REPORT ON MULTI-STATE EXAMINATION

AS TO THE CONDITION OF

CLARENDON NATIONAL INSURANCE COMPANY

AS OF DECEMBER 31, 2013

NAIC GROUP CODE 4725

NAIC COMPANY CODE 20532

Filed

June 16, 2015

Commissioner
Department of Banking &
Insurance

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May 29, 2015

Honorable Kenneth E. Kobylowski
Commissioner of Banking and Insurance
New Jersey Department of Banking and Insurance
20 West State Street
CN 325
Trenton, NJ 08625-0325

Commissioner:

In compliance with your instructions and pursuant to Insurance Laws and Rules of the State of New Jersey, a comprehensive risk focused examination has been made of the books and records and financial condition of

Clarendon National Insurance Company
196 Princeton Hightstown Road, Building 2 Suite 14A
Princeton Junction, NJ 08550
NAIC Group Code 4725 NAIC Company Code 20532

Hereinafter referred to as the "Company".

SCOPE OF THE EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as the "NJDOBI" or "We", have performed a full scope coordinated multi-state risk focused examination of the Company, as the Lead State. The Illinois, New York, Rhode Island, Delaware, Michigan, Arizona and California Department of Insurance participated in this examination. The examination covers the period of January 1, 2009, through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The examination was conducted at the Company's main administrative office located at 411 Fifth Avenue New York, New York 10016.

The Company was last examined as of December 31, 2008. The current examination was conducted concurrent with the examinations of its affiliates, Clarendon National Insurance Company (CNIC) **NJ,** Clarendon America Insurance Company (CLAM) **NJ,** Claremont Liability Insurance Company (CLIC) **CA,** Constellation Reinsurance Company (CRC) **NY,** SeaBright Insurance Company (SBIC) **IL,** Providence Washington Insurance Company (PWIC) **RI,** York Insurance Company (YIC) **RI,** Seaton Insurance Company (SIC) **RI,** Pavonia Insurance Companies **(DE).**

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identification and assessment of inherent risks within the company and evaluation of system controls and procedures used to mitigate those risks. An examination also includes assessment of inherent risks within the Company and evaluation of systems controls and procedures used to mitigate those risks. An examination also includes assessment of the principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation, management's compliance with statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations. The general procedure of the examination followed the rules established by the Financial Condition, Examination and Reporting Committee of the NAIC, and included such other examination procedures as were deemed necessary.

During the course of this examination, consideration was given to work performed by both the Company's Internal Audit Department as regards to its oversight of compliance with Sarbanes-Oxley, risk analysis, documentation, test work, remediation efforts over weaknesses identified and by the Company's external accounting firm. Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

In addition to the review of the Company's operations during the five year period ending December 31, 2013, and a determination of its financial condition as of that date, transactions occurring subsequent to the examination date were reviewed and incorporated herein when deemed appropriate. A review was made of the following matters to ascertain the Company's financial condition and its conformity with the insurance laws of the various jurisdictions in which it operates:

History and Kind of Business
Territory and Plan of Operation
Management and Control
Corporate Records
Policy on Conflict of Interest
Continuity of Operations
Intercompany Agreements
Fidelity Bond and Other Insurance Coverages
Reinsurance
Accounts and Records
Parent, Subsidiaries and Affiliates

COMPLIANCE WITH PRIOR EXAMINATION REPORT

There were no findings during the prior examination as of December 31, 2008

HISTORY AND KIND OF BUSINESS

The Company was incorporated under the laws of the State of Maryland on July 21, 1941 as the Cavalier Insurance Corporation and commenced business on November 10, 1941. It was acquired by Clarendon America Insurance Company on September 30, 1985 and changed its name to Clarendon National Insurance Company in January of 1986. It redomiciled to the State of New Jersey on June 1, 1995.

During 1999, the Company became a wholly owned subsidiary of Hannover Finance Incorporated, due to its acquisition of all of the issued and outstanding stock of Lion Holding Incorporated. The Company's ultimate parent is Hannover Ruckversicherung AG (Hannover Re) which owns 100% of Hannover Finance Inc.

In 2005, the Company transferred all common stock of two affiliated companies, Insurance Corporation of Hannover (ICH) and Redland Insurance Company, into a newly formed holding Company to be named "Praetorian Insurance Group, Inc".

On March 7, 2006, the Company's ultimate parent, Hannover Re announced a fundamental restructuring of its U.S. primary insurance business, including the Company's business, by transferring, through an indemnity reinsurance agreement, most of the specialty business of the Hannover Finance Inc. group insurance subsidiaries (HFI) to Praetorian Financial Group (PFG). The agreement was made effective July 1, 2005, and was done on a cutoff basis. Hannover Re also announced its intention to renew all future specialty business of HFI through PFG. The Company and its remaining insurance affiliates will continue to service its in-force book of business through the run-off period, but all active specialty business was renewed with PFG.

During 2005, the Company entered into a Memorandum of Understanding with the NJDOBI to, among other things, provide additional quarterly reporting related to certain financial information. If the Company fails to materially comply with the agreement, the NJDOBI has the right to take additional regulatory action. Made part of that Memorandum, Hannover Re's commitment and general plan to continue to support the Company through the runoff process was described in a letter to the NJDOBI from the Hanover Re Executive Board dated October 19, 2005. As required by the Memorandum, the Company continues to file quarterly supplemental reports with the NJDOBI that provides updated financial data and operational results in relation to its runoff process.

In 2011, the Company was acquired by the Enstar Group Ltd (Enstar). The Company entered into an intercompany service agreement with an affiliate, Enstar (US) Inc., a service provider which provides all necessary executive and administrative services, legal, data processing, treasury, corporate secretarial, premium collection, record keeping, claims services and other services with a focus on the orderly administration, including prompt claims payment, of its run-off business.

In 2013, the Company entered into a letter of intent to sell its subsidiary, Harbor Specialty Insurance Company to Relational Group Partners, Inc., a subsidiary of Blue Warrior Capital, LLC. for its licenses. The sale required approval by the NJDOBI which was finalized in February 2014. Harbor's existing reserves and liabilities are fully reinsured by Clarendon National, which will continue the management and administration of the existing run off book, under current arrangements in place with Enstar US Inc.

The capital structure, of the Company includes 48,000 shares of common stock issued and outstanding with a par value of $100 per share totaling $4,800,000 of common stock. As of December 31, 2013, the Company's had Aggregate write-ins of $0, Surplus note of $0, Gross paid in and contributed surplus of $604,305,709 and unassigned funds (surplus) of $(318,214,548), or a total Surplus as Regards Policyholders of $290,891.161.

In July 2014, the Company redomesticated to the state of Illinois. The current Certificate of Authority, dated July 23, 2014, authorizes the Company to transact the business of insurance as set forth under clauses (a), (b), (c), (d), (e), (f), (g), (h), (i), (j), (k), of class 2 and (a), (b), (c), (d), (e), (f), (g), (h) of class 3 of Section 4 of the Illinois Insurance Code in accordance with the laws of Illinois.

The Company's statutory home office as the completion of this examination is located at 190 South LaSalle, Suite 2025, Chicago, Illinois 60603. The examination was conducted at the Company's New York, New York office. The registered agent upon whom process may be served is CT Corporation System, 111 Eight Avenue, New York, N.Y. 10011.

TERRITORY AND PLAN OF OPERATIONS

The Company entered run-off on July 1, 2005. In instances of mandatory renewals the Company has complied with these requirements. The Company entered into fronting arrangements with Praetorian Financial Group on certain programs.

As of December 31, 2013, the Company was licensed to write business in all 50 States and the District of Columbia. The Company is authorized to write a full line of property and casualty insurance except in California where the Company voluntarily surrendered its Workers' Compensation line of business authority, New Hampshire and North Carolina, where its licenses are restricted due to the company's run-off status.

The Company's direct written business currently in runoff is primarily program business which consists of homogeneous books of business dedicated to a well-defined market segment. Many of these programs had been recommended to the Company by various reinsurers who desire to participate in the program through quota share treaties. The Company used nationally and internationally recognized reinsurance intermediary brokers to negotiate its reinsurance.

Prior to starting the run-off process, the Company primarily employed managing general agents (MGAs), general agents (GAs) and third party administrators (TPAs) to actively manage its various programs. These parties conduct a substantial portion of the administrative work associated with premium and claims processing functions, backup supporting records, and reconciliation to Company bank accounts established for their use.

These firms entered into contracts with the Company, whereby their responsibilities and authority were delineated. The terms and conditions of the Company's standard Managing General Agency contract were in compliance with New Jersey laws including requirements for the MGAs to obtain errors and omissions insurance and a fidelity bond. As of December 31, 2013, all General Agency Agreements are terminated in respect of new business since the Company no longer issues insurance policies and/or writes new or renewal business.

As of December 2013, under Enstar management, the Company transitioned workers compensation claims from two major TPAs – AARLA and NARS to be handled in-house to have better oversight on the claims handling process, consolidate banking arrangements, streamline reporting and reduce administrative expenses. As previously stated, in July 2014, the Company redomesticated to Illinois and continues to run off its business operating under the Illinois state insurance code.

REINSURANCE

Assumed:

The Company's assumed reinsurance, from both affiliates and unaffiliated insurers, at December 31, 2013, was substantially reduced as the Company continues the runoff process.

In 2013, the Company entered into a letter of intent to sell its subsidiary, Harbor Specialty Insurance Company to Relational Group Partners, LLC. The Company signed a reinsurance agreement with the new owners to cover 100% of Harbor's legacy book of business net of third party reinsurance. The sale was finalized on February 28, 2014.

<u>Ceded:</u>

Program Business Reinsurance:
As previously stated, the Company was a program business writer; in accordance with its business strategy it wrote distinct coverages produced by general agents. Typically these programs were reinsured on a quota share basis with the terms of the quota sharing mirroring those of the underlying agency arrangement. The Company also utilized global reinsurance coverages for its workers compensation and property programs. The global reinsurance covered multiple programs and was structured on an excess of loss basis. The global reinsurance covers on the property book provided catastrophe protection and the workers compensation global reinsurance provided per occurrence and per person coverage.

Since its acquisition by Enstar in 2011, the Company has commuted with a substantial number of its reinsurers on its program business and has significantly reduced its ceded reinsurance program.

In 2005, after the Company was put into run-off and its active insurance business was transferred to Praetorian Insurance Company (PIC), an affiliated company at the time. Effective July 1 through December 31, 2005, the Company ceded 100% of the losses on these fronted programs, net of underlying third party reinsurance to PIC through a 100% indemnity reinsurance agreement. Effective January 1, 2006, the indemnity agreement was amended to cede 100% of these fronted losses on a gross basis. A trust is held in collateral for the benefit of the Company.

The Company was protected by an Adverse Development Cover (ADC) written by its parent company at the time, Hannover Ruckversicherung AG (Hanover Re), effective July 2005 which covered losses up to $295,000,000 (Clarendon group limit) in excess of the ultimate net liability on specific programs.

In April 2010, the Loss Portfolio Transfer (LPT) agreement effective on December 2003 between the Company and Hannover Re, was commuted. The coverage was for 100% of the ultimate net liability up to $350,000,000 of certain discontinued program business. The contract further provided unlimited protection for uncollectible, disputed reinsurance and legal expenses associated to the collection of those balances. The ADC was amended to include unlimited coverage for the obligations that would've been covered under the ADC except on its Raydon and Cromwell program business.

Affiliated Reinsurance:
Effective July 2011, Fitzwilliam Insurance Company, an Enstar Bermuda domiciled affiliate, wrote stop-loss coverage covering the Clarendon group on the remaining Raydon Underwriting Management business which inure to the benefit of the ADC cover. In addition to other actions taken by the Company, this substantially limited any remaining uncertainty regarding this business.

Effective January 1, 2013, the Company entered into a 100% quota share reinsurance agreement with the same affiliate which segregated the exposures into what is referred to as Fitzwilliam Cell #25. This ceded business was covering the construction defect (CD) book that was comprised of the business related to the Cromwell and Frontier CD programs. Under the terms of the reinsurance agreement, the Company cedes 100% of the CD losses, net of recoveries, subject to the limit, with effect from January 1, 2013. All rights, benefits and obligations of all inuring reinsurance protections were assigned to Fitzwilliam Cell #25 under the terms of the agreement. In relation to this agreement, the Company reported paid premiums totalling $14,136,922 and an increase in ceded losses of $18,236,000. At December 31, 2013 the losses recoverable from Fitzwilliam Cell #25 were reported at $5,993,000.

PARENT, SUBSIDIARIES AND AFFILIATES

The Company was a member of an insurance holding company system and filed its annual registration statement with the New Jersey Department of Banking and Insurance. Clarendon National Insurance Company is part of a large international holding company system which has Enstar Group Limited (Enstar), headquartered in Bermuda, as the Ultimate Controlling Entity. The Company's immediate parent is Clarendon Holdings Inc.

The holding company structure as it pertains to the Company as of December 31, 2013, is depicted in the following abridged organizational chart:

Company	**Domicile**
Enstar Group Limited	Bermuda
Kenmare Holdings, Ltd.	Bermuda
Harper Holdings SARL	Luxembourg
Enstar Holdings (US) Inc.	Delaware
Enstar Investments Inc.	Delaware
SeaBright Holdings, Inc.	Delaware
SeaBright Insurance Company	Illinois
Clarendon Holdings, Inc.	Delaware
Clarendon National Insurance Company	New Jersey
Clarendon America Insurance Company	New Jersey
Harbor Specialty Insurance Company	New Jersey
CLIC Holdings, Inc.	Delaware
Claremont Liability Insurance	California

The Company was a member of an insurance company holding system as defined in N.J.S.A. 17:27A-1 et seq. Accordingly, the Company had registered with the State of New Jersey under the registration it filed as required under N.J.S.A. 17:27A-3.

INTER-COMPANY AGREEMENTS

The Company files a consolidated federal tax return with its current parent, Enstar Holding (US) Inc. and is party to a Tax Sharing Agreement.

The method of tax allocation between companies is based on a written intercompany tax allocation agreement, approved by the Board of Directors. The federal income tax provision is allocated to each of the insurance companies in the consolidated group on a separate tax return basis.

The Company and its insurance subsidiaries maintain an administrative agreement in connection with joint use of operating and administrative services. The Company reimburses or is reimbursed for its proportionate share of expenses under a formula based upon allocation of time. The allocated cost is recorded as a receivable from affiliates until reimbursed which occurs within 45 days of being established.

Effective July 12, 2011, the Company entered into an Intercompany Services Agreement with Enstar (US) Inc. ("Service Provider") to provide all necessary executive and administrative services. The compensation for providing services is based on actual cost. Indirect and shared expenses based on a cost allocation calculation. Payment is due on or before the 15thday following the end of each quarter.

MANAGEMENT AND CONTROL

On December 21, 2010, Clarendon Insurance Group Inc. entered into a Stock Purchase Agreement to sell all of the issued and outstanding shares of the Company (which also included Clarendon America Insurance Company (CAIC), Harbor Specialty Insurance Company (HSIC) and Clarendon Select Insurance Company (CSIC) to Clarendon Holdings, Inc., a wholly-owned subsidiary of Enstar Group Limited (Enstar)

Shareholders

The By-laws provide for an annual meeting of the shareholders at a time and place to be designated by the Board of Directors. This meeting shall be for election of Directors and for the completion of any other various business concerned with the Corporation.

The By-laws also state that special meetings, of the shareholders, may be called by the Chairman of the Board, the President, the Secretary, and the Board of Directors or by the holders of at least one-half of all of the outstanding shares of stock of the Company.

A quorum at all shareholder meetings shall be determined by a majority of the outstanding shares of the Corporation represented either in person or by proxy. In the absence of a quorum, a majority of the represented shares may adjourn the meeting without further notice.

Directors

The affairs of the Corporation are managed by its Board of Directors. The number of Directors shall be fixed from time to time by resolution of the Board of Directors or the shareholders. Each Director holds office until the next annual shareholders meeting or until his successor shall have been elected and qualified. Directors may be removed with or without cause as provided by law. A successor Director shall be elected to replace the removed Director by a plurality of the votes cast by a quorum of the Board present at the meeting to remove the Director in question.

The regular meeting of the Board shall be held immediately following and at the same place as the annual shareholders meeting. The Board may provide, by resolution, the time and place for additional meetings without notice other than the resolution. Special meetings of the Board may be called by the Chairman of the Board, the Vice Chairman of the Board, the President or the Secretary at the request of a majority of the Board of Directors.

A majority of the number of Directors shall constitute a quorum at all meetings of the Board providing that, in the absence of a quorum, a majority of the Directors that are present can adjourn the meeting which shall be rescheduled with at least twenty-four hour notice.

A review was made of the Board minutes for the period of the examination. It was determined that Board minutes adequately support all major Company decisions.

At December 31, 2013, the Board of Directors was comprised of the following members:

Name of Director	**Principal Occupation**
Steve Given	Chairman/CEO
Joseph Follis	SVP Casualty Claims Mgr
Karl Wall	Pavonia Holdings - President
Tom Nichols	President/CFO
Robert Redpath	SVP Corporate Legal Counsel
Mike Sheehan	SVP Ceded Reinsurance
Kathleen Barker	Treasurer/COO

The By-laws state that the Board may, by resolution, designate one or more committees each consisting of one or more of the Directors of the Corporation. As of the examination, the Board had established the following Committees:

Committee	**Members**
Audit Committee	Robert J. Campbell-Chairman Charles T. Akre, Jr. T. Whit Armstrong Kenneth J. Le Strange
Investment Committee	Tom Nichols Mike McFadden Roger Thompson Kathleen Barker

The Company is in compliance with N.J.S.A. 17:27A-4d (3)(4) whereby at least one third of its directors must be outside members and not associated with the Company, as its ultimate parent meets the requirements of New Jersey Statues regarding the make-up of its Board of Directors.

Article V of the By-laws dictates the corporate officers, their powers and duties. Under this article, the officers, of the Company shall be the following:

Chairman of the Board
Vice Chairman of the Board
President
Vice Presidents
Secretary
Treasurer

The duties of the above listed officers, as stated in the By-laws are as follows:

<u>Chairman of the Board</u> - shall be the Chief Executive Officer of the Company and subject only to the Board of Directors, shall have general authority over the property and business affairs of the Company. The Chairman shall preside at all meetings of stockholders and of the Board of Directors. In the event of the absence or disability of the President, the Chairman of the Board shall discharge all of the duties of the President.

<u>Vice-Chairman of the Board</u> - shall exercise all powers of the Chairman of the Board in his absence or disability. At the direction of the Chairman, he shall preside at meetings of the Board of Directors and of the stockholders.

<u>President</u> - shall be the Chief Operating Officer of the Company and subject only to the Chairman of the Board and to the Board of Directors. He shall direct the everyday business of the Company. The President shall have such specific duties as may be assigned by the Chairman and the Vice Chairman, he shall exercise all powers of the

Chairman. In the event of the absence of the Chairman of the Board, the Vice Chairman and the President, the Board of Directors may direct a Vice President or some other person to be the acting Chief Executive Officer and Acting Chief Operating Officer to perform all duties prescribed for the Chairman of the Board and the President.

Vice Presidents - The Board of Directors shall elect one or more Vice Presidents to serve in such capacities as shall be directed by the Chairman, the Vice Chairman, the President or the Directors.

Secretary - shall have custody of the seal of the Company which he or Assistant Secretary may affix to any corporate documents on which it is required. The Secretary shall perform all duties incidental to that office and such other duties as may be assigned to him by the chairman of the Board, the President or the Board of Directors. In the absence of the Secretary, any Assistant Secretary may perform the duties of the Secretary.

Treasurer - shall be the custodian of the funds and securities of the Company. He shall perform all duties incidental to the office of the Treasurer as well as any other duties which may be assigned to him by the Chairman of the Board, the Vice Chairman, of the Board, the President or the Board of directors. In the absence of the Treasurer, the President or any Assistant Treasurer may perform the duties of the Treasurer.

As of December 31, 2013, the officers of the Company were as follows:

Name	**Title**
Steve Given	Chairman/CEO
Tom Nichols	President/CFO
Kathleen Barker	Treasurer/ COO
Thomas Balkan	Secretary
Robert Redpath	SVP/General Counsel
Mike Sheehan	SVP
Joseph Follis	SVP

CONTINUITY OF OPERATIONS

As of 2013, the Company stores its paper files, with Iron Mountain throughout its six locations in NJ and also in a leased warehouse in Orlando, Florida located at 6831 Edgewater Commerce Parkway. In 2014 the Company transitioned these files to Certified Records Management, 4745 Oak Fair Blvd, Tampa 33610.

Its backup tapes and other important IT information are stored at:

Iron Mountain
Offsite Data Protection
203 Moonachie Road
Moonachie, NJ 07074

Applications and data are now housed in the US Regional Data Center in Secaucus, NJ. The durability of this site was tested during Hurricane Sandy but no loss of connectivity was ever reported and all systems remained safe and secure. There is no data housed locally in the NY office.

Data is backed up via a snapshot system called ArcServe on a daily basis. It is backed up to tape on a monthly basis. The tapes are sent out to Iron Mountain's secure facility on a regular basis and are held for a year. Furthermore, the US Datacenter's contents are replicated to the UK Datacenter on a nightly basis. In the event of a total loss, the UK Datacenter would be "stood up" as the new production environment and vice versa.

The Company has in place a disaster recovery plan. If a physical location is compromised, staff would be directed to work in one of the various other Enstar/Torus offices throughout the metro NYC area. This includes sites in Basking Ridge, NJ and Jersey City, NJ. If the entire metro area was compromised, the fallback would be to the Warwick, RI office.

The continuity of management is provided for in the Company's By-laws which state that the chairman of the board shall be the chief executive officer of the Company, and, subject only to the board of directors, shall have general authority over the business and affairs of the Company and its officers, agents and employees.

Further, the president shall be the chief operating officer of the Company and, subject only to the board of directors and the chairman of the board, shall direct its day to day business affairs, and its officers, employees and agents, and shall have such specific duties as the chairman or the board of directors shall assign to him from time to time. In the absence of the president, or in the event of a vacancy in the office of president, the chairman of the board shall have and exercise the powers and discharge all of the duties of the president.

In the case of the disability or absence of the chairman of the board, or a vacancy in the office, his duties shall be assumed by the vice chairman of the board. During the absence or disability of the chairman or vice chairman, or in the event of a vacancy in their offices, the president shall discharge all of their duties including presiding at board of directors and shareholder meetings. In the absence of the chairman, vice chairman and president, the board of directors may select a senior vice president or some other party to act instead.

In February 2014, HSIC was sold and the Company assumed administrative responsibility and liability of the legacy Harbor book of business. As previously discussed, effective July 23, 2014, the Company and CLAM, re-domesticated to IL. New Bylaws of the Company and CLAM, which were approved by the IL Department of Insurance, and which provide continuity of management, setting forth that the chairman of the board shall preside at the meetings of the board of directors, executive committee or stockholders of the Company. The chief executive officer shall preside at meetings of the board of directors, executive committee and stockholders in the absence of the chairman of the board and shall report to such meetings respecting the condition and affairs of the company.

The president, an executive vice president, a financial vice president, a vice president, a treasurer or a secretary shall have the usual duties incident to his office and also such duties and responsibilities as may be prescribed by the board of directors, the executive committee or by the chairman of the board. The bylaws are in compliance with IL laws.

POLICY ON CONFLICTS OF INTEREST

The Company has established a procedure for disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors and employees that are in conflict with the official duties of such persons.

Each year, the Company requires its directors, officers and employees to sign a conflict of interest questionnaire and to divulge any potential conflicts of interest that could have an impact on the way they conduct the Company's business. A review of the conflict of interest questionnaires revealed conflicts were being reported as instructed.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company’s bonding and all other insurance coverage are part of the overall insurance program administered by Wallace Welch & Willingham Inc., for itself and its network of subsidiaries. The types of coverage in force at the date of this examination for the Company are summarized as follows:

Fidelity Coverage – coverage provided by JLT Specialty Limited. The policy has a single loss deductible of $250,000 and an aggregate limit of liability of $10,000,000. The suggested minimum amount of fidelity insurance was calculated using NAIC guidelines. It was determined that the coverage in force was in compliance with the NAIC prescribed amounts.

Other Insurance Coverage’s:

Commercial General Liability
Provided by Zurich American Insurance Company for $1,000,000 per occurrence and a general aggregate amount of $2,000,000.

Hired and Non-Owned Automobile Liability
Provided by Zurich American Insurance Company for $1,000,000 per occurrence.

Automobile Hired Physical Damage
Provided by Zurich American Insurance Company
Estimated Cost of Hire - $5,000
Deductibles: Comprehensive $100; Collision $500.

Employee Benefits
Provided by Zurich American Insurance Company (Claims Made)
Per Occurrence: $1,000,000; Aggregate: $3,000,000; Deductible $1,000
Retro Date: 4/1/12

Workers Compensation
Provided by Travelers Indemnity Co.
Statutory Limit
Employers Liability: $1,000,000 each accident, $1,000,000 policy limit, $1,000,000 each employee.

Umbrella Liability
Provided by Zurich American Insurance Company
Each Occurrence: $5,000,000
Products/Completed Operations Aggregate: $5,000,000
Other Aggregate: $5,000,000
Fiduciary Liability
Provided by RLI Insurance Co.
Each policy period: $3,000,000

Employment Practices Liability
Provided by Great American Insurance Co.
Limit of Liability: $3,000,000 (Inclusive of Costs of Defense)

Foreign Package
Provided by World Source
Foreign Commercial General Liability
$1 million Each Occurrence / $1 million General Aggregate
Foreign Business Auto Liability
Hired and Non-owned Auto Liability $1 million Any One Accident
Foreign Voluntary Compensation & Employers Liability
Part One: Supplemental Repatriation Expense: $250,000
Foreign Travel Accident & Sickness
Accidental Death & Dismemberment: $250,000 $250,000/Aggregate $2,500,000 Aggregate
Limit; Accidental Sickness Medical Expense: $125,000. Deductible $500.
Kidnap and Ransom
Each Insured Event Limit $5,000,000

ACCOUNTS AND RECORDS

Investment transaction data is received from Bank of NY Mellon and individual investment managers and entries are made into CODA General Ledger system which feeds the E-Freedom Annual Statement system. The accounts must be reconciled with investment summaries prepared by Enstar Group investments team in Bermuda.

Policy and claims detailed transactions are primarily administered through contracts executed with third party vendors, as described under the "Territory and Plan of Operation" section of this report. In 2013, the majority of the workers compensation book has been transferred for in-house claims administration. The Company obtains applicable information on a monthly or quarterly basis through a variety of means such as reports and electronic media. This information is downloaded or entered, as applicable, into Excel templates that are uploaded into our P1 technical accounting system and processed through our ReAcct reinsurance system and into the Datawarehouse. The data then loaded quarterly into CODA general ledger.

The Company utilizes an early cut-off of 2 months for the recording of its premium/claim data, primarily due to its reliance on third party administrators/managers and the timing of the receipt of this data, and also due to the timing necessary to be able to report Company data upstream to its parent, Enstar. The Company does not use estimates and rolls forward ultimate losses for the interim quarters.

Controls are in place to review the unreported activity for potential impact on ultimate losses.

Since the 2008 audit, the Company has significantly reduced reliance on spreadsheets through the implementation of claims and reinsurance systems. Any residual risk has been considered and addressed through the implementation and or enhancement of various controls. Examples of controls in place include the following:

• Implementation of controls guidance to govern the use of spreadsheets and other User Developed Applications in the financial reporting process. This Enstar group-wide policy sets out guidelines for the inventory, risk assessment and controls surrounding the use of UDAs and complex spreadsheets. The inventory listing is reviewed annually in accordance with the UDA guidelines and updated as needed.

• Enhanced GL and sub-ledger reconciliations that help ensure consistency with source data reported by the TPA's. This includes timely resolution of any unreconciled differences.

• Various management review controls as outlined in the Program Accounting Checklist and controls documentation.

• Quarterly controls review and management attestation process as part of Enstar's Internal Controls over Financial Reporting (ICFR) program. As part of this process, the Internal Audit Department completes independent testing of key controls.

It should be noted that the external audit providers, KPMG review and provide an opinion on controls as part of their integrated audit. The significant deficiency noted by KPMG in 2008 has been closed.

TREATMENT OF POLICYHOLDERS

N.J.S.A. 17:29-4 (10) requires the maintenance of a complete record of all complaints received by the Company since the date of the prior examination. The Company informed the examiners that the complaint logs are maintained at their various agency offices and monitored by Company personnel.

STATUTORY DEPOSITS

The following is a list of deposits as of December 31, 2013 for the states that require the Company to maintain a deposit for the benefit of all policyholders or the policyholders of the particular state.

The securities held are either US Treasury Notes or a specific security and are in the following amounts and for the indicated states:

State	Statement Value
Arizona	$ 1,055,112
Arkansas	230,712
California	144,260,470
Delaware	109,863
Georgia	79,631
Idaho	417,505
Massachusetts	308,571
Montana	31,242
Nevada	299,627
New Jersey	2,565,549
New Mexico	667,420
North Carolina	541,532
North Dakota	25,959
Oregon	998,824
Virginia	537,510
Total	$152,129,527

The New Jersey deposit was held for the protection of all policyholders while the other deposits were held for the protection of the policyholders in the named jurisdictions

Comparative Statement of Assets				
Liabilities, Surplus and Other Funds at December 31, 2012				
				Exhibit A
	Current Examination	Balance per Company	Examination	
Assets:	at 12/31/13	at 12/31/13	Change	Note
Bonds	$371,413,508	$371,413,508		
Preferred Stocks	4,681,894	4,681,894		
Common Stocks	180,117,901	180,117,901		
Cash, Cash Equivalents & Short term investments	17,102,505	17,102,505		
Other invested assets	53,395,887	53,395,887		
Investment income due and accrued	1,725,773	1,725,773		
Amounts recoverable from reinsurers	12,119,919	12,119,919		
Receivable from parent, subsidiaries and affiliates	1,318,365	1,318,365		
Healthcare and other amounts receivable	41,904	41,904		
Aggregate write-ins for other than invested assets	1,241,265	1,241,265		
Total Assets	$643,158,921	$643,158,921		
Liabilities:				
Losses	$238,397,320	$238,397,320		1
Reinsurance payable on paid loss and LAE	4,863,496	4,863,496		
Loss adjustment expenses	54,445,503	54,445,503		1
Commission payable, contingent commissions				
and other similar charges	4,478,240	4,478,240		
Other expenses	1,257,968	1,257,968		
Taxes, licenses and fees	1,501	1,501		
Current federal and foreign income taxes	1,448,579	1,448,579		
Dividends declared and unpaid: policyholders	0	0		
cede reinsurance premium payable	1,605,408	1,605,408		
Funds held by company under reinsurance treaties	5,920,271	5,920,271		
Amounts withheld or retained by company for account of others	714,458	714,458		
Provision for Reinsurance	7,064,366	7,064,366		
Payable to parent, subsidiares and affiliates	523,682	523,682		
Aggregate write ins for liabilities	31,533,081	31,533,081		
Total Liabilities	$352,253,873	$352,253,873		
Capital and Surplus:				
Common capital stock	$4,800,000	$4,800,000		
Gross paid in and contributed surplus	604,305,709	604,305,709		
Unassigned Funds (surplus)	-318,214,548	-318,214,548		
Surplus as regards policyholders	$290,891,161	$290,891,161		
Total Liabilities and Surplus and Other Funds	$643,145,034	$643,145,034		

Underwriting and Investment Exhibit					
for the five year period ending					Exhibit B
December 31, 2013					
Underwriting Income	2009	2010	2011	2012	2013
Premiums earned	-1,200,590	-526,312	555,200	-2,847,119	-12,843,074
Deductions:					
Loss incurred	4,809,169	-966,560	-43,494,171	-13,996,832	-41,830,764
Loss adjustment expenses incurred	15,912,825	17,369,560	40,826,868	5,218,973	16,669,820
Other underwriting expenses incurred	18,423,837	16,390,961	12,574,705	11,919,329	12,984,276
Total underwriting deductions	39,145,831	32,793,961	9,907,402	3,141,470	-12,176,668
Net underwriting gain or loss	-40,346,421	-33,320,273	-9,352,202	-5,988,589	-666,406
Investment Income					
Net investment income earned	-8,528,506	10,580,062	6,198,407	6,561,969	4,953,425
Net realized capital gains or losses	-770,410	1,655,540	362,878	2,617,606	2,108,035
Net investment gain or loss	-9,298,916	12,235,602	6,561,285	9,179,575	7,061,460
Other income					
Net gain or loss from agents' or premium					
balances charged off	-28,464,528	-7,242,988	1,414,435	-9,231,219	5,559,695
Aggregate write-ins for miscellaneous					
income	0	0	0	0	0
Total other income	-28,464,528	-7,242,988	1,414,435	-9,231,219	5,559,695
Net income before dividends to					
policyholders and before federal					
and foreign income taxes	-78,109,864	-28,327,659	-1,376,482	-6,040,234	11,954,749
Less: Federal & Foreign income taxes					
incurred	0	0	48,146	1,060,881	339,551
Net income	-78,109,864	-28,327,659	-1,424,628	-7,101,115	11,615,198

Capital and Surplus					Exhibit C
for the five year period ending					
December 31, 2013					
	2009	2010	2011	2012	2013
Gains and Losses in Surplus					
Net Income or (loss)	-78,109,864	-28,327,659	-1,424,628	-7,101,115	11,615,198
Change in net unrealized capital gains or (losses) less					
capital gains tax of	6,578,367	6,653,980	-14,928,782	10,777,401	23,470,074
Change in net deferred income tax	-121,331,874	0	0	0	0
Change in non-admitted assets	137,824,213	12,710,046	1,227,292	8,171,813	201,598
Change in provision for reinsurance	8,948,780	1,124,585	-2,341,637	523,274	-4,647,772
Change in surplus note	0	0	-282,563,230	0	0
Surplus adjustments: Paid in	0	0	282,563,230	0	0
Surplus adjustments: Transferred from capital	0	0	0	-24,445	0
Aggregate write-ins for gains and losses					
in surplus	-14,634,335	-3,077,000	-4,312,485	0	0
Change in Surplus as regards to					
policyholders for the year	-60,724,713	-10,916,048	-21,780,240	12,346,928	30,639,098
Surplus, December 31 previous year	341,326,137	280,601,423	269,685,375	247,905,135	260,252,063
Surplus, December 31, current year	280,601,424	269,685,375	247,905,135	260,252,063	290,891,161

NOTES TO FINANCIAL STATEMENTS

Note 1: LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company reported reserves for losses and loss adjustment expenses at December 31, 2013 of $238,397,320 and $54,445,503 respectively. As part of the examination actuaries from Merlinos &Associates reviewed and evaluated the reasonableness of the methodologies used utilized in establishing the reserves and determined that such methodologies were reasonable. The New Jersey Department of Banking and Insurance, Office of Solvency Regulation, Actuarial Unit, reviewed the analysis prepared by Merlinos & Associates and concurred with their findings.

SUBSEQUENT EVENTS

Dividends – P&C Companies:

The Company paid a dividend to its parent in September 2014 in the amount of $122,000,000. The Company's September 30, 2014 Quarterly Statement reported a reduction in surplus of $122,000,000 due to the dividend paid. Illinois Department of Insurance approved the dividend payment on September 18, 2014.

Sales of Insurance Company:

The Company sold Harbor Specialty Insurance Company (HSIC) to Relational Group Partners, Inc., subsidiary of Blue Warrior Capital, LLC. Following the sale, HSIC's existing reserves and liabilities will be fully reinsured by the Company, which will continue the management and administration of the existing run-off reserves and liabilities, under current arrangement with Enstar US Inc. Form A was filed on December 11, 2013 and the sale was approved by New Jersey on February 24, 2014. The sale was completed on February 28, 2014.

2005 Adverse Development Reinsurance Agreement (ADC)

As of December 31, 3014 the Company commuted the 2005 Adverse Development Reinsurance Agreement (ADC) with Hannover Rueck SE. There were no cessions on a paid basis to the ADC on any of the Clarendon companies. The commutation settlement released Hannover's obligations under the ADC for all of the Clarendon companies.

Re-domestication of the CNIC and CLAM:

The Company and Clarendon America Insurance Company (CLAM) re-domesticated from New Jersey to Illinois, effective July 23, 2014. New Jersey and Illinois approved the re-domestication.

CONCLUSION

I, Nancy Lee Chice, do solemnly swear that the foregoing report of examination is hereby presented to be a full and true statement of the condition and affairs of the Clarendon National Insurance Company as of December 31, 2013, to the best of my knowledge and belief.

Respectfully submitted,

/S/
____
Nancy Lee Chice, CFE
Examiner-In-Charge

State of New Jersey
County of Mercer

Subscribed and sworn to before me.
On this _5th_ day of _June______, 2015.

/S/
____
Sheila M. Tkacs
Notary Public of New Jersey