

EXAMINATION REPORT
OF
THE NORTH RIVER INSURANCE COMPANY
MORRISTOWN, NEW JERSEY
AS OF
DECEMBER 31, 2007
NAIC COMPANY CODE 21105
NAIC GROUP CODE 0158

F I L E D

JUN 19 2009

**COMMISSIONER
NJ DEPT OF BANKING & INSURANCE**

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION
PO Box 325
TRENTON, NJ 08625-0325

JON S. CORZINE
Governor

Tel (609) 292-5350
Fax (609) 292-6765

STEVEN M. GOLDMAN
Commissioner

January 16, 2009

SALUTATION

Honorable Alfred W. Gross, Chairman
Financial Condition Subcommittee (E)
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, Missouri 64108-2662

Honorable Merle D. Sheiber
Secretary, Midwestern Zone (III), NAIC
South Dakota Division of Insurance
Department of Revenue and Regulation
445 East Capital Avenue
Pierre, South Dakota 57501-3185

Honorable Morris J. Chavez
Secretary, Western Zone (IV), NAIC
State of New Mexico
Department of Insurance
Post Office Box 1269
Santa Fe, New Mexico 87504-1269

Honorable Thomas R. Sullivan
Secretary, Northeastern Zone (I), NAIC
Connecticut Department of Insurance
P.O. Box 816
Hartford, Connecticut 06142-0816

Honorable Scott Richardson
Secretary, Southeastern Zone (II), NAIC
State of South Carolina
Department of Insurance
1201 Main Street, Suite 1000
Columbia, South Carolina 29201

Honorable Steven M. Goldman
Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625

Commissioners:

In accordance with the authority vested in you by the provisions of N.J.S.A. 17:23-22, a financial examination has been made of the assets and liabilities, methods of conducting business and all other affairs of the:

THE NORTH RIVER INSURANCE COMPANY

305 MADISON AVENUE

MORRISTOWN, NJ 07962

NAIC GROUP CODE 0158

N.A.I.C. COMPANY CODE 21105

Hereinafter referred to as the Company or North River.

SCOPE OF THE EXAMINATION

The financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by N.J.S.A 17:23-22.

The New Jersey Department of Banking and Insurance has adopted a modified NAIC short form report which will only address significant balance sheet accounts, adverse findings and other important regulatory information disclosed by the examination process. All other financial matters were reviewed and determined not to be material for discussion in this report.

The procedures outlined in the National Association of Insurance Commissioners financial condition handbook and the New Jersey Department of Banking and Insurance financial condition handbook were used as guides for the examination of the various accounts and records and included the use of direct verification as well as numerous tests, some complete and others on a partial basis. In determining the emphasis to be placed on specific accounts, consideration was given to the Company's system of internal control, the nature and size of each account and its relevance to solvency.

Based upon examination review, special emphasis was not assigned to any accounts. The following accounts were assigned standard emphasis:

- Bonds
- Common Stocks
- Cash and Short Term Investments
- Aggregate Write-ins for Invested Assets
- Aggregate Write-ins for Other than Invested Assets
- Agents' Balances or Uncollected Premiums
- Accrued Retrospective Premiums
- Amounts Recoverable from Reinsurers
- Net Deferred Tax Asset
- Losses
- Loss Adjustment Expenses
- Other Expenses
- Taxes, Licenses and Fees
- Unearned Premiums
- Funds Held by Company under Reinsurance Treaties
- Amounts Withheld or Retained by Company for Account of Reinsurers
- Aggregate Write-ins for Liabilities

The remaining balance sheet accounts were assigned either reduced emphasis or analytical review status for purposes of this examination.

In addition to the above balance sheet accounts, the following areas were also reviewed:

- Compliance with Prior Report on Examination
- History and Kinds of Business
- Territory and Plan of Operation
- Reinsurance
- Parent, Subsidiaries and Affiliates
- Intercompany Agreements
- Management and Control
- Continuity of Operations
- Conflict of Interest
- Fidelity Bond and Other Insurance Coverages
- Employee Welfare and Pension Plans
- Policy Forms and Underwriting Practices
- Accounts and Records
- Advertising
- Treatment of Policyholders

This financial examination addressed the three-year period prior to December 31, 2007. During this period, the Company's admitted assets increased \$126,219,117 from \$844,850,943 to \$971,070,060. The Company's liabilities decreased \$23,166,066 from \$540,477,032 to \$517,310,966, while its surplus as regards policyholders increased \$149,385,183 from \$304,373,911 to \$453,759,094.

This examination was conducted at the Company's statutory home office located at 305 Madison Avenue, Morristown, New Jersey 07962.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

- 1.) It was recommended that the Company properly disclose voting percentages in the Holding Company structure of the filed Annual Statement.

This examination has determined that the Company complied with this recommendation.

- 2.) It was recommended that the Company closely monitor its investments to ensure compliance with the New Jersey Investment Statutes.

This examination has determined that the Company complied with this recommendation.

- 3.) It was recommended that the Company amend its letters of credit to include all of the pooled participants as beneficiaries.

This examination has determined that the Company complied with this recommendation.

HISTORY AND KINDS OF BUSINESS

The Company was incorporated under the laws of the State of New Jersey and received its Certificate of Incorporation on June 12, 1972, for the purpose of assuming the business of The North River Insurance Company, domiciled in New York. The predecessor company had been

incorporated on February 6, 1822, under the laws of New York and was operating as a multiple-line property and casualty insurer at September 30, 1972, the date of its merger with the successor company. The Company commenced business on October 1, 1972.

In 1982, Xerox Financial Services, Inc., a wholly-owned subsidiary of Xerox Corporation, acquired the Company's then parent, Crum & Forster Holdings, Inc. (C&F, formerly known as Crum and Forster, Inc.), which was also a wholly-owned subsidiary of Xerox Corporation at the time.

On September 3, 1993, C&F, a Delaware corporation that was wholly-owned by Talegen Holdings, Inc., acquired all of the Company's stock. Talegen Holdings, Inc. was a Delaware corporation that was wholly-owned by Xerox Financial Services, Inc., which was wholly-owned by Xerox Corporation.

On August 13, 1998, Fairfax Financial Holdings Limited (FFH), a Canadian corporation, acquired C&F from Talegen Holdings, Inc. FFH assigned all of its rights under the acquisition to Fairfax Inc.

For the entire holding company structure, see page 12 of this report.

The authorized capital stock of the Company as of December 31, 2007, was 25,000 common shares with a par value of \$168.00 per share for a total capital value of \$4,200,000.

The Company is presently authorized to transact the kinds of insurance in New Jersey specified in the following paragraphs of N.J.S.A. 17:17-1 et seq.: a, b, *d, e, f, g, i, j, k, l, m, n, o-1, o-2 and o-3. *(except that authority granted shall not include authority to write policies of individual or group health insurance as defined in the life and health insurance code of N.J.S.A. 17B:17-1 et seq.)

The Company's statutory home office is located at 305 Madison Avenue, Morristown, NJ 07962. The Company's agent upon whom legal process against the Company may be served in New Jersey is located at the above address. The Registered Agent is Rita Goldberg.

TERRITORY AND PLAN OF OPERATION

The Company and the insurers in the group are national commercial property and casualty insurers that focus on specialty classes of business and overlooked market opportunities. The group writes a broad range of commercial coverages, including general liability, property, workers' compensation, commercial automobile and surety. The Company/Group has a central home office and nine regional underwriting offices.

As of January 1, 2006 certain of the business of the insurance companies of Fairmont Specialty Group, affiliates of Fairfax were continued as a new division of Crum and Forster. The Fairmont business consists of standard commercial and personal lines, bail bonds, and accident and health coverages.

The Company/Group's business is distributed through more than 1,000 producers located throughout the United States. The producers tend to fall into three categories: independent agents and brokers, national brokers and wholesale brokers. Independent agents and brokers generally operate in a limited geographical region. These producers focus on small to midsize accounts. National brokers have a significant number of locations throughout the United States and target larger risks requiring complex insurance analysis and placement. The Company's policies with these producers tend to be large, loss rated casualty products and property policies. Wholesale

brokers primarily produce business that retail agents and brokers have difficulty placing due to unique and unusual hazards. The Company's strategy is designed to increase gross premiums written through increasing premium volume with existing producers while selectively adding new producers.

The Company is authorized to write business in all fifty states and the District of Columbia and Puerto Rico. The annual statement indicates that the Company writes business in all of its authorized territories, including the District of Columbia but not Puerto Rico.

REINSURANCE

For 2007, the Company reported the following distribution of net written premiums:

Total Direct Written Premiums		\$187,536,967
Assumed premiums, non-affiliated		\$1,385,193
Assumed premiums, affiliated, non-pool		0
Assumed premiums, affiliated, pool		240,572,582
Total Assumed Premiums		\$241,957,775
Total Gross Premiums		\$429,494,742
Ceded premiums, non-affiliated		\$18,050,063
Ceded premiums, affiliated, non-pool		7,506,896
Ceded premiums, affiliated, pool		188,922,157
Total Ceded Premiums		\$214,479,116
Net Written Premiums		\$215,015,626

Percentage Ceded of Gross 49.9%

Assumed

The Company is a 22% participant in a pool with its affiliates. The Company only assumes reinsurance from the pool participants and other mandatory pools as required by regulation.

Ceded

The Company is a 22% participant in a pool with its affiliates. Effective January 1, 2000, the Company and certain affiliates (Pool Participants) entered into a Reinsurance Participation Agreement (Pooling Agreement) by which premiums, losses, dividends to policyholders and other underwriting expenses of each participant are pooled by means of mutual reinsurance on a fixed percentage basis as follows:

Pool Participants

United States Fire Insurance Company	76%
The North River Insurance Company	22%
Crum and Forster Insurance Company	1%
Crum & Forster Indemnity Company	1%

The Pooling Agreement provides that United States Fire Insurance Company, acting as lead company, assumes from the Pool Participants 100% of their premiums, losses, and dividends to policyholders and other underwriting expenses.

The Company purchases reinsurance to limit its exposure to loss from any one claim or occurrence (“per risk reinsurance”), and aggregate loss experience for an accident year that exceeds an amount the Company is willing to accept (corporate aggregate reinsurance). The Company’s corporate aggregate reinsurance contracts are the type most commonly referred to as “finite” reinsurance and cover or covered, in varying amounts and on varying terms, accident years 2002 and prior. No such reinsurance has been purchased for subsequent accident years.

Per Risk

As of December 31, 2007, the Company was a party to the following significant reinsurance contracts on a per risk basis:

Line of Business	Term	Layer/ Limit	Placement	Affiliate Participation
Property Per Risk				
Property Per Risk XOL 1st Layer	5/1/07 to 7/1/08	\$5 million XS \$5 million	100%	Wentworth 100%
Property Per Risk XOL 2nd layer	5/1/07 to 7/1/08	\$15 million XS \$10 million \$15 million per occurrence, Certified terror excluded, Reinstatement: 1 Free & 1 Pro rata w/ \$45 million maximum	100%	None
Property Catastrophe				
Property Catastrophe 1st Layer (excludes Fairmont business)	5/1/07 to 5/31/08	\$100 million XS \$100 million Terror excluded, Reinstatement: 1 Pro rata w/ \$200 million limit	100%	Wentworth 5%
Property Catastrophe 2nd Layer (California quake only)	5/1/07 to 5/31/08	\$100 million XS \$200 million Reinstatement: 1 Pro rata w/ \$200 million limit	100%	Wentworth 5%
Umbrella Per Risk				
Umbrella Per Risk XOL 1st Layer (excludes Fairmont, admitted only)	10/1/07 to 10/1/08	\$5 million XS \$5 million Certified terror included, 2 limit occurrence in aggregate	50%	Wentworth 10% Odyssey 50%
Umbrella Per Risk XOL 2nd Layer	10/1/07 to 10/1/08	\$15 million XS \$10 million Certified terror included, 2 limit occurrence in aggregate	100%	Wentworth 5% Odyssey 5%
Workers Comp CAT				
Workers Comp XOL 1 st layer Catastrophe	4/1/07 to 3/31/08	\$50 million XS \$50 million Terror, Cert. / Non Cert., Max terror \$50 million Reinstatement: 1 @ 100%, Max limit \$50 million	100%	Wentworth 5%
Workers Comp XOL 2nd layer Catastrophe	4/1/07 to	\$150 million XS \$100 million Terror, Cert. / Non Cert.,	100%	None

Line of Business	Term	Layer/ Limit	Placement	Affiliate Participation
	3/31/08	Max terror \$50 million Reinstatement: 1 @ 100%		
Management Protection				
Management Protection Excess Risks Q/S	6/1/07 to 6/1/08	\$0 to \$5 million 60/40 \$5 to \$10 million 80/20 No terror exclusion	100%	Wentworth 100%
Management Protection Primary Risks EOL	6/1/07 to 6/1/08	\$8 million XS \$2 million No terror exclusion	100%	Wentworth 100%
Fidelity Per Risk				
Fidelity Q/S 1st Layer	6/1/06 to current	60% Q/S up to \$5 million No terror exclusion	24%	Wentworth 20%
Fidelity XOL	6/1/06 to current	95% of \$20 million XS \$5 million	95%	Wentworth 20%
Fidelity XOL Fidelity and Crime	4/1/07 to 5/1/08	\$3 million XS \$25 million, Special acceptance, Claims made	100%	None

Corporate Aggregate

As of December 31, 2007, the Pool Participants are a party to a prospective contract covering accident years 2000 and 2002 with an unused limit of \$96.3 million for the Pool Participants, in the event the loss and LAE ratio for accident year 2002, before the effect of the contract, exceeds 70%. The subject loss and LAE ratio as valued at December 31, 2007 was 62.6%. No additional premium or funds held interest would be due under these contracts upon usage of the remaining limit. Coverage for accident year 2000 has been exhausted and recovered in full. Accident year 2001 coverage was commuted. The reinsurer, nSpire, is an affiliate and wholly-owned subsidiary of FFH.

The Pool Participants entered into an aggregate stop loss agreement with unaffiliated reinsurers (Chubb) covering accident year 2000, which provided coverage of \$118.5 million and was fully utilized by the Pool Participants at December 31, 2007. This stop loss agreement covered the casualty lines of business. The contract provided 29 loss ratio points of coverage in excess of a loss and ALAE ratio of 66% for covered losses. The contract is on a funds held basis with interest credited at 7.5%. Premiums and losses ceded pursuant to the contract, all of which were ceded prior to 2005, totaled \$76.4 million and \$118.5 million, respectively. At December 31, 2007, the Pool Participants had reinsurance recoverable balance of \$28.7 million and funds held balance of \$26.7 million related to this agreement. The Company's ceded losses and premiums represent its 22% share of the pool ceded losses and premiums above. During the first quarter of 2008, this contract was commuted.

Finite

In 1998, in connection with the acquisition of the Company by FFH, the Pool Participants entered into an aggregate stop-loss agreement (Inter-Ocean I) with Inter-Ocean Reinsurance Company, Ltd. (Inter-Ocean), which provided coverage of \$367.5 million and has been fully utilized by the Pool Participants. This contract provides coverage for loss reserve development for August 13, 1998 and prior, the date of the acquisition of the Company by Fairfax. The Pool Participants

amended the contract in 2001 to provide additional coverage of \$19,248,000 which has been fully utilized by the Pool Participants.

In June 2002, the Pool Participants entered into an adverse development contract (Inter-Ocean II), effective September 30, 2001, with Inter-Ocean, a Bermuda reinsurer. The contract provides \$100 million of coverage for carried reserves at March 31, 2001, for accident periods August 13, 1998 and prior. Coverage varies for specific classes of losses and is subject to sub-limits. In the fourth quarter of 2006, cessions under this contract were reversed due to favorable loss development of the underlying policies covered by this contract. As a result, the Company reduced the funds held balance to offset amounts due the Company at December 31, 2006, pursuant to the aforementioned commutation provision. At December 31, 2007, the Company had no cumulative ceded losses under this contract and had \$32.6 million of net paid premiums prior to 2005. None of the \$100 million coverage under this treaty is available for asbestos development. The Company's ceded losses and premiums represent its 22% share of the pool ceded losses and premiums stated above.

In June 2002, the Pool Participants entered into an adverse development contract, effective September 30, 2001, with North American Specialty Insurance Company, a subsidiary of Swiss Reinsurance America Corporation. The contract provides \$400 million of limit in excess of retention for accident years 2000 and prior, subject to a \$200 million sub-limit on 1998 and prior accident years and an asbestos and environmental sub-limit of \$100 million. Premiums are currently based on 35% of amounts ceded plus a reinsurer margin of \$8 million. The contract contains provisions that would increase the premium rate to as high as 62% under conditions that Company management considers unlikely. The contract is on a funds held basis with interest credited at 7%. At December 31, 2007, the Company had ceded cumulative losses of \$369.0 million, which is comprised of \$(3.6) million in 2007, \$(4.4) million in 2006, \$6.0 million in 2005 and \$371.0 million prior to 2005 and paid premiums of \$152.0 million, which is comprised of \$(1.3) million in 2007, \$(0.8) million in 2006, \$4.1 million in 2005 and \$150.0 million prior to 2005, related to this contract. At December 31, 2007, the Pool Participants had reinsurance recoverable balance of \$369.0 million and funds held balance of \$218.9 million related to this agreement. The Company's ceded losses and premiums represent its 22% share of the pool ceded losses and premiums above. The coverage remaining on this treaty is \$31 million and is available for asbestos development for the Pool Participants.

The arrangements described above with North American Specialty Insurance Company and Inter-Ocean is recorded as retroactive reinsurance, as outlined in SSAP 62 (see Note 10 to Financial Statements for more information).

INTERCOMPANY AGREEMENTS

At December 31, 2007, the Company was party to the following intercompany agreements:

Tax Allocation Agreement

The purpose of this agreement is to determine the amount of federal and state income tax allocated to members of the affiliated group and the amount each will pay or receive from Crum & Forster Holding Inc. ("the Parent"). This agreement is between the Parent and named subsidiaries, including the Company.

Under this agreement, each group member shall compute and pay to the Parent its federal income tax liability as if computed on a separate return. Each group member shall have first use of all of its respective current operating losses and credits. The calculation of the separate federal income

tax liability of each group member shall be made pursuant to Section 1501 of the Internal Revenue Code of 1986.

Each subsidiary shall pay such separate return tax liability to the Parent by no later than the applicable due date that such payments would have been required by the Internal Revenue Service if the subsidiary had filed a separate return.

If a subsidiary would not have to pay any federal income tax or would have a claim for refund of federal income taxes, the Parent will pay to such subsidiary an amount equal to the refund such subsidiary would have been entitled to obtain from the Internal Revenue Service. The Parent shall make payment to the subsidiary by the earlier of the applicable due date or dates that payment would have been made by the Internal Revenue Service if such subsidiary had filed a timely claim for refund, or within ten business days of receipt of any tax refund by Parent to which subsidiary is entitled under this agreement.

If, after the filing of a return, it is determined that the liability computed hereunder is incorrect, whether by reason of an Internal Revenue Service or state audit, discovery of error, the learning of new information, or otherwise, appropriate payments shall be made promptly to reflect the payments that should have been made.

The Parent agrees to indemnify and reimburse each subsidiary for any and all claims, demands and expenses in the event that the Internal Revenue Service levies upon the assets of such subsidiary for unpaid taxes, including penalties and interest, in excess of that amount for which such subsidiary may be liable pursuant to the terms of this agreement.

This agreement shall be applicable only with respect to periods for which the parties are members of the same affiliated group filing a consolidated federal income tax return. No adjustments hereunder shall be made with respect to periods for which either the Parent or one or more subsidiaries are not members of the same affiliated group. If at any time the Parent or subsidiary acquires, creates, or otherwise adds one or more entities that are includable members of the group (as defined under Section 1504 of the Code), it is understood that any such entity shall automatically be made subject to this agreement to the same extent as if such entity had been an original party to the agreement. All revisions or amendments to this agreement require, and are subject to, the prior written notification and approval of applicable state insurance departments and/or regulatory authorities.

Effective January 1, 2000, this agreement terminated the existing tax sharing agreement between Fairfax Inc. and its subsidiaries.

Administrative Services Agreement

This agreement, effective January 1, 1993, is between the Company and USF, an affiliate.

Under this agreement, USF agreed to provide certain underwriting and administrative services, subject to guidelines, procedures and limitations established by the Company's Board of Directors or an authorized committee of that Board.

Services provided include underwriting advice and services, policy issuing and billing services, claims services, maintenance of company records, preparation and rendering of reports to any regulatory agency, collection of premiums, as well as the necessary provision of office accommodations, and paying all operating expenses of the Company, except those retained by the Company, and listed as follows: allocable policy and other printed supplies necessary to conduct its business, commissions to producers, taxes, board and bureau assessments, auditing expenses, license fees, legal expenses, investment expenses, and all losses and loss adjustment expenses.

This agreement specifically states that the control of the underwriting policies of the Company and the acceptance of risks, whether by class of business or on an individual basis, shall be retained by the Company.

The Company must pay all costs and expenses incurred by USF on its behalf, within thirty days following the end of the month the service was rendered.

Master Repurchase Agreement

The Company entered into a master repurchase agreement with Fairfax Financial Holdings Limited (FFH), dated January 8, 2004.

This agreement is designed to assist the Company in managing its cash flow to eliminate or minimize investment losses resulting from the sale or liquidation of securities in order to cover short-term cash requirements.

From time to time, the parties may enter into transactions in which the Company agrees to transfer to FFH certain securities against the transfer of an amount in US dollars equal to the fair market value of such Securities on the date of transfer. The amount of each transaction cannot exceed \$100,000,000 individually or in the aggregate when combined with amounts then outstanding from any other transaction. Fairfax agrees to transfer to the Company such securities on or before one hundred eighty-three (183) days after the transfer is made (the "Repurchase Date"), against the transfer of funds by the Company. From the date of the transfer of securities from the Company to FFH until such time that the securities are returned by FFH to the Company, the securities are to be held by The Bank of New York. The transactions pursuant to the agreement shall be reported in accordance with SSAP 91.

The Company shall repurchase the securities from FFH on or before the Repurchase Date for an amount not to exceed the sum of the purchase price and the aggregate amount obtained by daily application of the stated interest rate of each security to the purchase price paid for the actual number of days during the period commencing on the purchase date and ending on the repurchase date.

To the extent required by applicable law, all securities in the possession of FFH shall be segregated from other securities in its possession and shall be identified as subject to this agreement.

The agreement shall be governed by the laws of the State of New Jersey without giving effect to the conflict of law principles thereof.

Investment Agreement

North River entered into an investment agreement dated as of January 8, 2004, with Hamblin Watsa Investment Counsel Ltd. (HW), an affiliate, and Fairfax Financial Holdings Limited (FFH). Under this agreement, the Company's account is to be managed in accordance with investment guidelines that shall at all times be in compliance with the investment statutes of the State of New Jersey.

The agreement specifies that the securities and funds shall be held by a custodian approved by the New Jersey Department of Banking and Insurance.

The agreement specifies that HW would be liable for any losses suffered as a result of an error in implementing investment decisions caused by its own negligence or dishonesty. It requires that the Company be notified in writing of all relevant facts describing such errors.

The agreement specifies that as soon as practicable after implementation of an investment decision, HW shall deliver written confirmation to enable the Company to ascertain that such implementation has been effected pursuant to the investment guidelines and procedures of its Board of Directors or a duly authorized committee thereof.

This agreement may be terminated by either party without penalty provided thirty days written notice is given to the other party.

Investment fees charged by HW are comprised of three parts:

- (A) The Base Fee Amount The base amount is calculated as .30% of the Total Market Value of the Portfolio and is payable on a quarterly basis.
- (B) The Incentive Fee Amount The incentive fee amount is based on the investment management of equity securities only. The Benchmark is S&P 500 + 200 basis points. The fee is payable annually based on calendar year results, however, no incentive fee is earned or paid unless results since inception (net of all fees) exceed benchmark return.
- (C) Maximum Investment Management Fee The maximum investment management fee payable in any calendar year is 40% of the Total Market Value of the Portfolio.

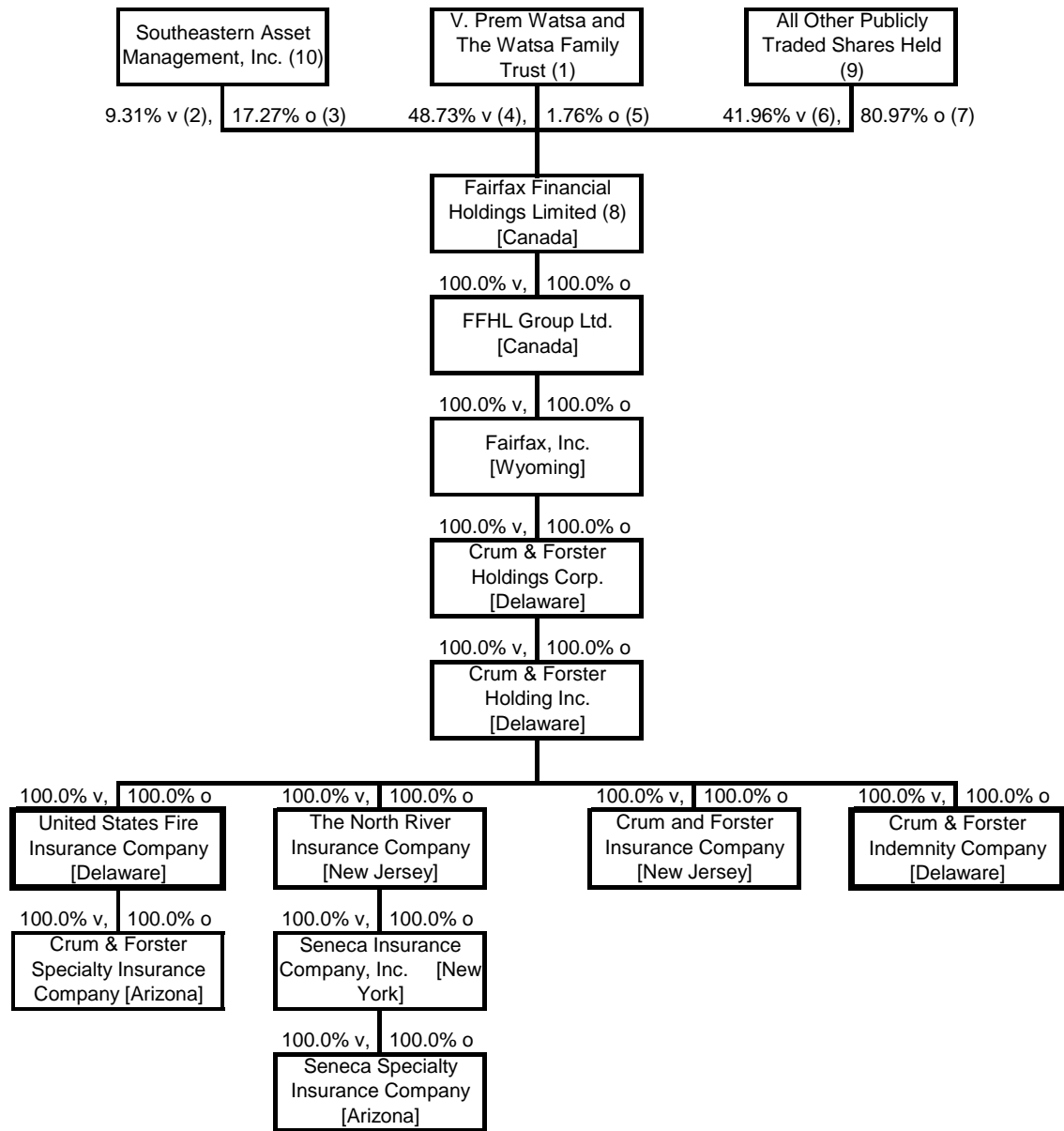
An amendment dated January 1, 2005 was added to this agreement to amend the Schedule A attachment to the agreement.

PARENTS, SUBSIDIARIES AND AFFILIATES

The Company is a member of a holding company system as defined by N.J.S.A. 17.27 A-1. As of December 31, 2007, all of the outstanding shares of the Company are owned by the Parent, a Delaware Corporation, which in turn is owned by Crum & Forster Holdings Corp., a Delaware Corporation, which in turn is a wholly-owned subsidiary of Fairfax Inc., a Wyoming Corporation, which in turn is a wholly-owned subsidiary of FFHL Group Ltd., a Canadian Corporation which in turn is a wholly-owned subsidiary of Fairfax Financial Holdings Limited (FFH), a Canadian Corporation.

A review of the Company's holding company registration statements and amendments thereto indicated that the Company is in compliance with N.J.S.A.17: 27A-3 Sections a-j, requiring registration of those insurers who qualify as determined by N.J.S.A.17: 27A-1.

A partial holding company system organizational chart of the Company and its subsidiaries as of December 31, 2007 is as follows:



v = voting control

o = ownership control

(1) through voting and ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 2771489 Canada Limited, 1109519 Ontario Limited and The Sixty Two Investment Company Limited

(2) calculated as 3,015,922 votes (3,015,922+C11 subordinate common shares held) divided by 32,398,020 votes [See note (8)]

- (3) calculated as $3,015,922$ subordinate common shares held / $16,918,020$ total subordinate common shares times $\$4,121,400,000 / \$4,258,900,000$ [See note (8)]
- (4) calculated as 0.79% through V. Prem Watsa and 47.94% through The Watsa Family Trust and the four entities described in (1). The 0.8% is calculated as $169,835$ subordinate voting common shares ($169,835$ votes) through 810679 Ontario Limited, $83,199$ subordinate voting common shares ($83,199$ votes) held personally by Mr. V. Prem Watsa and $3,500$ subordinate voting common shares ($3,500$ votes) held through "Prestin" plus, which equals $256,534$ votes divided by $32,398,020$ total votes. The 47.9% is calculated as $50,620$ subordinate voting common shares ($50,620$ votes) plus $1,548,000$ multiple voting common shares ($15,480,000$ votes) held through The Watsa Family Trust, 1109519 Ontario Limited, 810679 Ontario Limited and The Sixty Two Investment Company, which equals $15,530,620$ votes divided by $32,398,020$ total votes. [See note (8)]
- (5) calculated as $307,154$ subordinate common shares held ($258,534$ plus $50,620$ [See (4)]) / $16,918,020$ total subordinate voting common shares times $\$4,121,400,000 / \$4,258,000,000$ [See note (8)]
- (6) 100.0% minus 9.31% (2) minus 48.73% (4)
- (7) 100.0% minus 17.27% (3) minus 1.76% (5)
- (8) common shares are publicly traded on the Toronto Stock Exchange in Canada and the New York Stock Exchange in the U.S. under the symbol "FFH". The Company has issued at 12/31/07 $1,548,000$ multiple voting common shares (which carry ten votes per share), $16,918,020$ subordinate voting common shares (which carry one vote per share), and $3,000,000$ non-voting preferred Series A shares and $5,000,000$ non-voting Series B shares. Total votes then consist of $32,398,020$: the $15,480,000$ votes attributable to the multiple voting common shares and $16,918,020$ votes attributable to the subordinate voting common shares. Fairfax's capital account at 12/31/07 totals $\$4,258,000,000$ (U.S.) which consists of common shares totaling $\$4,121,400,000$ (96.8% of the total) and preferred shares totaling $\$136,600,000$ (3.2% of the total).
- (9) No entity or individual owns or controls greater than 10% as of 12/31/07, but as of 3/31/08, MacKenzie Financial Corporation owned $2,190,554$ subordinate voting common shares, which represented 6.76% voting control ($2,190,554$ divided by $32,398,020$ total votes) and 12.53% ownership control ($2,190,554$ divided by $16,918,020$ times $\$4,121,400,000$ divided by $\$4,258,000,000$). AT 3/31/08, Southeastern Asset Management beneficially owned $2,756,675$ subordinate voting common shares [a decrease of $259,247$ shares from 12/31/07], which represented 8.51% voting control and 15.77% ownership control.
- (10)Disclaimer of affiliation with the Delaware Department of Insurance dated November 22, 2004

MANAGEMENT

The Company's amended and restated by-laws state that the annual meeting of stockholders for the election of directors and the transaction of any other business shall be held at the principal office of the Corporation on the fourth Tuesday of March. At the annual meeting, the stockholders entitled to vote shall elect a Board of Directors and may transact such other corporate business as shall be stated in the notice of the meeting.

The Board of Directors shall consist initially of three directors, and thereafter shall consist of such number as may be fixed from time to time by resolution of the stockholders.

The following directors were elected and serving at December 31, 2007:

<u>Name and Address</u>	<u>Principal Occupation</u>
Nikolas Antonopoulos 305 Madison Avenue Morristown, NJ 07962	Chairman of the Board and Chief Executive Officer Crum & Forster Holdings Corp.
Joseph F. Braunstein, Jr. 305 Madison Avenue Morristown, NJ 07962	President Crum & Forster Holdings Corp.
Mary Jane Robertson 305 Madison Avenue Morristown, NJ 07962	Executive Vice President, Chief Financial Officer and Treasurer Crum & Forster Holdings Corp.

A review of the minutes of the meetings of the Stockholders, Directors and Committees indicates that they adequately approve and support Company transactions and events. This review also indicated that the prior examination report was distributed to and reviewed by members of the Board of Directors.

The principal officers of the Company elected and serving at December 31, 2007 were:

<u>Name</u>	<u>Title</u>
Nikolas Antonopoulos	Chairman of the Board and Chief Executive Officer
Joseph F. Braunstein, Jr.	President
Mary Jane Robertson	Executive Vice President, Chief Financial Officer and Treasurer
Felicia Lanosga Garland	Secretary
Marc James Adee	Senior Vice President
Carl William Bernsten	Senior Vice President
John Joseph French	Senior Vice President
Kim Edgar Piersol	Senior Vice President
Donald Ross Fischer	Senior Vice President
Dennis J. Hammer	Senior Vice President & Controller
Paul Kush	Senior Vice President
David John Ghezzi	Senior Vice President
Robert George Himmer	Senior Vice President

N.J.S.A. 17:27A-4d (3) states as follows:

“Not less than one-third of the directors of a domestic insurer, and not less than one-third of the members of each committee of the board of directors of any domestic insurer, shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with, that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity. At least one such person shall be included in any quorum for the transaction of business at any meeting of the board of directors or any committee thereof.”

N.J.S.A. 17:27A-4d (4) states as follows:

“The board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or any entity controlling, controlled by or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer or any such entity. The committee shall be responsible for recommending the selection of independent certified public accountants, reviewing the insurer’s financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be the principal officers of the insurer and recommending to the board of directors the selections and compensation, including bonuses or other special payments, of the principal officer.”

N.J.S.A. 17:27A-4d (5) states as follows:

“The provisions of paragraphs (3) and (4) of this subsection shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors and committees thereof that substantially meet the requirements of those paragraphs.”

Crum and Forster Holdings Corp. have a board of directors and committees that substantially meet the requirements of N.J.S.A. 17:27A paragraphs (3) and (4), therefore, these sections do not apply to the Company.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

As of December 31, 2007, the Company had in effect a Financial Institution Bond in the amount of \$10,000,000. In addition, the Company maintained various types of insurance policies, including but not limited to: Property, Umbrella, Excess Liability, Travel Accident, Employment Practices Liability, Fiduciary Liability and Workers Compensation. Limits for these various policies were maintained at levels deemed adequate by management.

It should be noted that the above coverages are in effect for FFH and its subsidiaries. A review of the fidelity bond coverage of FFH and its subsidiaries, which includes North River was completed and it was determined that the coverages were adequate based on the guidelines of National Association of Insurance Commissioners.

EMPLOYEE WELFARE AND PENSION PLAN

As of December 31, 2007, the Company has no employees. However, through an administrative services agreement, discussed in this report under the heading “Intercompany Agreements,” it is serviced by the employees of USF, which does not offer a pension plan. USF does offer a 401K plan to all of its qualified employees.

ACCOUNTS AND RECORDS

General Ledger

The Company’s books and accounts are maintained through a client server based general ledger system developed by Sungard. The system is maintained by information technology personnel that are part of an affiliate of the Company responsible for systems throughout the Fairfax

organization. Each account in the General Ledger is assigned a “reconciler” and a “reviewer” with the account balances verified either monthly or quarterly, depending on their significance.

The account reconciliation process is controlled and monitored by the Vice President of Financial Reporting.

An Internal Audit Director manages the company’s internal audits and an independent certified public accounting firm conducts external audits annually.

Investment System

Investment transactions and reports are generated through the use of Princeton Asset Management Software System. Hamblin Watsa Investment Counsel Ltd. manages the Company’s investments under an Investment Agreement dated January 8, 2004. The agreement includes specific investment guidelines as designated by the Board of Directors.

Claims

Claims transactions and reports are generated through ACS (Automated Claims System). Authority levels for the reserving and paying of claims are assigned by the Regional Claims Manager and are authorized by the Chief Claims Officer in the home office. The system will automatically reject any person’s attempt to authorize a claim beyond their assigned authority.

A quality assurance team completes an underwriting and claims examination and report for each regional office at least bi-annually.

Premiums

Premium receipts are predominately received through lockbox facilities throughout the United States. Premiums are recorded through VAX, direct bill premium receivable application.

TREATMENT OF POLICYHOLDERS

N.J.S.A.17: 29B-4 requires all companies to maintain a complete record of all complaints that it has received since the date of its last examination. A review of Company records indicates that as of December 31, 2007, the Company does maintain a complaint register and is in compliance with N.J.S.A.17: 29B-4.

STATUTORY DEPOSITS

As of December 31, 2007, the Company had total deposits with various jurisdictions for the benefit of policyholders, with a book value of \$6,405,390 and a fair value of \$6,202,153. Each statutory deposit was verified by direct confirmation. No exceptions were noted.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A	Balance Sheet as of December 31, 2004 and December 31, 2007
Exhibit B	Statement of Income for the Examination Period
Exhibit C	Capital and Surplus Account for the Examination Period

Statement Of Assets, Liabilities, Surplus And Other Funds
As Of December 31, 2004 And December 31, 2007

	DECEMBER 31	DECEMBER 31	NOTE
<u>Assets</u>	<u>2004</u>	<u>2007</u>	<u>NO.</u>
Bonds	\$ 489,405,734	\$ 516,399,317	
Common Stocks	162,459,929	242,525,286	
Cash and Short Term Investments	82,673,589	47,364,407	
Other Invested Assets	1,628,501	0	
Receivable for securities	0	0	
Aggregate Write-ins for Invested Assets	4,665,505	70,458,025	1
Investment Income Due and Accrued	9,157,122	8,375,009	
Premiums and Agents Balances in Course of Collection	15,711,614	12,989,852	
Premiums, Agent Balances and Installments Booked but Deferred and Undue	19,607,329	15,517,768	
Accrued Retrospective Premiums	14,385,420	12,513,880	
Reinsurance Recoverables on Loss and Loss Adjustment Expense Payments	11,326,085	13,250,828	
Amounts Billed and Receivable Under High Deductible Policies	0	0	
Federal & Foreign Income Tax Recoverable and Interest Thereon	0	1,623,962	
Net Deferred Tax Asset	21,094,748	13,640,182	
Guaranty Funds Receivable or on Deposit	2,031,594	2,138,297	
Electronic Data Processing Equipment	31,624	39,380	
Receivables from Parent, Subsidiaries and Affiliates	0	2,636,270	
Aggregate Write-ins for Other Than Invested Assets	<u>10,672,149</u>	<u>11,597,597</u>	
Total Assets	<u>\$844,850,943</u>	<u>\$971,070,060</u>	

Statement Of Assets, Liabilities, Surplus And Other Funds
As Of December 31, 2004 And December 31, 2007

	DECEMBER 31 <u>2004</u>	DECEMBER 31 <u>2007</u>	NOTE <u>NO.</u>
<u>Liabilities, Surplus and Other Funds</u>			
Losses	\$363,231,983	\$367,486,990	2
Reinsurance Payable on Paid Losses and Loss Adjustment Expenses	1,352,187	582,415	
Loss Adjustment Expenses	139,488,191	128,263,276	2
Commissions Payable and Similar Charges	2,073,241	1,250,248	
Other Expenses	6,250,988	10,270,291	
Taxes, Licenses and Fees	7,680,931	7,759,305	
Federal and Foreign Income Taxes	805,704	0	
Unearned Premiums	92,652,126	86,759,358	
Policyholders Dividends Declared and Unpaid	280,528	30,212	
Ceded Reinsurance Premiums Payable	6,552,244	1,620,301	
Funds Held by Company under Reinsurance Treaties	60,973,966	55,123,078	
Amounts Withheld or Retained by Company	14,447,368	9,151,942	
Provision for Reinsurance	4,939,695	3,982,675	
Payable to Parent, Subsidiaries and Affiliates	2,006,822	0	
Payable for Securities	6,453,628	0	
Aggregate Write-ins for Liabilities	<u>(168,712,570)</u>	<u>(154,969,125)</u>	
Total Liabilities	<u>\$ 540,477,032</u>	<u>\$ 517,310,966</u>	
Aggregate Write-ins for Special Surplus Funds	\$123,959,175	\$114,573,049	3
Common Capital Stock	4,200,000	4,200,000	3
Gross Paid in and Contributed Surplus	122,599,823	122,599,823	3
Unassigned Funds (Deficit)	<u>53,614,913</u>	<u>212,386,222</u>	3
Surplus as Regards to Policyholders	<u>\$304,373,911</u>	<u>\$453,759,094</u>	3
Totals	<u>\$ 844,850,943</u>	<u>\$ 971,070,060</u>	

Underwriting And Investment Exhibit
For The Three Years Ended December 31, 2007

	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>Underwriting Income</u>			
Premiums Earned	\$ <u>169,107,755</u>	\$ <u>209,133,999</u>	\$ <u>232,506,919</u>
Deductions:			
Losses Incurred	\$ 95,083,510	\$ 97,340,063	\$ 120,298,194
Loss Expenses Incurred	30,148,248	34,514,449	35,160,660
Other Underwriting Expenses Incurred	<u>44,740,524</u>	<u>62,293,567</u>	<u>63,155,898</u>
Total Underwriting Deductions	\$ <u>169,972,282</u>	\$ <u>194,148,079</u>	\$ <u>218,614,752</u>
Net Underwriting Gain or Loss	\$ (864,527)	\$ 14,985,920	\$ 13,892,167
<u>Investment Income</u>			
Investment Income Earned	\$ 37,170,061	\$ 38,638,307	\$ 39,967,862
Net Realized Capital Gains	<u>14,115,301</u>	<u>42,802,226</u>	<u>(2,920,872)</u>
Net Investment Gain or	<u>\$51,285,362</u>	<u>\$81,440,533</u>	<u>\$ 37,046,990</u>
<u>Other Income</u>			
Finance and Service Charges not included in Premiums	0	0	0
Miscellaneous Income	<u>(11,980,049)</u>	<u>(4,265,485)</u>	<u>(4,977,291)</u>
Total Other Income	\$ <u>(11,980,049)</u>	\$ <u>(4,265,485)</u>	\$ <u>(4,977,291)</u>
Net Income Before Dividends to Policyholders and Before Taxes	\$ 38,440,786	\$ 92,160,968	\$ 45,961,866
Dividends to Policyholders	(149,869)	0	0
Federal/Foreign Income Taxes Incurred	<u>5,006,442</u>	<u>17,204,555</u>	<u>11,308,700</u>
Net Income	<u>\$ 33,584,213</u>	<u>\$ 74,956,413</u>	<u>\$ 34,653,166</u>

Capital And Surplus Account
For Periods Ended December 31, 2005 To December 31, 2007

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Surplus as Regards Policyholders December 31 Previous Year	\$ <u>304,373,911</u>	\$ <u>348,072,028</u>	\$ <u>409,942,226</u>
Net Income	\$ 33,584,213	\$ 74,956,413	\$ 34,653,166
Change in Net Unrealized Capital Gains or (Losses)	12,829,792	9,563,622	50,665,502
Change in Net Unrealized Foreign Exchange Capital Gain or (Losses)	\$(653,083)	\$305,939	\$233,640
Change in Net Deferred Income Taxes	1,135,549	1,759,293	566,257
Change in Nonadmitted Assets	746,116	5,963,458	418,286
Change in Provision for Reinsurance	955,530	1,821,473	(1,819,983)
Dividends to Stockholders	<u>(4,900,000)</u>	<u>(32,500,000)</u>	<u>(40,900,000)</u>
Change in Surplus as Regards Policyholders for the Year	<u>43,698,117</u>	<u>61,870,198</u>	<u>43,816,868</u>
Surplus as Regards Policyholders December 31, Current Year	<u>\$348,072,028</u>	<u>\$409,942,226</u>	<u>\$453,759,094</u>

NOTES TO FINANCIAL STATEMENTS

(Note 1) – Aggregate Write-ins for Invested Assets

As of December 31, 2007, the Company had investments in credit default swap contracts with a term of five years that are designated as ineffective fair value hedges. The Company acquired these contracts at a premium of \$24,624,871 to hedge the exposure of a potential adverse decline in the fair value of financial assets owned by the Company. The total premium paid (cost) is being amortized to investment expense over the duration of the swaps, which mature through 2008 and 2013. These contracts are carried at fair value which amounted to \$70,458,025 at December 31, 2007.

The abovementioned investments were admitted as of December 31, 2007 under the “basket provision” of N.J.S.A 17:24-1(g).

Examination review of subsequent quarterly financial statements noted that the Company’s investments in credit default swap contracts were \$94,019,829 as of March 31, 2008, and \$92,889,255 as of June 30, 2008.

(Note 2) - Losses and Loss Adjustment Expenses

As of December 31, 2007, the Company’s reported amounts for Losses and LAE reserves of \$367,486,990 and \$128,263,276, respectively, were reviewed and determined to be reasonable.

Loss and loss adjustment expense reserves represent 95.8% of the Company’s liabilities as of December 31, 2007. Incurred but not reported reserves (IBNR) constituted 48.7% of loss reserves at year-end 2007.

In conjunction with this examination and that of the other Pool Participants, INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department and the State of New Jersey Department of Banking and Insurance to conduct a review of the reserve methodologies and adequacy for each of the “Pool Participants”. INS evaluated the Company’s book of business by line of business for loss and allocated loss adjustment expenses. The conclusions reached by INS are largely based upon information supplied by the Company’s staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net basis of reinsurance and did not address the collectibility of reinsurance recoverables. The INS reserve review found the Company’s combined net loss and loss adjustment expense reserves were adequate to support the business underwritten.

The underlying data was tested through a review of open and paid claim files and actual payments made with no exceptions noted. The aggregated actuarial data provided by the Company was verified and reconciled to Schedule P of the Company’s filed annual statement.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report. As a result of this study, the reserves were accepted.

(Note 3) - Surplus as Regards Policyholders

This examination determined total surplus as regards policyholders as of December 31, 2007 to be \$453,759,094, which is unchanged from the amount reported by the Company. The amounts reported are summarized as follows:

Common Capital Stock	\$ 4,200,000
Gross Paid In and Contributed Surplus	122,599,823
Aggregate Write-ins for Other than Special Surplus Funds	114,573,049
Unassigned Funds	<u>212,386,222</u>
Total	<u>\$ 453,759,094</u>

The Company's capital stock is comprised of 25,000 shares (authorized and outstanding) with a \$168 par value per share. Examination review determined that Crum and Forster Holding Inc. owned the shares, which were verified by reviewing the Company's stock ledger. No exceptions were noted.

During the examination period, Crum and Forster Holdings, Inc. made no capital contributions to North River.

The aggregate write-ins for other special surplus funds of \$114,573,049 are attributable to retroactive reinsurance cessions, which are subject to accounting under SSAP No. 62. It was determined that the Company's accounting treatment with regard to these special surplus funds was in accordance with SSAP No. 62.

SUBSEQUENT EVENTS

Effective January 1, 2008, Nikolas Antonopoulos resigned as the Chairman of the Board and CEO of the Company. He was replaced by Douglas Mendel Libby.

Subsequent to the examination date, another entity, MacKenzie Financial Corporation (MacKenzie), had amassed 6.8% voting control of FFH and 12.5% ownership control of FFH during the first quarter 2008 [reported as owning or controlling 13.7% of the subordinate voting shares of FFH]. The Company identified MacKenzie in the 2007 Holding Company Registration Statement as controlling more than 10% of the voting stock of FFH.

Therefore, it is recommended that MacKenzie, as another entity that controls greater than 10% of the Company as of March 31, 2008, either file a Form "A" or a disclaimer of control.

At the April 14, 2008 Board of Director's meeting the Board declared a Dividend totaling \$45,300,000, payable to the Parent, which was not considered extraordinary.

Kelly-Moore Paint Company, Inc. ("Kelly-Moore") filed litigation against the Company in the San Francisco Superior Court (California) in connection with certain general liability and umbrella liability policies issued to it. The litigation sought coverage for bodily injury claims arising out of exposure to asbestos-containing products that Kelly-Moore and/or a subsidiary sold between 1960 and 1978 and breach of contract and bad faith damages. At a settlement conference in April 2008, the parties reached a settlement pursuant to which the Company obtained a full and final release of all claims from Kelly-Moore for \$25,500,000. A charge to incurred losses of \$5,610,000 was recorded, representing the Company's 22% share.

In June 2008, the Company commuted both Inter-Ocean agreements. For Inter-Ocean II, the Pool Participants did not receive any funds with regard to settlement. For Inter-Ocean I, the Pool Participants received \$302.5 million for the commutation. The Pool Participants had carried retroactive reserves of \$386 million. The estimated loss on the transaction was \$83.5 million, recorded in 2008.

During the nine months ended September 30, 2008, the Company sold credit default swaps with a cost of \$8.8 million for cash consideration of \$64 million and recorded realized gains of \$55.2 million.

EXAMINATION RECOMMENDATIONS

Page

- 22 Subsequent to the examination date, another entity, MacKenzie Financial Corporation (MacKenzie), had amassed 6.8% voting control of FFH and 12.5% ownership control of FFH during the first quarter 2008 [reported as owning or controlling 13.7% of the subordinate voting shares of FFH]. The Company identified MacKenzie in the 2007 Holding Company Registration Statement as controlling more than 10% of the voting stock of FFH.

Therefore, it is recommended that MacKenzie, as another entity that controls greater than 10% of the Company as of March 31, 2008, either file a Form "A" or a disclaimer of control.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES-STATEMENT BY NJDOBI
ACTUARY

The North River Insurance Company

I, Boris Privman, FCAS, MAAA, Managing Property and Casualty Actuary for the New Jersey Department of Banking and Insurance, have reviewed the actuarial work of INS Consultants, Inc. review of the reported December 31, 2007 loss and loss adjustment expense reserves for The North River Insurance Company. Based upon this review the Company's gross and net loss reserves were reasonably stated.

Actuarial findings as stated above and in this examination report are the sole responsibility of the New Jersey Department of Banking and Insurance's Property and Casualty Actuarial Unit of the Office of Solvency Regulation..

/S/
Boris Privman-Managing Actuary

CONCLUSION

The statutory condition examination was conducted by the undersigned with the support of the New Jersey Department of Banking and Insurance field and office staff, at the Company's home office located at 305 Madison Avenue, Morristown, New Jersey 07962.

The courteous assistance and cooperation of the Company's officers, employees and certified public accounting firm is acknowledged.

Respectfully submitted,

/S/
Daniel J. Fialkowski, CFE, AIE, FLMI
Examiner-in-Charge
Department of Banking & Insurance
State of New Jersey

THE NORTH RIVER INSURANCE COMPANY

I, Daniel J. Fialkowski, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2007 to the best of my information, knowledge, and belief.

Respectfully submitted,

/S/

Daniel J. Fialkowski, CFE, AIE, FLMI
Examiner-In-Charge
Department of Banking & Insurance
State of New Jersey

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Thomas B. Walker, on this 5th day of March, 2008.

/S/

Thomas B. Walker
Notary Public of New Jersey

My commission expires: September 29th, 2013