company. The limit of liability on the policy is \$12 million which exceeded the suggested minimum limits of insurance pursuant to the Handbook.

FINIAL REINSURANCE COMPANY

Additionally, NICO maintains property, general liability, auto, workers' compensation, and umbrella policies for itself and affiliates.

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.

On April 21, 2016, the Company and Unione Italiana Reinsurance Company of America, Inc. (Unione) entered into an Agreement and Plan of Merger. The merger was approved by the Department and the New York State Department of Financial Services on June 9, 2016 and June 30, 2016, respectively, and was effective on August 1, 2016. This merger was accounted for as a statutory merger in compliance with SSAP. No. 68 of the Manual which required the Company to restate prior year amounts to comply with SSAP. No. 3 of the Manual, as if the merger had occurred on January 1 of the prior year.

REINSURANCE

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.

Effective July 1, 2013, the Company entered into an assumption reinsurance agreement with National Liability & Fire Insurance Company (NL&F), a Connecticut affiliate, whereby the Company transferred and assigned all of the reinsurance business in its Canadian Branch to the Canadian Branch of NL&F. The agreement was approved by the Office of the Superintendent of Financial Institutions.

During 2015 and 2016, the Company entered into five separate assumption reinsurance transactions that effectively increased its net reserves and loss adjustment expenses (LAE), predominately related to asbestos and environmental (A&E) claims. All transactions were approved by the Department:

- Effective October 1, 2015, the Company entered into a quota share (QS) agreement with Berkshire Hathaway Direct Insurance Company (BHDIC), an affiliate, whereby the Company accepts and assumes 100% of all policy liabilities for policies incepting prior to July 1, 2015. BHDIC paid the Company a premium of \$36,655,232 which was equal to the net loss and LAE reserves it assumed.
- Effective December 1, 2015, the Company entered into a QS agreement with Philadelphia Reinsurance Corporation (Phila Re), a former affiliate, whereby the Company accepts and assumes 100% of all policy liabilities for policies incepting prior to the effective date. Phila

FINIAL REINSURANCE COMPANY

Re paid the Company a premium of \$62,577,157 which was equal to the net loss and LAE reserves it assumed.

- Effective December 1, 2015, the Company entered into an assumption agreement with Phila Re whereby the Company agreed to assume all liabilities of Phila Re while it was an affiliate, excluding those that were the subject of the Phila Re QS agreement. Phila Re paid the Company a fee of \$100,000 for the assumption agreement.
- Effective July 1, 2016, the Company entered into a QS agreement with Commercial Casualty Insurance Company (CCIC), an affiliate, whereby the Company accepts and assumes 100% of all policy liabilities for policies incepting prior to the effective date. CCIC paid the Company a premium of \$54,997,040 which was equal to the net loss and LAE reserves it assumed.
- Effective December 31, 2016, the Company entered into a QS agreement with Atlanta International Insurance Company (AIIC), an affiliate, whereby the Company accepts and assumes 100% of all policy liabilities for policies incepting prior to the effective date. The Company recorded a premium receivable due from AIIC of \$17,458,353, which was equal to the net loss and LAE reserves it assumed.

CEDED REINSURANCE

Approximately 8% of the net amount reinsurance recoverable is from unrated foreign and domestic reinsurers, largely on the Unione business that was merged with the Company. Virtually all of the remaining balances are from companies rated A- or better.

INFORMATION TECHNOLOGY (IT) CONTROLS

The Company's data center is administered by RMI.

The Department conducted an evaluation and review of the Company's IT general controls. The examination was performed in accordance with the guidelines and procedures set forth in Exhibit C - Evaluation of Controls in IT, of the Handbook. A risk-focused approach was employed to determine the key areas of focus as well as the depth of review being performed. As part of the risk focused examination, procedures were conducted to obtain assurance of controls in place within the RMI data center.

The examination was conducted with an objective of evaluating the reasonableness of the existing IT controls, policies and procedures in effect. Consideration was given to changes in the IT infrastructure or control procedures implemented since the previous examination.

Based upon the risk-based assessment and review, the IT general controls were determined to be effective.

FINIAL REINSURANCE COMPANY

ACCOUNTS AND RECORDS

The company utilizes the SAP general ledger system for both generally accepted accounting principles and statutory reporting. Financial Accounting uploads technical data into SAP from the Reinsurance Accounting Process system. The CONverium REServing system is utilized for reserving. Once the financial statements have been reviewed and approved, the appropriate data is uploaded/input into the eFreedom software, which generates the quarterly/annual statutory statements.

The 2016 trial balance was reconciled to the Annual Statement without exception.

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2016. No adjustments were made to surplus as a result of the examination.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$71,753,578		\$71,753,578
Stocks:			
Preferred stocks	91,600,000		91,600,000
Common stocks	383,065,960		383,065,960
Cash and short-term investments	910,188,417		910,188,417
Receivables for securities	31,047		31,047
Subtotal, cash and invested assets	1,456,639,002		1,456,639,002
Investment income due and accrued	2,518,327		2,518,327
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	17,811,260	\$352,921	17,458,339
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,998		1,998
Accrued retrospective premiums	3,704,620		3,704,620
Reinsurance:			
Amounts recoverable from reinsurers	3,131,610		3,131,610
Funds held by or deposited with reinsured companies	885,127		885,127
Aggregate write-ins for other than invested assets	5,792,094	3,164,448	2,627,646
Totals	<u>\$1,490,484,038</u>	<u>\$3,517,369</u>	<u>\$1,486,966,669</u>

FINIAL REINSURANCE COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$376,660,733
Reinsurance payable on paid loss and loss adjustment expenses	3,917,997
Loss adjustment expenses	65,910,600
Commissions payable, contingent commissions and other similar charges	3,937,279
Current federal and foreign income taxes	2,915,959
Net deferred tax liability	42,739,648
Ceded reinsurance premiums payable	12,459
Funds held by company under reinsurance treaties	627,741
Amounts withheld or retained by company for account of others	7,431,319
Remittances and items not allocated	133,864
Provision for reinsurance	4,273,132
Payable to parent, subsidiaries and affiliates	116,408
Aggregate write-ins for liabilities	2,744,639
Total liabilities	511,421,778
Common capital stock	3,500,000
Gross paid in and contributed surplus	963,253,763
Unassigned funds	8,791,128
Surplus as regards policyholders	975,544,891
Totals	<u>\$1,486,966,669</u>

FINIAL REINSURANCE COMPANY

STATEMENT OF INCOME

UNDERWRITING INCOME	
Premiums earned	\$72,380,307
DEDUCTIONS:	
Losses incurred	38,614,013
Loss adjustment expenses incurred	18,287,927
Other underwriting expenses incurred	(578,349)
Total underwriting deductions	56,323,591
Net underwriting gain (loss)	16,056,716
INVESTMENT INCOME	
Net investment income earned	18,757,436
Net realized capital gains (losses)	10,022,192
Net investment gain (loss)	28,779,628
OTHER INCOME	
Aggregate write-ins for miscellaneous income	8,354,050
Total other income	8,354,050
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	53,190,394
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	53,190,394
Federal and foreign income taxes incurred	9,697,423
Net income	43,492,971
CAPITAL AND SURPLUS ACCOUNT	
Surplus as regards policyholders, December 31, prior year	881,300,085
Net income	43,492,971
Change in net unrealized capital gains or (losses)	49,219,258
Change in net deferred income tax	(6,840,825)
Change in nonadmitted assets	11,373,956
Change in provision for reinsurance	(3,000,554)
Change in surplus as regards policyholders for the year	94,244,806
Surplus as regards policyholders, December 31, 2016	<u>\$975,544,891</u>

FINIAL REINSURANCE COMPANY

LOSSES AND LAE

\$442,571,333

The following items were included in the captioned accounts:

Losses	\$376,660,733
LAE	<u>65,910,600</u>
	<u>\$442,571,333</u>

The Department conducted a risk-focused review of the loss and LAE reserves of the Company as of December 31, 2016, for all lines of business, in accordance with NAIC guidelines.

The review included, but was not limited to, the following:

- the Company's 2016 Annual Statement;
- the 2016 Statement of Actuarial Opinion and Actuarial Opinion Summary;
- the 2016 Actuarial Report (Report) in support of the Statement of Actuarial Opinions;
- interview of the Appointed Actuary; and
- the Company's written responses to questions on its loss and LAE reserve.

Reserving Risk

As part of review, the Department reviewed and tested the Company's:

- actuarial methodologies and assumptions used in the Report;
- survival ratios utilized by the Company for A&E reserves; and
- approach used by the Company for their reasonability in booking the carried reserves.

Conclusion

Based on the risk-focused assessment and the Department's review procedures, no material concerns were noted that affected the Company's ability to manage its reserving risk.

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>\$963,253,763</u>
<u>UNASSIGNED SURPLUS</u>	<u>\$8,791,128</u>

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

(in thousands)

	Common Capital Stock	Gross Paid in & Contributed Surplus	Unassigned Surplus	Total Capital & Surplus
December 31, 2016	\$3,500	\$963,254	\$8,791	\$975,545
December 31, 2015	\$3,500	\$963,254	(\$85,454)	\$881,300
December 31, 2014	\$3,500	\$928,798	(\$84,102)	\$848,196
December 31, 2013	\$3,500	\$928,798	(\$120,156)	\$812,142
December 31, 2012	\$3,500	\$928,798	(\$216,007)	\$716,290

The capitalization of the Company at December 31, 2016, consisted of 100 shares of common stock outstanding with a par value of \$35,000 per share. All shares are owned by FHI.

The increase in gross paid in and contributed surplus during 2015 was predominately attributable to the merger with Unione which increased contributed surplus by \$31,901,370.

The increase in unassigned surplus during the period of examination was predominately attributable to investment appreciation and the merger with Unione.

SUBSEQUENT EVENT

On September 6, 2017, pursuant to the requirements of Section 38a-136 of the CGS, the Company requested approval from the Department to make a \$250 million extraordinary distribution of contributed surplus to FHI. The Department granted approval of the distribution on September 27, 2017.

CONCLUSION

The results of the examination disclosed that as of December 31, 2016, the Company had admitted assets of \$1,486,966,669, liabilities of \$511,421,778, and capital and surplus of \$975,544,891. During the period under examination, admitted assets increased by \$283,960,341, liabilities increased by \$24,705,892 and capital and surplus increased by \$259,254,449.

FINIAL REINSURANCE COMPANY

SIGNATURE

In addition to the undersigned, the following Department personnel participated in this examination: William Arfanis, CFE; Sharon Altieri, CPA; Daniel Levine, AFE, CPA; Joseph Marcantonio, AFE, CISA, AES; Susan Gozzo Andrews, FCAS, MAAA, RPLU+; Wanchin Chou, FCAS, MAAA; and Qing He, FCAS, MAAA.

I, Jeffrey Prosperi, CFE, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject reinsurer as of December 31, 2016, to the best of my information, knowledge and belief.

Respectfully submitted,

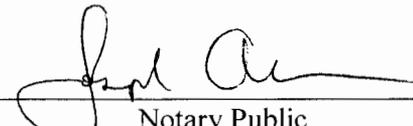


Jeffrey Prosperi, CFE
Examiner-In-Charge
State of Connecticut
Insurance Department

State of Connecticut
County of Hartford

ss. Hartford

Subscribed and sworn to before me, JOSEPH MEDINA Notary Public, on this 28th day of November, 2017.



Notary Public

My commission expires 9/16/20

JOSEPH A. MEDINA
NOTARY PUBLIC
MY COMMISSION EXPIRES Sept. 16, 2020