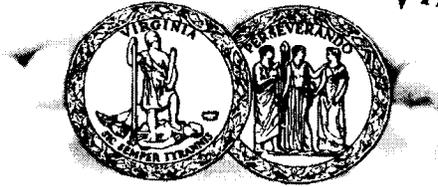


EXAMINATION REPORT
on
JAMES RIVER CASUALTY COMPANY
Richmond, Virginia
as of
December 31, 2014

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of James River Casualty Company as of December 31, 2014, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 11th day of February, 2016

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
November 18, 2015

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by the authority of § 38.2-1317 of the Code of Virginia, a financial condition examination of the records and affairs of the

James River Casualty Company

Richmond, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Company is a stock property and casualty insurer and is licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia and was last examined as of December 31, 2009. The current examination, which was called and conducted under the auspices of the NAIC, was made by Examiners from the Virginia State Corporation Commission's Bureau of Insurance in coordination with Examiners from the State of Ohio. This examination covers the period from January 1, 2010, through December 31, 2014.

HISTORY

The Company is a Virginia domiciled property and casualty insurance company and a wholly owned subsidiary of James River Insurance Company (JRIC), an Ohio domestic. JRIC is wholly owned by James River Group, Inc., a Delaware corporation, which is a wholly owned subsidiary of Franklin Holdings (Bermuda), Ltd.

The Company was incorporated under the laws of Virginia on April 19, 2007 and commenced business on August 26, 2009. The Company is authorized to issue 50,000 shares of common stock with a par value of \$100 per share. At December 31, 2009, the Company issued 10,000 shares to JRIC for \$6,000,000, with \$1,000,000 of common

capital stock and \$5,000,000 as additional paid-in-capital. On December 5, 2011, the Company received \$9,000,000 from JRIC as additional paid-in-capital in order to meet the Company's minimum capital and surplus requirements to write policies on an excess surplus lines basis in Ohio.

MANAGEMENT AND CONTROL

Management is vested in a board of directors, which shall consist of five members. Each director shall be elected to hold office until the next succeeding annual meeting of the shareholders or until his successor shall have been elected and qualified. A quorum shall consist of a majority of the number of directors constituting the board.

The bylaws provide that the officers of the Company shall be a chairman of the board and a president, each of whom shall be a director of the Company, one or more vice presidents, a secretary and a treasurer, and such other officers determined to be necessary.

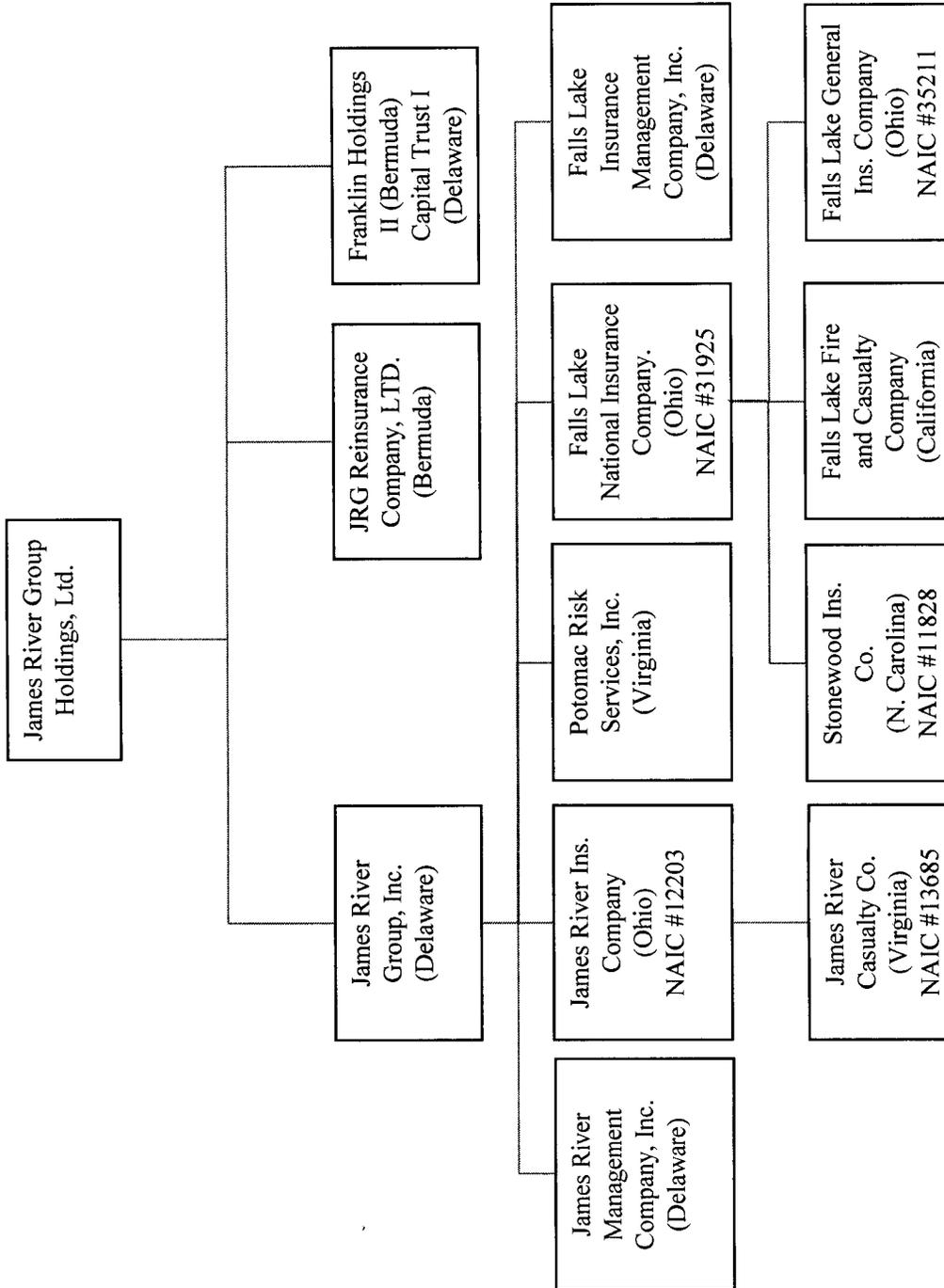
Directors and officers at December 31, 2014 were as follows:

<u>Director:</u>	<u>Principal Business Affiliation:</u>
John G. Clarke	Senior Vice President James River Insurance Company Richmond, Virginia
Gregg T. Davis	Chairman of the Board and Executive Vice President James River Group Richmond, Virginia
Bruce E. Short	Senior Vice President and Chief Financial Officer James River Insurance Company Richmond, Virginia
Richard J. Schmitzer	President and Chief Executive Officer James River Insurance Company Richmond, Virginia
Richard H. Seward	Senior Vice President and Chief Actuary James River Insurance Company Richmond, Virginia

Officers:

Gregg T. Davis	Chairman of the Board
Richard J. Schmitzer	President
Bruce E. Short	Senior Vice President and Chief Financial Officer
Deborah P. Thorsvik	Treasurer and Controller
Pamela L. Knowles	Secretary

The Company is a wholly owned subsidiary of JRIC. The following chart illustrates this insurance holding company system at December 31, 2014:



RELATED PARTY TRANSACTIONS

Management Service Agreements

Effective August 12, 2009, the Company entered into a management services cost sharing agreement with James River Management Company, Inc. (JRMC), an affiliate. Pursuant to this Agreement, JRMC will provide accounting, administrative, underwriting, and claim services. Fees allocated to the Company for these services during 2010, 2011, 2012, 2013 and 2014 were \$89,953, \$230,192, \$282,537, \$712,638 and \$705,823, respectively.

Consolidated Tax Sharing Agreement

On April 19, 2007, the Company entered into a consolidated tax sharing agreement with James River Group, Inc. and other affiliates. Under this agreement, which began with the 2007 tax year, federal income taxes will be allocated to the Company on approximately the same basis as though the Company were filing a separate return. Estimated tax payments are settled with the Company's parent at the time such estimates are payable to the Internal Revenue Service. The final settlement between the Company and its affiliates is to be made within ninety days of the filing of the tax return.

Dividends

The Company paid no cash dividends during the period covered by this examination.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2014, the Company was a named insured on a financial institution bond providing coverage of \$5,000,000 for a single loss, with a deductible of \$50,000. The Company was also a named insured on other insurance coverages as of December 31, 2014.

TERRITORY AND PLAN OF OPERATION

The Company is domiciled and licensed in the Commonwealth of Virginia. As of December 31, 2014, the Company was approved to write the following lines of business in Virginia:

Fire
Miscellaneous Property and Casualty
Inland Marine
Liability Other Than Auto
Automobile Liability
Boiler and Machinery

In addition, the Company is approved for surplus lines business in Ohio.

The Company was formed to supplement the business of JRIC and is involved exclusively in the sale of various commercial property and liability coverage on an excess and surplus lines basis. The Company offers coverage for property, general liability, professional liability, medical malpractice liability, and products liability.

The Company sells its policies through the same independent wholesale and retail surplus lines agents utilized by JRIC.

GROWTH OF THE COMPANY

The following data, obtained from Annual Statements filed with the Bureau and from examination reports, indicates the growth of the Company since its inception through December 31, 2014:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital Paid Up</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>
2009	\$6,063,539	\$40,464	\$1,000,000	\$5,000,000	\$23,075
2010	6,244,664	140,681	1,000,000	5,000,000	103,983
2011	15,618,631	426,963	1,000,000	14,000,000	191,668
2012	15,928,865	658,038	1,000,000	14,000,000	270,827
2013	26,735,030	11,166,312	1,000,000	14,000,000	568,718
2014	28,911,305	13,049,504	1,000,000	14,000,000	861,801

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gains or (Loss)</u>
2009	\$90	\$177	\$5,169	(\$5,256)
2010	15,619	32,858	33,873	(51,112)
2011	57,965	115,033	11,887	(68,955)
2012	125,416	277,779	(63,212)	(89,151)
2013	2,387,848	877,323	1,027,915	482,610
2014	3,379,980	1,906,881	1,189,846	283,253

REINSURANCE

The Company's reinsurance program consists of various excess of loss and quota share reinsurance contracts with unaffiliated and affiliated insurers.

Unaffiliated Reinsurance Ceded:

The Company's reinsurance program includes a combination of excess of loss and quota share treaties with unaffiliated reinsurers. The retention level per occurrence for primary casualty is \$1,000,000 per occurrence and for excess casualty it is approximately \$750,000 per occurrence. The retention level per risk for excess property is \$2,500,000

per risk. The combination of property catastrophe and per risk reinsurance treaties provides coverage for a single occurrence of up to approximately \$50,000,000 as of December 31, 2014.

Affiliated Reinsurance Ceded:

On April 1, 2009, the Company entered into a quota share reinsurance agreement with JRIC. Under the agreement, the Company ceded 90% of its net retained premiums and losses to JRIC and received a 35% commission on all premiums ceded to JRIC. This agreement was terminated January 1, 2013. A cash settlement of \$1,879,360 was received and the Company agreed to release JRIC from any further liability.

Effective January 1, 2013, the Company entered into a reinsurance agreement with JRG Reinsurance Company, Ltd., an affiliate, whereby the Company cedes 70% of premiums earned and 70% of losses and allocated loss adjustment expenses incurred.

Effective January 1, 2013, the Company entered into an intercompany reinsurance pooling arrangement with its United States affiliated insurance carriers. All lines of business are subject to the pooling net of any unaffiliated reinsurance. Net business includes business in force on January 1, 2013 and all business written on or subsequent to that date. The pooling provides for proportionate sharing of premiums earned, losses and loss adjustment expenses incurred, and underwriting expenses incurred.

The participation percentages are as follows:

Falls Lake National Insurance Company (lead company)	13%
James River Insurance Company	75%
Stonewood Insurance Company	6%
James River Casualty Company	5%
Falls Lake General Insurance Company	1%

All contracts contained an insolvency clause.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2010 through December 31, 2014. Assets were verified and liabilities were established at December 31, 2014.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company 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.

The Examination was conducted by the Ohio Department of Insurance on the Association Plan with Ohio acting as the lead state. The examination of the Company was conducted concurrently with the examination of the following insurers:

<u>Insurer</u>	<u>Domiciliary State</u>
James River Insurance Company	Ohio
Falls Lake General Insurance Company	Ohio
Falls Lake National Insurance Company	Ohio
Stonewood Insurance Company	North Carolina

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

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2014, a statement of income for the period ending December 31, 2014, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2014. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$13,360,602		\$13,360,602
Preferred stocks	1,246,593		1,246,593
Cash and short-term investments	2,302,768		2,302,768
Investment income due and accrued	84,963		84,963
Uncollected premiums and agents' balances in course of collection	1,188,555	201,493	987,062
Amounts recoverable from reinsurers	636,643		636,643
Funds held or deposited with reinsured companies	8,925,899		8,925,899
Current federal income tax recoverable and interest thereon	178,221		178,221
Net deferred tax asset	594,977	120,099	474,878
Furniture and equipment			
Receivables from parent, subsidiaries and affiliates	713,676		713,676
Totals	<u>\$29,232,897</u>	<u>\$321,592</u>	<u>\$28,911,305</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$4,502,471
Reinsurance payable on paid losses and loss adjustment expenses		574,464
Loss adjustment expenses		2,954,735
Other expenses		
Unearned premiums		1,468,693
Ceded reinsurance premiums payable		553,232
Funds held by company under reinsurance treaties		2,608,069
Aggregate write-ins for liabilities		<u>387,840</u>
 Total liabilities		 \$13,049,504
 Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	14,000,000	
Unassigned funds	<u>861,801</u>	
 Surplus as regards policyholders		 <u>15,861,801</u>
 Totals		 <u><u>\$28,911,305</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$3,379,980</u>
Deductions:	
Losses incurred	\$861,217
Loss adjustment expenses incurred	1,045,664
Other underwriting expenses incurred	<u>1,189,846</u>
Total underwriting deductions	<u>\$3,096,727</u>
Net underwriting gain	<u>\$283,253</u>

INVESTMENT INCOME

Net investment income earned	\$287,817
Net realized capital losses	<u>(68)</u>
Net investment gain	<u>\$287,749</u>

OTHER INCOME

Aggregate write-ins for miscellaneous income	<u>\$796</u>
Total other income	<u>\$796</u>
Net income before federal income taxes	\$571,798
Federal income taxes incurred	<u>142,598</u>
Net income	<u><u>\$429,200</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Surplus as regards policyholders, December 31, previous year	<u>\$6,023,075</u>	<u>\$6,103,983</u>	<u>\$15,191,668</u>	<u>\$15,270,827</u>	<u>\$15,568,718</u>
Net income	\$72,296	\$49,832	\$50,607	\$78,484	\$429,200
Change in net unrealized capital gains or (losses)				14,598	(89,350)
Change in net deferred income tax	9,239	41,632	29,324	477,104	(2,654)
Change in nonadmitted assets	(627)	(3,779)	(1,734)	(272,295)	(44,113)
Cumulative effect of changes in accounting principles			962		
Paid in capital		<u>9,000,000</u>			
Change in surplus as regards policyholders for the year	<u>\$80,908</u>	<u>\$9,087,685</u>	<u>\$79,159</u>	<u>\$297,891</u>	<u>\$293,083</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$6,103,983</u></u>	<u><u>\$15,191,668</u></u>	<u><u>\$15,270,827</u></u>	<u><u>\$15,568,718</u></u>	<u><u>\$15,861,801</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$3,433,106
Net investment income	394,938
Miscellaneous income	796
Total	<u>\$3,828,840</u>
Benefit and loss related payments	\$1,136,216
Commissions, expenses paid and aggregate write-ins for deductions	2,043,719
Federal income taxes paid	165,580
Total	<u>\$3,345,515</u>
Net cash from operations	<u>\$483,325</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$1,467,967
Net losses on cash and short-term investments	(104)
Total investment proceeds	<u>\$1,467,863</u>
Cost of investments acquired (long-term only):	
Bonds	\$2,237,631
Total investments acquired	<u>\$2,237,631</u>
Net cash from investments	<u>(\$769,768)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	\$550,676
Net cash from financing and miscellaneous sources	<u>\$550,676</u>
Net change in cash and short-term investments	<u>\$264,233</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$2,038,535
End of year	\$2,302,768
Net change in cash and short-term investments	<u>\$264,233</u>

CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the course of the examination is hereby gratefully acknowledged.

In addition to the undersigned, Jennifer K. Blizzard, CFE and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,



T. Bradford Earley, Jr., AIAF, CFE, CPCU
Insurance Principal Financial Analyst
Commonwealth of Virginia



STATE CORP. COMMISSION
2016 FEB -1 AM 9:40
BUREAU OF INSURANCE

January 27, 2016

Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

Attention: David H. Smith
Chief Examiner

RE: James River Casualty Company
Examination Report as of December 31, 2014

Dear Mr. Smith:

Please accept this letter as acknowledgement of receipt of the Examination Report as of December 31, 2014.

Thank you for you and your staff's time in getting this completed in a timely manner.

Once filed, we would appreciate 5 copies.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard J. Schmitzer'.

Richard J. Schmitzer
Present and CEO