NC DEPARTMENT of INSURANCE
MIKE CAUSEY, COMMISSIONER

COMPANY SERVICES GROUP
FINANCIAL EXAMINATION DIVISION
Tel 919.807.6602 Fax 919.807.6635

I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina, do hereby certify that: I have caused to Clear Blue Specialty Insurance Company, as of December 31, 2019, with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 4th day March 2021.

Mike Causey
Commissioner of Insurance

Ke Xu, CPA, CFE
Chief Financial Examiner
Financial Examination Division

Clear Blue Specialty Insurance Company

Charlotte, North Carolina

Report on Examination

As of December 31, 2019

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February 2, 2021

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section ("§") 58-2-131 of the General Statutes of North Carolina ("GS"), the North Carolina Department of Insurance ("Department") conducted an examination of the records, business affairs and financial condition of

Clear Blue Specialty Insurance Company

(hereinafter referred to as the "Company"), at its statutory home office located at 200 South College Street, Suite 1910, Charlotte, North Carolina 28202. The Company's main administrative office is located at B-7 Tabonuco Street, Suite 912, Guaynabo, Puerto Rico, US 00968. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2015, to December 31, 2019, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. This is the Department's first examination of the Company.

This was a multi-state coordinated financial examination of three (3) insurance company subsidiaries of Clear Blue Financial Holdings, LLP, ("CBFH") collectively known as the "Clear Blue Insurance Group". North Carolina served as the Facilitating or Lead State, and the Participating States included Illinois and Indiana.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Investments
Capital Management and Related Parties
Claims and Reserves
Premiums and Underwriting
Reinsurance - Ceding

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with statutory accounting principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). BDO USA, LLP of New York, New York, the designated independent public accountant of the Company, issued an unmodified opinion for each year under examination, including, the year ended December 31, 2019.

REPORT ABBREVIATIONS

Board of Directors	“Board”
Clear Blue Financial Holdings, LLC	“CBFH”
Clear Blue Insurance Company	“CBIC”
Clear Blue Insurance Services Puerto Rico	“CBISPR
Clear Blue Specialty Insurance Company	“Company”
Condado Reinsurance Company	“Condado”
Excess of Policy Limits	“XPL”
Extra-contractual Obligations	“ECO”
Financial Condition Examiners Handbook	“Handbook”
General Statutes of North Carolina	“GS”
Highlander Specialty Insurance Company	“HSIC”
Maiden Reinsurance North America, Inc.	“MRNA”
Maiden Holdings North America, Ltd.	“MHL”
Maiden Specialty Insurance Company	“MSIC”
Managing General Agent	“MGA”
National Association of Insurance Commissioners	“NAIC”
North Carolina Department of Insurance	“Department”
PBRA (Cayman) Company	“PBRA”
Pine Brook Capital Partners II (Cayman) AV, LP	“PBAV”
Program Administrator	“PA”
Rock Ridge Insurance Company	“RRIC”
Vibe Syndicate Management Limited	“Vibe Syndicate”

SUMMARY OF SIGNIFICANT FINDINGS

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

1. The Company does not have a conflict-of-interest form which provides explicit responses or statements from its employees regarding specific questions intended to identify potential conflicts of interest on an annual basis as required by the North Carolina Administrative Code (“NCAC”) 11C.0117. The Company has a Code of Business Conduct and Ethics policy which requires the reporting of potential conflicts of interest to its General Counsel at the time the conflict is identified by the employee; however, the Company’s Annual Compliance Certification only requires employees to acknowledge that they are aware of the policy and comply with the policy. The Company is directed to comply with NCAC 11C.0117 which requires conflict of interest statements to be executed annually by all Company officers, directors, trustees, attorney’s-in-fact, and administrative personnel.

2. The Company reported inaccurate information in the Notes to the Financial Statements in its 2019 Annual Statement filed with the Department, more specifically in Note 1(c), Note 5(d), and Note 6. According to GS § 58-2-165(c), “…all statements filed under this section must be prepared in accordance with the appropriate NAIC Annual Statement Instructions Handbook and pursuant to the NAIC Accounting Practices and Procedures Manual and on the NAIC Model Financial Statement Blank…" The Company is directed to provide accurate information in all future filings to the Department pursuant to GS § 58-2-165(c).

3. The Company is in violation of GS § 58-34-2(i) and GS § 58-34-10(a) by failing to submit contracts with Managing General Agents ("MGA") and Program Administrators ("PA") to the Department within the timeframes prescribed by the law. GS § 58-34-2(i) requires the Company to submit its MGA contracts to the Department within 15 days after a contract is executed and GS § 58-34-10(a) requires the Company to submit its PA contracts to the Department before the contract's effective date. The Company subsequently filed two agreements with the Department. (Refer to Subsequent Events) The Company is directed to file all MGA and PA contracts in accordance with GS § 58-34-2 and GS § 58-34-10, respectively.

4. During the course of our examination, Vibe Syndicate Management Limited ("Vibe Syndicate"), a company that assumes business from the Company, was identified as an affiliate. Pine Brook Capital Partners II (Cayman) AV, LP ("PBAV") owns a controlling interest in both the Company and Vibe Syndicate. (Refer to Organizational Structure). The Company is in violation of GS § 58-19-25(b)(2) as Vibe Syndicate was not listed as a member of the holding company system in the Form B filed with the Department. The Company is also in violation of GS § 58-19-25(b)(3) as its executed reinsurance agreement with Vibe Syndicate was not disclosed on the Form B filed with the Department and transactions within an insurance holding company system are subject to regulatory standards prescribed in GS § 58-19-30. The Company is directed to comply with GS § 58-19-25(b)(2) and GS § 58-19-25(b)(3) regarding the proper disclosure of affiliated entities and GS § 58-19-30 regarding its affiliated transactions.

5. The Company was in violation of GS § 58-9-11(b) when it engaged the services of a reinsurance broker, EC3 Brokers US, on September 1, 2016 that was not properly licensed under GS § 58-9-6. The Company terminated the agreement effective July 1, 2020. The Company is directed to comply with GS § 58-9-11(b) when engaging the services of any person to act as a broker on its behalf.

6. The Company is in violation of GS § 58-19-30(b) by failing to submit the reinsurance agreement with Condado Reinsurance Company ("Condado") to the Department for review and approval. The Company subsequently filed the agreement with the Department. The Company is directed to notify the Department in writing of its intention to enter into affiliated agreements at least 30 days before the transaction in accordance with GS § 58-19-30(b).

ORGANIZATIONAL STRUCTURE

The companies within the Clear Blue Insurance Group are part of an insurance holding company system as defined in GS § 58-19 and are wholly-owned subsidiaries of CBFH, a Puerto Rico limited liability company. CBFH is 98.6% owned by PBAV and 1.4% owned by members of CBFH's management team.

PBRA (Cayman) Company ("PBRA") is the ultimate controlling entity and is owned by 11 individuals, none of whom own more than 10% of PBRA's voting securities. PBRA wholly owns PBAV, which is the principal capital funding source for the Clear Blue Insurance Group. PBAV is a Cayman Island exempted limited partnership private equity fund that has 240 limited partners, none of which have an ownership interest greater than seven percent (7%). PBAV provides "business building" equity to new and growing businesses in the financial services and energy industries and holds multiple investments.

PBAV owns 80% of Pine Brook PD (Cayman) Intermediate, LP, a pass-through limited partnership with no direct or indirect control of CBFH. The remaining 20% of Pine Brook PD (Cayman) Intermediate, LP is owned by various investors. PBAV also owns 44.5% of Vibe Syndicate, a reinsurance partner of the Company.

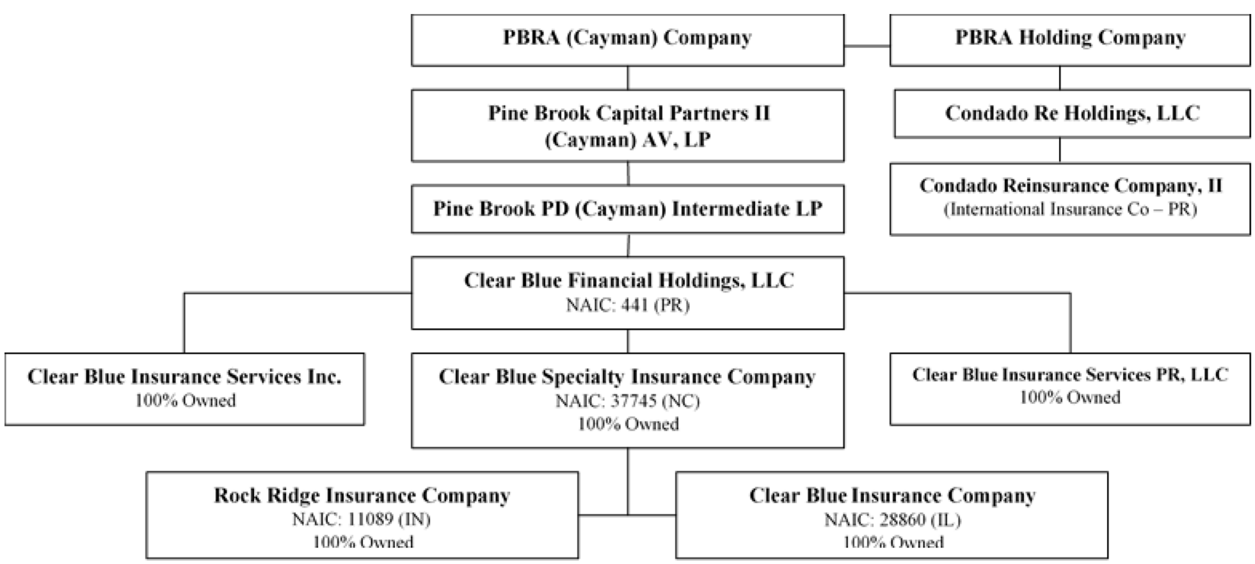
On November 1, 2017, PBRA established Condado as a protected cell reinsurance company for the purpose of assuming a portion of certain program business written in which the primary assuming reinsurer requires issuing insurer share in the insurance activity. Condado is a direct subsidiary of Condado Re Holdings, LLC, which is 100% owned by PBRA Holding Company whose direct parent is PBRA.

CBFH wholly owns the Company, Clear Blue Insurance Services, Inc. ("CBIS"), which is a North Carolina corporation, and Clear Blue Insurance Services Puerto Rico, LLP ("CBISPR"), which is a Puerto Rico limited liability company, both of which provide management services to the insurance entities. The Company has two wholly-owned insurance subsidiaries: Clear Blue Insurance Company ("CBIC"), an Illinois domiciled property and casualty authorized/admitted carrier in 49 states, and Rock Ridge Insurance Company ("RRIC"), an Indiana domiciled property and casualty authorized/admitted carrier in 41 states.

The holding company structure as described above was changed subsequent the examination date due to the formation of a new insurance carrier, Highlander Specialty Insurance Company ("HSIC"), an Illinois domiciled entity. (Refer to Subsequent Events)

ORGANIZATIONAL CHART

The Company's 2019 Annual Statement Schedule Y contains a complete organizational chart. The following is a summarized organizational chart of the Company within the holding company group as of December 31, 2019:



COMPANY HISTORY

The Company was originally incorporated and licensed in 1990 as a property and casualty insurer under the name of Integon Specialty Insurance Company in North Carolina. The Company was originally owned by Integon Indemnity Corporation (40%), Integon General Insurance Corporation (40%), and New South Insurance Company (20%). In 1993, the Company was acquired by GMAC Insurance Management Corporation. Effective September 1, 2009, the Company was acquired by Maiden Reinsurance North America, Inc. ("MRNA"), which is a wholly-owned subsidiary of Maiden Holdings North America, Ltd. ("MHL"). With the acquisition, the Company became a member of an insurance holding company system under MHL, the ultimate controlling entity, a publicly traded company incorporated in Bermuda. Effective September 22, 2009, the Company was renamed Maiden Specialty Insurance Company ("MSIC").

On June 16, 2015, CBFH entered into an agreement with MRNA and MHL, to purchase all of the issued and outstanding capital stock of MSIC. On November 3, 2015, CBFH acquired Clear Blue Insurance Company ("CBIC"), formerly known as RLI Indemnity Corp. On November 4, 2015, CBFH acquired 100% of the common stock of MHL, the ultimate controlling entity of MSIC. MSIC's name was changed to Clear Blue Specialty Insurance Company on November 30, 2015 and all pre-acquisition in-force business of the Company was retained by the seller through a retroactive reinsurance arrangement. Post-acquisition, the Company began operating exclusively as a fronting insurer to write surplus lines under its contracts with MGAs and PAs.

On May 3, 2016, CBIC became a wholly-owned subsidiary of the Company when CBFH contributed 100% of the common stock of CBIC to the Company.

On July 23, 2018, the Company acquired National Building Material Assurance Company and changed the company name to Rock Ridge Insurance Company on December 6, 2018. RRIC is a wholly-owned subsidiary of the Company.

CAPITAL STOCK

As of December 31, 2019, the Company's capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	500,000
Total common capital stock	$5,000,000
Par value per share	$10

No additional shares were issued during the period under examination. As of December 31, 2019, all outstanding shares are owned by CBFH.

The Company received $17,980,898 and $40,000,000 in additional paid in surplus from its parent, CBFH, in 2016 and 2017, respectively. At December 31, 2019, the Company reported $86,486,913 in gross paid-in and contributed surplus and $15,278,316 in unassigned funds.

DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of Directors ("Board") of the Company. Under the insurance regulations of North Carolina, the maximum ordinary dividend amount which the Company may pay to shareholders is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. Any amounts in excess of this are considered extraordinary.

In 2015, in connection with CBFH's acquisition of the Company, the Company paid extraordinary dividends totaling $6,176,043 to its pre-sale owner, with the Department's approval. The Company paid an ordinary dividend of $450,000 in 2017, with the Department's approval. No dividends were paid in 2016, 2018 and 2019.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Shareholders

The bylaws provide that an annual meeting of the shareholders be held at such time and place as the Board may appoint. Special meetings of the shareholders may be called at any time by the Chief Executive Officer of the Company or the Board, and the Secretary at the request of the stockholders having not less than 75% of the voting power of all outstanding stock of the corporation.

Board of Directors

The business of the Company is conducted by its management team, and subject to review by the Board. The bylaws specify that the number of Directors shall be not less than three and no more than eight. Directors are elected annually, at the annual meeting of shareholders or by the written consent of the stockholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors as of December 31, 2019:

Name	Location	Principal Occupation
Jerome Breslin	Dallas, TX	President and Chief Executive Officer
Jeffrey Downey	San Juan, PR	Senior Vice President Finance and Treasurer
James Mann	Charlotte, NC	Chief Risk Officer
Peter Klope	San Juan, PR	Chief Operating Officer

The Board of CBFH, the parent of the Company, has established an Audit Committee to provide group level oversight. The Company appointed the Audit Committee of CBFH to act as the Company's Audit Committee for purposes of complying with the requirements of the Annual Financial Reporting Law, specifically GS 58-10-195(a).

The following individuals served on the Audit Committee as of December 31, 2019:

Nicholaos Krenteras - Chair
Neil McConachie
Robert Granville

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified.

The following individuals served as officers of the Company as of December 31, 2019:

Name	Title
Jerome Breslin	President and Chief Executive Officer
Jeffrey Downey	Senior Vice President, Finance and Treasurer
James Mann	Chief Risk Officer
Peter Klope	Chief Operating Officer
Daniel Kennedy	Chief Legal Officer, Senior Vice President, and Secretary
Manuel Lebron	Chief Financial Officer
Osvaldo Ramirez	Chief Compliance Officer and Assistant Secretary

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has established a Code of Business Conduct and Ethics policy approved by the CBFH Board and effective May 30, 2018. The Company's Code of Business Conduct and Ethics contains conflict of interest provisions and provides employees with definitions of a conflict of interest, specific restricted actions an employee shall not take, and a requirement for the employee to notify General Counsel in writing "of the existence of any actual or potential conflict of interest."

On an annual basis, the Company's employees complete a certification stating that they are aware of the Code of Business Conduct and Ethics and comply with the policy. A review of the signed certifications for the examination period revealed that the Company acted in accordance with its policy and procedures; however, the Company does not have employees execute a separate conflict of interest form annually to explicitly disclose potential conflicts of interest in compliance with 11 NCAC 11C.0117. (Refer to Summary of Significant Findings)

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's articles of incorporation and bylaws were reviewed for any changes during the period under examination. On December 31, 2019, the Company filed amended and restated articles of incorporation with the Department to increase the minimum number of directors from one (1) to three (3) and to decrease the maximum number of directors from nine (9) to eight (8). The Department approved the amended articles on March 6, 2020.

The Company filed amended and restated bylaws with the Department on December 31, 2019 to increase the minimum number of directors from one (1) to three (3) and to decrease the maximum number of directors from nine (9) to eight (8). In addition, the Company added a waiver of notice which allows for a signed written waiver by a person entitled to satisfy the requirements for notice when required to be given under the Company's bylaws, articles of incorporation, or the North Carolina insurance code to the amended bylaws. The Department approved the amended bylaws on March 12, 2020.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2019 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state.

INFORMATION TECHNOLOGY CONTROLS

The Department performed a risk-based assessment and review of the Clear Blue Insurance Group's Information Technology General Controls ("ITGCs") in accordance with the NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the Clear Blue Insurance Group's ITGCs were derived from Exhibit C Part 1 - Information Technology Planning Questionnaire ("ITPQ") and Exhibit C Part 2 – Information Technology Work Program (collectively, Exhibit C).

The Clear Blue Insurance Group's responses to the ITPQ were evaluated, and certain controls within the IT control environment were tested to assess whether the selected controls were designed effectively and were functioning properly.

The Department's objectives were to obtain reasonable assurance about whether:

1. the Clear Blue Insurance Group had a process in place to effectively identify, mitigate and manage its IT risks.
2. the Clear Blue Insurance Group control structure, policies and procedures were suitably designed to achieve the control objectives specified in Exhibit C; and
3. the Clear Blue Insurance Group was complying with those policies and procedures.

The objectives above were achieved through a combination of reviewing the Clear Blue Insurance Group's policies and procedures, testing in key areas related to Exhibit C, interviewing the Clear Blue Insurance Group's IT management, reviewing IT risk assessment processes, and leveraging relevant risk assessment procedures performed by BDO USA, LLP.

Based upon the risk-based assessment and review, Clear Blue Insurance Group's ITGCs were determined to be effective.

Fidelity Bonds and Other Insurance

The Company has fidelity bond coverage totaling $6,000,000 in aggregate, which exceeds the minimum amount of fidelity bond coverage recommended by the Handbook.

In addition, the Company is a named insured on various corporate property and liability policies issued to CBFH and its affiliates, which appeared to be adequate to cover risks in the normal course of business.

Managing General Agents and Program Administrators

The Company utilizes MGAs to underwrite its program business. The Company enters into contractual agreements with both the producing MGA and reinsurers, whereby the MGA and reinsurers are obligated to each other for payment of insurance amounts, including premiums, commission, losses and other related underwriting expenses. The MGA funds a premium trust account with one hundred percent (100%) of the policy premium. In most cases, funds are distributed from the trust account as follows: fronting fees, premiums taxes and bureaus fees are paid to the Company, commissions are paid to the MGA and the reinsurer receives the remaining funds to cover claims. The flow of funds and responsibility for remittances and disbursements can vary depending on the program, but those arrangements are established and approved in advance by the Company. The terms of the MGA agreements extend limited authority for underwriting, binding, premium collection, claims payments and claims adjustment. The Company establishes the underwriting guidelines and claim handing procedures for the MGA to follow.

The Company utilizes PAs to administer certain program business. The Company's agreements with PAs are similar to its MGA agreements except that PAs do not have authority for making claims payments and adjusting claims.

The Company utilized approximately twenty-two (22) MGA's and PA's in 2019. The following MGAs and PAs wrote business in excess of 5% of the Company's surplus, as of December 31, 2019, and comprise roughly 90.4% of the total direct premium written for the year 2019:

MGA/PA	**Types of Business Written**	**Total Direct Premium Written**
Redstone Heavy Iron, LLC	Commercial General Liability Commercial Auto Inland Marine	$ 30,488,249
Insurance Specialty Group, LLC	Commercial General Liability	$ 29,827,496
QEO Group, LLC	Commercial Auto	$ 27,710,589
RMS Insurance Brokerage, LLC	Commercial General Liability Fire – Commercial	$ 23,464,489
West Congress Insurance Services LLC	Commercial General Liability	$ 8,357,714
Embroker Insurance Services LLC	Professional Liability	$ 6,247,401

The Company's transactions with MGAs and PAs are subject to the regulatory requirements prescribed in GS § 58-34-2 and GS § 58-34-10, respectively, and the contractual agreements related to these transactions must be filed with the Department within specified timeframes. Based on our review, there were several instances where the Company failed to properly file agreements with the Department. (Refer to the Summary of Significant Findings)

THIRD PARTY ADMINISTRATORS

The Company utilizes Third Party Administrators ("TPA") to provide claims handling and payments for certain program business. For MGA programs, the TPA is either the MGA itself or an affiliate of the MGA. For PA administered programs, the TPA is a separate, unrelated claim service provider. Under the terms of funding agreements, reinsurers assuming the business written by the Company are liable for funding the TPA claims account up to the amount of expected losses and TPA expenses. In most programs, the claims account funding comes directly from the MGA from collected premium. The reinsurers are liable for any under-funding and for major claim cash calls. The TPA pays claims and its expenses directly from this claims account. The Company utilized approximately fifteen (15) TPAs in 2019, of which some include the MGAs writing the business directly through agreements with the Company.

RELATED PARTY AGREEMENTS

Contribution Agreement

On July 29, 2019, the Company entered into a Contribution Agreement with subsidiary RRIC under which the Company made cash contributions to RRIC of $4,041,800 on July 29, 2019, $1,008,317 on July 31, 2019, and $200,000 on September 30, 2019.

Financial Guaranty Agreement

Effective October 31, 2019, the Company executed a Financial Guaranty Agreement with RRIC, a subsidiary, in order for RRIC to be approved to conduct insurance transactions in the state of Maine. Under this agreement, the Company will provide a financial guaranty of $2.5 million to RRIC in order to demonstrate a continued financial ability for RRIC to perform on obligation of risks incurred in Maine effective October 31, 2019. The Company financially guarantees RRIC's minimum capital and surplus requirement stipulated by the Superintendent of Maine. The agreement was required in the event that RRIC is unable to fund the risks incurred on insurance transactions in the state of Maine.

Services Agreement

Effective September 5, 2017, the Company executed an Amended Services Agreement with CBIC, a subsidiary, and CBISPR, an affiliate. Under the terms of the agreement, CBISPR agrees to provide the following services: accounting, actuarial, audit, claims administration, compliance, corporate communications, executive management, finance, general administrative support, investments, information technology, legal, marketing, regulatory affairs, reinsurance, risk management, staff support to Board committees, underwriting services, maintaining all employee benefits and to purchase all corporate insurance coverages. Under this agreement, the Company incurred fees totaling $6,075,641 and $4,339,321 in 2019 and 2018, respectively.

TERRITORY AND PLAN OF OPERATION

At December 31, 2019, the Company was licensed in North Carolina and Puerto Rico. The Company is eligible to write surplus lines in all other 49 states and the District of Columbia. The Company is also an authorized reinsurer in New York. The Company primarily operates as a surplus lines insurer and writes the following lines of business: general liability, commercial auto, commercial property, and homeowners' insurance. The Company utilizes MGAs and PAs to underwrite its business.

The Company's direct premiums written totaled $139,547,674 as of December 31, 2019 and approximately 70% was written in the following states:

State	Direct Written Premium	% of Total Direct Written Premium
LA	$ 29,306,290	21.0%
FL	$ 25,510,614	18.3%
TX	$ 16,466,149	11.8%
CA	$ 14,500,527	10.4%
CO	$ 11,784,930	8.5%

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended 2019:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(loss)
2019	$114,778,513	$106,765,229	$139,547,674	($131,870)	$1,341,451
2018	$112,233,282	$107,933,904	$86,248,182	$0	$1,357,839
2017	$106,485,556	$104,183,615	$80,667,466	$0	$332,493
2016	$64,454,056	$63,691,036	$8,519,429	$1,956	($99,498)
2015	$46,096,590	$46,084,823	($427,764)	$10,825	$256,039

ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2019 were reviewed and certified by the Company's Appointed Actuary, Robert W. Van Epps, FCAS, MAAA of Financial Risk Analysts, LLC. Actuarial opinions regarding the Company's reserves for losses and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the losses and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserve on the losses and loss adjustment expenses met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid losses and loss expense obligations of the Company.

Our examination included a review of the Company's loss reserve estimates and the Appointed Actuary's opinion for the examination year ending December 31, 2019. The results of this review were consistent with the Appointed Actuary's assessment of the Company's reserves included in the opinion.

Reinsurance Program Overview

The following table provides a summarized overview of the reinsurance contracts in effect as of December 31, 2019:

Internal Reinsurance Contracts	
1.	Pooling and Reinsurance – CBSIC, CBIC, & RRIC - CBSIC – 48.2% Participation - CBIC – 44.6% Participation - RRIC – 7.2% Participation
2.	Quota Share – CBSIC, CBIC, RRIC, & Condado Re. - 25% of all liabilities incurred - 25% of all net premiums produced
External Reinsurance Contracts	
1.	Quota Share Reinsurance Panel – various reinsurers - 100% Quota Share
2.	Awards Made (ECO/XPL) – various reinsurers - 1^{st} & 2^{nd} Layer
3.	Auto Physical Damage Catastrophe – various reinsurers - 1^{st} & 2^{nd} Layer
4.	Homeowners Catastrophe – various reinsurers - 1^{st} – 9^{th} Layer

Internal Reinsurance Ceded

Pooling and Reinsurance Agreement

Effective July 26, 2019, the Company executed the Pooling and Reinsurance Agreement with its subsidiaries CBIC and RRIC, collectively referred to as Pool Members. Under the terms of the agreement, Pool Members agree to share in the combined underwriting, reinsurance, retrocessions and claims operations of other Pool Members, to the extent of their respective participation percentages. Pool Members also agree that a portion of the business written by or on behalf of the Pool Members as issuing insurers be reinsured with the other Pool Members in the event reinsured business is insufficient or reinsurers default on obligations. The net participation percentages are as follows: The Company 48.20%, CBIC 44.60%, and RRIC 7.20%. Pool members will assume risks in accordance with participation percentages.

Quota Share Agreement

Effective January 1, 2019, the Company and its subsidiaries, CBIC and RRIC, executed a Quota Share Reinsurance Agreement with an affiliate, Condado. Under the terms of the agreement, the Company, CBIC, and RRIC agree to cede a specified percentage of all liabilities incurred and net premium produced by two (2) individual insurance programs to Condado. Condado establishes a separate program specific cell owned and funded by the respective MGA or PA from premiums under the respective program, establishing the MGA or PA as the owner of the economic interest in the protected cell related to the program business written and assumed by Condado. (Refer to the Summary of Significant Findings)

External Reinsurance Ceded

The Company has two reinsurance programs, a Standard Program and Corporate Reinsurance, which results in 100% of the business written being ceded to highly qualified reinsurers. The following describes the coverage provided under each reinsurance program:

Standard Program

100% Quota Share Reinsurance Panel – 93 Programs
The Company predominantly utilizes proportional Quota Share reinsurance treaties to cede 100% of its underwriting risk. The Company maintains a panel of 102 reinsurance brokers of which 87 reinsurers participate on active programs with the remainder on runoff programs. The reinsurance contracts require subscribing reinsurers that are rated A- or better and 91% of business ceded to counterparties meet this standard. Reinsurance counterparties rated B+ or lower are required to hold collateral in the form of trust accounts or letters of credit.

Corporate Reinsurance

Programs at risk of catastrophic loss or loss in excess of policy limits are covered by a policy provision within applicable Quota Share contracts.

Awards Made (ECO/XPL) Cover – 2 Programs
The provision for extra-contractual obligations ("ECO") and excess of policy limits ("XPL") requires multiple subscribing reinsurers to provide two layers of catastrophe coverage for the Company's loss in excess of policy limits and/or extra contractual obligations. The Company retains the first $5 million net loss per occurrence that is then ceded to reinsurers at 100%. The second layer provides coverage up to $10 million in excess of $5 million per occurrence. The awards made (ECO/XPL) cover is subject to one reinstatement.

Automotive Physical Damage Catastrophe Cover – 1 Program
The provision for automotive physical damage catastrophe requires multiple subscribing reinsurers to provide two layers of catastrophe coverage for the Company's automotive insurance policies. The Company retains the first $4 million net loss per occurrence of which the remaining $8 million is ceded to reinsurers at 100% up to a ceiling of $12 million. The second layer provides coverage up to $20 million in excess of $8 million per occurrence. The automotive physical damage cover is subject to one reinstatement.

Homeowners' Catastrophe XOL Cover – 6 Programs
The provision for homeowners' catastrophe excess of loss requires multiple subscribing reinsurers provide nine layers of catastrophe coverage for the Company's homeowners' insurance policies. The Company retains the first $25 million net loss per occurrence that is then ceded to reinsurers at 100%. The second layer provides coverage up to $30 million in excess of $5 million per occurrence. The third layer provides coverage up to $50 million in excess of $20 million per occurrence. The fourth layer provides coverage up to $100 million in excess of $50 million per occurrence. The fifth layer provides coverage up to $175 million in excess of $75 million per occurrence. The sixth layer provides coverage up to $250 million in excess of $75 million per occurrence. The seventh layer provides coverage up to $350 million in excess of $100 million per occurrence. The eighth layer provides coverage up to $400 million in excess of $50

million per occurrence. The ninth layer provides coverage up to $450 million in excess of $50 million per occurrence. The homeowners' catastrophe excess of loss cover is subject to one reinstatement.

The Company utilizes a number of reinsurance intermediaries for the purpose of placing the reinsurance coverage described above. GS § 58-9-6 requires reinsurance intermediaries to be licensed to operate in the state of North Carolina. GS § 58-9-11(b) requires insurance carries domiciled in the state of North Carolina to engage persons to act as a broker on its behalf only if the person is licensed pursuant to GS § 58-9-6. Our examination notes the Company utilized the services of a reinsurance intermediary, EC3 Brokers US, effective September 1, 2016, which was not licensed pursuant to GS § 58-9-6. The use of this intermediary was terminated July 1, 2020. Refer to the Summary of Significant Findings section.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2019. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2018, are unexamined and are presented for comparative purposes only.

Clear Blue Specialty Insurance Company
Statutory Statement of Admitted Assets
December 31, 2019

	2019	**2018** ***(unexamined)***
Bonds	$48,649,332	$50,785,027
Common stocks	57,299,873	53,989,388
Cash and short-term investments	4,859,514	4,871,577
Receivable for securities	562	-
Total cash and invested assets	**110,809,281**	**109,645,992**
Investment income due and accrued	296,020	304,793
Premiums and agents' balances in course of collection	1,521,141	797,598
Amounts recoverable from reinsurers	61,392	127,264
Net deferred tax asset	8,348	26,564
Receivable from parent, subsidiaries and affiliates	13,791	35,339
Accounts Receivable – Agents fees and taxes	2,068,540	1,264,145
Other miscellaneous receivables	-	31,587
Total admitted assets	**$114,778,513**	**$112,233,282**

Clear Blue Specialty Insurance Company
Statutory Statement of Liabilities, Capital and Surplus
December 31, 2019

	2019	**2018** *(unexamined)*
Losses	$6,878,419	$ 15,386,702
Loss adjustment expenses	120,749	42,668
Other expenses	167,260	134,185
Taxes, licenses and fees	3,044	2,093
Federal income tax liability	80,499	38,626
Ceded reinsurance premiums payable	2,670,823	1,578,417
Funds held by company under reinsurance treaties	402,717	940,696
Amounts withheld or retained by company for account of others	-	4
Provision for reinsurance	576,000	4,000
Payable to parent, subsidiaries and affiliates	3,333,184	971,919
Deferred ceding fees	779,757	629,438
Retroactive reinsurance reserve credit	(6,999,168)	(15,429,370)
Total Liabilities	**8,013,284**	**4,299,378**
Common capital stock	5,000,000	5,000,000
Gross paid in and contributed surplus	86,486,913	86,486,913
Unassigned funds	15,278,316	16,446,991
Total capital and surplus	106,765,229	107,933,904
Total Liabilities, Capital and Surplus	**$114,778,513**	**$112,233,282**

Clear Blue Specialty Insurance Company
Statutory Statement of Operations
December 31, 2019

	2019	**2018** *(unexamined)*
Underwriting Income		
Premiums Earned	$ (131,870)	$-
Deductions		
Losses incurred	(882,201)	2,352,404
Loss adjustment expenses incurred	127,960	(147,526)
Other underwriting expenses incurred	(284,798)	(411,061)
Total underwriting deductions	(1,039,039)	1,793,817
Net underwriting gain(loss)	907,169	(1,793,817)
Investment Income		
Net investment income earned	1,450,136	1,080,189
Net realized capital gains	16,283	(103,957)
Net investment gain	1,466,419	976,232
Other Income		
Gain (loss) from retroactive reinsurance	(754,520)	2,204,601
Total other income(loss)	(754,520)	2,204,601
Federal income taxes incurred	277,617	29,177
Net Income	**$1,341,451**	**$1,357,839**

Clear Blue Specialty Insurance Company
Statutory Statement of Capital and Surplus
December 31, 2019

	2019	**2018** *(unexamined)*
Capital and surplus, beginning of year	$107,933,904	$ 104,183,615
Capital and surplus increases(decreases):		
Net Income (Loss)	1,341,451	1,357,839
Change in net unrealized capital gains or (losses)	(1,939,344)	2,417,721
Change in net deferred income tax	(18,216)	26,564
Change in non-admitted assets	19,434	(47,834)
Change in provision for reinsurance	(572,000)	(4,000)
Change in capital and surplus as regards policyholders for the year	(1,168,675)	3,750,290
Capital and surplus, end of year	**$106,765,229**	**$107,933,904**

Clear Blue Specialty Insurance Company
Statutory Statement of Cash Flow
December 31, 2019

	2019	**2018** *(unexamined)*
Cash From (Used By) Operations		
Premiums collected net of reinsurance	$236,993	$702,583
Net investment income	1,583,275	1,493,521
Miscellaneous income	-	2,204,601
Total	1,820,268	4,400,705
Benefit and loss related payments	(65,872)	543,580
Commissions, expenses paid and aggregate write-ins	408,978	(726,404)
Federal income taxes paid	291,462	-
Total	562,568	(182,824)
Net cash from operations	**1,257,700**	**4,583,529**
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	26,529,272	39,717,276
Cost of investments acquired	29,719,266	43,137,057
Net cash (used by) investments	**(3,189,994)**	**(3,419,781)**
Cash From (Used By) Financing and Miscellaneous Sources		
Other cash (applied)provided	1,920,231	(829,528)
Net cash from (used by) financing and miscellaneous sources	**1,920,231**	**(829,528)**
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	(12,063)	334,220
Cash and short-term investments, beginning of year	4,871,577	4,537,357
Cash and short-term investments, end of year	**$4,859,514**	**$ 4,871,577**

COMMENTS ON FINANCIAL STATEMENTS

There were no changes to the Company's financial statements and there were no proposed adjustments to surplus as a result of this examination.

Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost using the interest method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

Common stocks: Investments in stock of subsidiaries, which are carried at a value determined under equity method.

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments with maturities of less than one year.

Premiums: Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

Business acquisition costs: Charged to operations as incurred.

Non-admitted assets: Certain assets, such as premiums over 90 days past due and prepaid expenses are "non-admitted" and are charges against surplus.

Loan-backed securities: Stated at either amortized cost or the lower of amortized cost or fair market value. The retrospective adjustment method is used to value all securities.

Unpaid losses & loss adjustment expenses: Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

Analysis of Assets:

The Company reported uncollected agent fees totaling $3,530 and prepaid insurance of $36,221 as non-admitted at December 31, 2019.

Reinsurance Activity:

The Company has reinsurance contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company utilizes multiple reinsurance intermediaries including, but not limited to, AON Benfield, Guy Carpenter, Tiger Risk Partners and Willis Re to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct and ceded premiums written and earned are as follows:

	2019	2018
Direct written	$139,547,674	$86,248,182
Ceded written	139,679,544	86,248,182
Net written	**131,870**	**-**
Direct earned	102,452,846	85,967,879
Ceded earned	102,584,176	85,967,879
Net earned	**$131,870**	**$-**

The Company ceded premiums of approximately $0 and $102,000 in 2018 and 2019, respectively, under its internal pooling and reinsurance agreement, and approximately $2,281,000 and $5,960,000 in 2018 and 2019, respectively, under its internal quota share agreement.

The Company ceded premiums of approximately $86.0 million and $133.6 million in 2018 and 2019, respectively, externally under its Standard Program's 100% Quota Share Reinsurance Panel.

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described under the Reinsurance Program Overview section.

Summary of Reserves:

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	2019	2018
Reserve for losses and loss adjustment expenses, beginning of year	$ 15,429,370	$13,682,468
Add:		
Change in estimated losses and loss adjustment expenses, prior years	(754,241)	2,204,878
Total incurred	(754,241)	2,204,878
Deduct:		
Losses and loss adjustment expenses paid, current year	-	-
Losses and loss adjustment expenses paid, prior year	7,675,961	457,976
Total paid	7,675,961	457,976
Reserve for losses and loss adjustment expenses, end of year	6,999,168	15,429,370
Increase (Decrease) in reserve for losses and loss adjustment expenses	$ (8,430,202)	$ 1,746,902

The Company reduced reserves by anticipated salvage and subrogation of $301,000 and $1,548,079 at December 31, 2018 and 2019, respectively.

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2018 and 2019, the liability for losses and loss adjustment expenses was reduced by $184,640,977 and $249,845,629, respectively, for amounts to be recovered from reinsurers.

Capital and Surplus:

The following, in conjunction with the Statutory Statement of Capital and Surplus, represents the changes in the Company's capital and surplus since the Company's inception:

	2017	2016	2015
Capital and surplus, beginning of year	$63,691,036	$46,084,823	$51,883,078
Capital and surplus increases (decreases):			
Net income(loss)	332,493	(99,498)	256,039
Change in net unrealized capital gain (loss)	600,681	(254,432)	-
Change in net deferred income tax	-	-	119,272
Change in non-admitted assets	(6,595)	(4,756)	2,477
Change in provision for reinsurance	16,000	(16,000)	-
Surplus adjustments to paid-in capital	40,000,000	17,980,898	-
Dividends to stockholders	(450,000)		(6,176,043)
Change in surplus as regards policyholders for the year	40,492,579	17,606,212	(5,798,255)
Capital and surplus, end of year	$104,183,615	$63,691,036	$46,084,823

Contingencies and Commitments:

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company. The Company is subject to guaranty fund and other assessments by the states in which it writes business. The Company incurred assessments of $300 and ($525) in 2018 and 2019, respectively.

SUBSEQUENT EVENTS

On January 1, 2020, Gregg Davis was appointed as Chairman of the Board of CBFH. Gregg replaced Nicholaos Krenteras who resigned from the Board on December 31, 2019.

On February 7, 2020, the Company submitted to the Department an Investment Management Agreement with New England Asset Management, Inc. The agreement was approved by the Department on April 24, 2020.

On December 26, 2019, the Company filed an amended Services Agreement with the Department to add RRIC as a party to the agreement, resulting in all three carriers of the Clear Blue Insurance Group receiving services from CBISPR. The agreement was approved by the Department on February 18, 2020.

On March 11, 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. During the fieldwork stage of this examination, we inquired of the Company as to the estimated impact the COVID-19 pandemic would have on the Company's operations and financial results. Further, we obtained and reviewed the Company's response to the NAIC template COVID-19 Questionnaire and identified specific inherent risks in order to understand and determine the impact of the COVID-19 pandemic on the Clear Blue Insurance Group's business. It is possible that additional impact to the Clear Blue Insurance Group will occur in time, for which the assessment will be specific to the class and mix of business they underwrite. The Department will continue to monitor how the pandemic might impact the Clear Blue Insurance Group.

On June 4, 2020, HSIC was incorporated as an Illinois domiciled property and casualty insurance company. HSIC is a direct and wholly owned subsidiary of the Company. On October 22, 2020, the Company filed with the Department a Form D requesting approval for a change in the holding company structure. Per this filing, the Company would contribute its ownership in CBIC to HSIC. On October 26, 2020, the Company filed with the Department another Form D for contributing its ownership in RRIC to CBIC. HSIC would become the direct parent of CBIC, who would become the direct parent of RRIC. On December 18, 2020, the Department approved both Form D filings.

On June 14, 2020, the Company submitted to the Department the Third Amended and Restated Pooling and Reinsurance Agreement, adding HSIC as a Pool Member of the agreement and revising the net participation percentages of Pool Members as follows: The Company 32.5%, CBIC 47.6%, RRIC 18.2% and HSIC 1.8%. The agreement was approved by the Department on July 22, 2020.

On July 6, 2020, the Company submitted executed agreements with West Congress Insurance Services LLC, ("West Congress") an MGA, pursuant to GS § 58-34-2(i), and Embroker Insurance Services LLC, ("Embroker") a PA, and Orchid Underwriters Agency, LLC, ("Orchid"), a PA, pursuant to GS § 58-34-

10(a). (Refer to the Summary of Significant Findings) The Department approved the Embroker and Orchid agreements on September 1, 2020, and the West Congress agreement on January 21, 2021.

n August 6, 2020, the Company's filed an amended Services Agreement with the Department to add HSIC as a party to the agreement. The agreement was approved by the Department on August 17, 2020.

On August 19, 2020, the Company filed a Form D Notice with the Department for a quota share reinsurance agreement with Condado. The Form D Notice remains under review.

On October 30, 2020, the Company submitted an executed managing general agent agreement with Risk Point Insurance Services, LLC, an MGA, pursuant to GS § 58-34-2(i), as well as a claims administration agreement with Applied Claims Group, LLC, pursuant to GS § 58-34-10(a). These agreements remain under review.

On December 8, 2020, the Company submitted an agency agreement with Inshur, Inc., a PA, as well as a claims service agreement with Network Adjusters Incorporated, pursuant to GS § 58-34-10(a). These agreements remain under review.

On December 22, 2020, the Company filed a Disclaimer of Affiliation with the Department to disclaim any affiliation with Vibe Syndicate and any presumption of control of Vibe Syndicate. The Disclaimer of Affiliation remains under review.

On January 15, 2021, the Company notified the Department that CBFH is in the process of forming a Vermont-domiciled protected cell captive insurance company which is expected to assume Condado's current business. Condado will be closed in 2021. The new captive insurance company will be wholly owned by CBFH and will be an affiliate of the Company. The filing remains under review by the Vermont Department of Financial Regulation.

Clear Blue Specialty Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2019

Jerome Breslin
President and Chief Executive Officer
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Suite 1910
Charlotte, North Carolina, 28202

Daniel Kennedy
Chief Legal Officer and Secretary
200 South College street
Suite 1910
Charlotte, North Carolina, 28202

Gregg Davis
Audit Committee Chairman
6713 Creek Wood Drive
Chapel Hill, North Carolina 27514

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is $2,250,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,

Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

February 2, 2021

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Bill Keely, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: Bill Keely Date: 2/2/21

Sworn and subscribed before me this 2nd day of February, 2021.

Notary Public Signature: Jennifer Ishihara Notary Public Seal:

JENNIFER L. ISHIHARA
Notary Public, North Carolina
Wake County
My Commission Expires
10/20/2024