

Report of Examination of

Infinity Specialty Insurance Company
(now known as Stonewood National Insurance Company)
Columbus, OH

As of December 31, 2011

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Columbus, Ohio
February 27, 2013

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Infinity Specialty Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2006. The Department’s current examination covers the period of January 1, 2007 to and including December 31, 2011.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination except 2011, the Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination. No financial statement audit was completed for the Company for 2011, with approval by the Ohio Department of Insurance.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<u>Name</u>	<u>Principal Occupation</u>
Gregg T. Davis	Chief Financial Officer, James River Group, Inc.
Michael E. Crow	Chief Accounting Officer and Senior Vice President - Finance, James River Group, Inc.
Ann M. Person	Chief Operating Officer, Stonewood Insurance Company
Eleanor Caperton Lauver	Vice President, James River Group, Inc.
Donald T. Hierman	Controller, James River Group, Inc.

Officers

As of the examination date, the following officers were serving in the designated position:

<u>Name</u>	<u>Title</u>
Gregg T. Davis	Chairman and President
Michael E. Crow	Treasurer
Ann M. Person	Secretary

Insurance Holding Company System

The Company is a member of a holding company system as defined under Section 3901.32 of the ORC. Until December 31, 2011, the Company was wholly owned by Infinity Insurance Company ("IIC"), an Indiana domiciled insurance company. IIC is wholly owned by Infinity Property and Casualty Corporation, a publicly traded company that, through its subsidiaries, provides personal automobile insurance with a concentration on nonstandard auto insurance.

On December 31, 2011, the Company was acquired by James River Group, Inc. James River Group, Inc. then contributed its existing workers' compensation insurance company, Stonewood Insurance Company – a North Carolina domiciled insurer, and Stonewood General Insurance Company, to the Company, which was subsequently renamed Stonewood National Insurance Company. Franklin Holdings (Bermuda) Ltd. is the ultimate parent of the Company.

Territory and Plan of Operations

The Company is licensed to operate in the states of Alabama, Alaska, Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, Wisconsin, Wyoming, and the District of Columbia. As of the examination date, the Company was inactive and did not have any policies in force.

Reinsurance

Prior to its sale on December 31, 2011, the Company, as a wholly owned subsidiary of IIC, participated in an intercompany reinsurance pooling agreement. The Company's participation in the pool was discontinued on December 31, 2011, the date of the sale to James River Group, Inc. Immediately following the sale to James River Group, Inc., the Company entered into a reinsurance agreement with IIC to cede 100% of its liability for all insurance business written or assumed by the Company prior to its sale.

Significant Operating Results

The Company reported the following net underwriting results during the examination period, reported in thousands.

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Premiums earned	\$ 1,019	\$ 906	\$ 848	\$ 922	\$ 1,032
Losses incurred	629	501	466	555	588
Loss adjustment expenses incurred	140	106	98	93	140
Underwriting expenses incurred	<u>242</u>	<u>273</u>	<u>236</u>	<u>250</u>	<u>281</u>
Net underwriting gain	<u>\$ 8</u>	<u>\$ 26</u>	<u>\$ 48</u>	<u>\$ 24</u>	<u>\$ 23</u>

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets, Liabilities, Surplus and Other Funds
- Statement of Income
- Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2011**

Bonds	\$ 7,983,259
Cash, cash equivalents and short-term investments	<u>44,036</u>
Subtotal, cash and invested assets	8,027,295
Investment income due and accrued	52,775
Accounts receivable	<u>47,894</u>
Total admitted assets	<u>\$ 8,127,964</u>
Total liabilities	\$ 0
Common capital stock	3,000,528
Gross paid in and contributed surplus	3,402,481
Unassigned funds (surplus)	<u>1,724,955</u>
Total surplus and other funds	<u>8,127,964</u>
Total liabilities, surplus and other funds	<u>\$ 8,127,964</u>

Statement of Income
As of December 31, 2011

Premiums earned	<u>\$ 1,019,060</u>
Losses incurred	628,584
Loss adjustment expenses incurred	139,877
Other underwriting expenses incurred	<u>242,326</u>
Total underwriting deductions	<u>1,010,787</u>
Net underwriting gain	8,273
Net investment income earned	212,519
Net realized capital losses	<u>(34,899)</u>
Net investment gain	177,620
Net loss from agents' or premium balances charged off	(19,974)
Finance and service charges not included in premiums	61,992
Other fee income	20,692
Miscellaneous expense	<u>(630)</u>
Total other income	62,080
Net income before federal income taxes	247,973
Federal income taxes incurred	<u>1,379,288</u>
Net loss	<u><u>\$(1,131,315)</u></u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital and surplus, December 31 prior year	\$ 7,894	\$ 7,874	\$ 9,026	\$ 8,636	\$ 8,322
Net income	(1,131)	241	335	412	317
Change in net deferred income tax	(37)	1	(35)	(76)	(51)
Change in non-admitted assets	0	3	(2)	54	48
Surplus adjustments – Paid in	1,402	0	(1,000)	0	0
Dividends to stockholders	<u>0</u>	<u>(225)</u>	<u>(450)</u>	<u>0</u>	<u>0</u>
Change in surplus during the year	<u>234</u>	<u>20</u>	<u>(1,152)</u>	<u>390</u>	<u>314</u>
Capital and surplus, December 31 current year	<u>\$ 8,128</u>	<u>\$ 7,894</u>	<u>\$ 7,874</u>	<u>\$ 9,026</u>	<u>\$ 8,636</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Assets	<u>\$ 8,127,964</u>
Liabilities	0
Capital and Surplus	<u>8,127,964</u>
Total Liabilities, Capital and Surplus	<u>\$ 8,127,964</u>

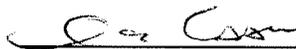
Subsequent Events

The Company amended its Articles of Incorporation in January 2012 to change the name of the Company to Stonewood National Insurance Company. There have been no other events subsequent to the examination date which would have a material effect on the financial condition of the Company.

Acknowledgement

In addition to the undersigned, David T. Finkler, CPA, CFE, of the Department, participated in this examination.

Respectfully,



David A. Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2011.

Jan Leon 3/11/13
Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 4 day of March, 2013.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires