

Report of Examination of
James River Insurance Company
Columbus, Ohio

As of December 31, 2014

Table of Contents

Subject	Page
Salutation	1
Description of Company	1
Scope of Examination	1
Management and Control:	
Board of Directors	2
Officers	2
Insurance Holding Company System	3
Territory and Plan of Operations	3
Reinsurance.....	3
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus	5-6
Statement of Income	7
Statement of Changes in the Capital and Surplus Account	8
Notes to Financial Statements:	
Investments	8
Loss and Loss Adjustment Expense Reserves.....	8
Conclusion	9
Acknowledgement	9
Verification	10

Columbus, Ohio
October 23, 2015

Honorable Mary Taylor
Lt. Governor/Director
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

James River Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 6641 West Broad Street, Suite 300, Richmond, Virginia.

Scope of Examination

The Department last examined the Company as of December 31, 2009. The Department’s current examination covers the period from and including January 1, 2010 through December 31, 2014.

The Department, as the lead regulator of James River Group and the examination facilitator, led the multi-state coordinated examination. In addition to the Department, the North Carolina Insurance Department and the Virginia Bureau of Insurance also participated on the examination. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s 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. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The 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 following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the ORC Section 3901.07 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 reports but separately communicated to other regulators and/or the Company.

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>
John G. Clarke	Senior Vice President of Marketing, James River Insurance
Gregg T. Davis	Chief Financial Officer, James River Group Holdings, Ltd.
Richard J. Schmitzer	President and Chief Executive Officer, James River Insurance
Richard H. Seward	Senior Vice President and Chief Actuary, James River Insurance
Bruce E. Short	Senior Vice President and Chief Financial Officer, James River Insurance

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

<u>Name</u>	<u>Title</u>
Gregg T. Davis	Chairman
Richard J. Schmitzer	President and Chief Executive Officer
Bruce E. Short	Senior Vice President and Chief Financial Officer
Deborah P. Thorsvik	Treasurer and Controller

Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. James River Group Holdings, Ltd., a publicly traded insurance holding company, is the ultimate controlling party of the insurance holding company system.

James River Group Holdings, Ltd.

· JRG Reinsurance Company, Ltd.

Franklin Holdings II Capital Trust I

James River Group, Inc.

Potomac Risk Services, Inc.

James River Insurance Company

James River Casualty Company

James River Management Company, Inc.

Falls Lake National Insurance Company

Falls Lake Fire and Casualty Company

Stonewood Insurance Company

Falls Lake General Insurance Company

Falls Lake Insurance Management Company, Inc.

Territory and Plan of Operations

The Company is licensed in the State of Ohio, and in all other states as an approved surplus lines writer, including the District of Columbia, Puerto Rico and the United States Virgin Islands. The Company works with broker administrators to write their casualty business.

The Company writes small to middle-market surplus lines business emphasizing general casualty, industrial casualty, excess casualty, allied healthcare and professional liability exposures. Within each of these divisions, the Company focuses on specific, targeted classes of business. The Company sells its policies through more than 120 authorized wholesale brokers.

Reinsurance

Reinsurance is tailored to fit various primary and excess products written by the Company and includes a combination of excess of loss and quota share treaties. The retention level per occurrence for primary casualty is up to \$1,875,000 per occurrence and for excess casualty it is approximately \$562,500 per occurrence. The retention level for excess property is \$1,875,000 per risk.

Effective January 1, 2013, the Company participates in an intercompany pooling agreement with its United States affiliates. After each affiliate cedes 70% of its net business to JRG Reinsurance Company, Ltd., the remaining 30% is subject to the intercompany pooling. The pooling participation percentages are as follows:

James River Insurance Company	75.0%
Falls Lake National Insurance Company	13.0%
Stonewood Insurance Company	6.0%
James River Casualty Company	5.0%
Falls Lakes General Insurance Company	<u>1.0%</u>
	100.0%

Financial Statements

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

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

**Statement of Assets
December 31, 2014**

Admitted assets

Bonds	\$ 225,130,701
Preferred stocks	44,188,024
Common stocks	23,386,806
Cash and short-term investments	13,882,580
Receivables for securities	<u>68,726</u>
Total cash and invested assets	306,656,837
Investment income due and accrued	2,190,164
Uncollected premiums and agents' balances in the course of collection	35,196,857
Amounts recoverable from reinsurers	15,074,189
Funds held by or deposited with reinsured companies	133,898,023
Net deferred tax asset	<u>8,256,841</u>
Total admitted assets	<u><u>\$ 501,272,911</u></u>

**Statement of Liabilities, Capital and Surplus
December 31, 2014**

Liabilities

Losses	\$ 67,537,071
Reinsurance payable on paid losses and loss adjustment expenses	8,616,960
Loss adjustment expenses	44,321,030
Commissions payable, contingent commissions and other similar charges	246,766
Current federal and foreign income taxes	1,124,500
Unearned premiums	22,030,392
Ceded reinsurance premiums payable	30,089,868
Funds held by company under reinsurance treaties	155,098,125
Provision for reinsurance	8,000
Payable to parent, subsidiaries and affiliates	2,757,748
Payable for securities	595,610
Aggregate write-in for liabilities	
Deferred service fees	1,240,637
Deferred ceding commission	6,907,080
Excise tax payable	243,667
Other liabilities	<u>119,018</u>
Total liabilities	340,936,472

Capital and Surplus

Common capital stock	3,547,500
Gross paid in and contributed surplus	134,601,871
Unassigned funds	<u>22,187,068</u>
Surplus as regards policyholders	<u>160,336,439</u>
Total liabilities, capital and surplus	<u>\$ 501,272,911</u>

Statement of Income
As of December 31, 2014

Premiums earned	<u>\$ 50,699,704</u>
Losses incurred	12,918,248
Loss adjustment expenses	15,684,960
Other underwriting expenses	<u>17,847,697</u>
Net underwriting gain	4,248,799
Net investment income earned	13,806,692
Net realized capital losses less capital gains tax	<u>(3,970,554)</u>
Net investment gain	<u>9,836,138</u>
Net loss from agents' or premium balances charged off	(305,785)
Aggregate write-ins for miscellaneous income	
Service fee income	882,404
Miscellaneous	<u>(59,440)</u>
Total other income	<u>517,179</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>14,602,116</u>
Federal and foreign income taxes incurred	<u>4,223,887</u>
Net income	<u>\$ 10,378,229</u>

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

<u>Capital and Surplus</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital & surplus, prior year end	\$ 160,628	\$ 213,338	\$ 216,014	\$ 219,760	\$ 189,764
Net income	10,378	21,631	22,490	29,141	31,348
Change in net unrealized capital gains less capital gains tax	767	(2,352)	2,587	(263)	11
Change in net deferred income tax	887	528	(706)	(2,824)	(5,061)
Change in non-admitted assets	(4)	(1,104)	1,705	3,075	4,048
Change in provision for reinsurance	1,253	798	249	(1,875)	(349)
Dividend to stockholders	(15,000)	(70,000)	(29,000)	(31,000)	-
Aggregate write-ins for gains and losses in surplus					
Correction of an error in federal income taxes	1,427	-	-	-	-
Change in accounting – deferred ceding commission	-	(2,212)	-	-	-
Net change in capital and surplus	<u>(291)</u>	<u>(52,710)</u>	<u>(2,676)</u>	<u>(3,747)</u>	<u>29,996</u>
Capital and surplus, current year end	<u>\$ 160,336</u>	<u>\$ 160,628</u>	<u>\$ 213,338</u>	<u>\$ 216,014</u>	<u>\$ 219,760</u>

Notes to Financial Statements

Investments

The Company's investment portfolio primarily consists of fixed income bonds, preferred and common stocks and is in compliance with Section 3925.08 of the ORC. The investments were valued in accordance with the relevant Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Sean P. McDermott, FCAS, MAAA, of Towers Watson to render a Statement of Actuarial Opinion ("Opinion") on the total reserves. Mr. McDermott prepared an Actuarial Report supporting the Opinion in conjunction with the preparation of the Company's December 31, 2014 Annual Statement.

Thomas Botsko, ACAS, MAAA, the Department's Chief Property and Casualty Actuary, reviewed the Actuarial Report and performed other procedures as considered necessary to evaluate the loss and loss adjustment expense ("LAE") reserves. Mr. Botsko concluded the reserves fall within a reasonable range of reserve estimates at December 31, 2014.

Conclusion

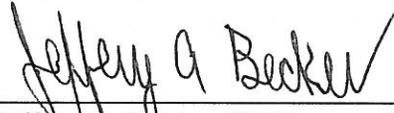
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

Total Admitted Assets	<u>\$ 501,272,911</u>
Liabilities	340,936,472
Surplus as Regards Policyholders	<u>160,336,439</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 501,272,911</u>

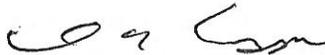
Acknowledgement

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Methuselah Nyangoro, AES, CFE, CPA; Kim Somogyi, AES, CPA, Richard Morris, CPA and Bradley Schroer.

Respectfully,



Jeffery A. Becker, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



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

Verification

As required by Section 3901.07 of the ORC, 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, 2014.

Jeffery A Becker
Examiner-In-Charge

11/9/15
Date

[Signature]
Assistant Chief Examiner

11/9/15
Date

State of Ohio

County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, 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 knowledge and belief.

Subscribed and sworn to before me this 9 day of November, 2015.

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

State of Ohio

County of Franklin

Personally appeared before me the above named, David 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 knowledge and belief.

Subscribed and sworn to before me this 9 day of November, 2015.

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