

EXAMINATION REPORT

OF

THE NORTH RIVER INSURANCE COMPANY

MORRISTOWN, NEW JERSEY

AS OF

DECEMBER 31, 2014

NAIC COMPANY CODE 21105

NAIC GROUP CODE 0158

Filed

June 16, 2016

**Commissioner
Department of Banking**

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION

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May 3, 2016

Honorable Richard J. Badolato
Acting Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625

Commissioner:

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, liabilities, and method of conducting business 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

This 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 examination covers the period from the prior examination December 31, 2010 through December 31, 2014.

The examination was conducted at the Company's administrative office located at 305 Madison Avenue, Morristown, New Jersey 07962.

The examination was conducted in accordance with the 2014 NAIC Financial Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles 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 as defined in the 2014 NAIC Financial Condition Examiners Handbook.

Surplus as regards policyholders, at the examination date, consisted of the following:

Common Capital Stock	\$ 4,200,000
Aggregate Write-Ins for Special Surplus Funds	43,133,564
Gross Paid in and Contributed Surplus	122,599,823
Unassigned Funds	<u>94,821,092</u>
Surplus as Regards Policyholders	<u>\$ 264,754,479</u>

The change in assets, liabilities, and surplus for the period covered by this examination is detailed below:

	12/31/2014	12/31/2013	12/31/2012	12/31/2011
Assets	\$945,822,334	\$938,192,988	\$869,652,681	\$816,823,638
Liabilities	\$681,067,855	\$675,113,095	\$592,615,264	\$534,525,134
Surplus	\$264,754,479	\$263,079,893	\$277,037,417	\$282,298,504

HISTORY AND KIND 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. (Holdings), which was also a wholly owned subsidiary of Xerox Corporation at the time.

On September 3, 1993, Holdings, a Delaware corporation that was wholly-owned by Talegen Holding, 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 Holdings from Talegen Holdings, Inc. FFH assigned all of its rights under the acquisition to Fairfax Inc., now known as Fairfax (US) Inc.

For the entire holding company structure, see Parents, Subsidiaries and Affiliates of this report.

The authorized capital stock of the Company as of December 31, 2014 was 25,000 common shares with a par value of \$168 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, and o.

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 upon whom process may be served is James Kraus.

MANAGEMENT AND CONTROL

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. Directors duly elected and serving at December 31, 2014, were as follows:

<u>Name</u>	<u>Business Affiliation</u>
Marc James Adee	Chairman of the Board, President & Chief Executive Officer, US Fire Insurance Company
Paul William Bassaline	Senior Vice President, Chief Financial Officer & Treasurer, US Fire Insurance Company
Stephen Michael Mulready	Executive Vice-President & Chief Operating Officer, US Fire Insurance Company

A review of the minutes of the meetings of the Stockholders, Directors and Committees indicates that the Directors 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.

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, and may elect one or more Vice Presidents, a Treasurer, a Secretary, one or more Assistant Vice Presidents and Assistant Secretaries. The Board of Directors may also elect a Chairman of the Board of Directors and a Chief Executive Officer at its discretion. The primary officers serving as of December 31, 2014 were as follows:

<u>Name</u>	<u>Title</u>
Marc James Adee	Chairman of the Board, President & Chief Executive Officer
Paul William Bassaline	Senior Vice President, Chief Financial Officer & Treasurer
James Vincent Kraus	Senior Vice President, Secretary & General Counsel

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, 2014, all of the outstanding shares of the Company's stock are owned by Crum & Forster Holdings Corp, 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 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.

The organizational structure as of the examination date with control percentages of the upstream affiliates' control of the downstream affiliate is presented below:

		Economic Ownership Control <u>Percent</u>	Voting Control <u>Percent</u>	
V. Prem Watsa and The Watsa Family Trust {1}	{2}	1.51%	43.97%	{3}
All Other Publicly Traded Shares Held {4}	{5}	98.49%	56.03%	{6}
Fairfax Financial Holdings Limited [Canada] (FFH) {7}		100.00%	100.00%	
FFHL Group Ltd. [Canada]		100.00%	100.00%	
Fairfax (US) Inc. [DE]		100.00%	100.00%	
Crum & Forster Holdings Corp. [DE]		100.00%	100.00%	
United States Fire Insurance Company [DE]		100.00%	100.00%	
Crum & Forster Specialty Company [DE]		100.00%	100.00%	
American Underwriters Insurance Company [AR]		100.00%	100.00%	
AMC Re. Inc. [AR]		100.00%	100.00%	
North River Insurance Company [NJ]		100.00%	100.00%	
Seneca Insurance Company [NY]		100.00%	100.00%	
Seneca Specialty Insurance Company [DE]		100.00%	100.00%	
Crum & Forster Indemnity Company [DE]		100.00%	100.00%	
Crum & Forster Insurance Company [NJ]		100.00%	100.00%	
First Mercury Insurance Company [IL]		100.00%	100.00%	
		100.00%	100.00%	

Notes 1 through 7 more fully describe the ownership and voting percentages throughout the holding company.

{1} Through voting and economic ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 2771489 Canada Limited, 1109519 Ontario Limited, 810679 Ontario Limited and The Sixty Two Investment Company Limited

{2} V. Prem Watsa, an individual, holds 100% of the preference shares (carrying 2/3 of the votes) and The Watsa Family Trust holds 100% of the common shares of 1109519 Ontario Limited, which holds 50.01% of The Sixty Two Investment Company Limited. 2771489 Canada Limited, which is wholly-owned by Fairfax Financial Holdings Limited, holds 49.99% of The Sixty Two Investment Company Limited. The Sixty Two Investment

Company Limited owns 1,548,000 voting shares (100%), entitled to ten votes per share, and 50,620 of the 20,427,398 outstanding subordinate voting shares, entitled to one vote per share, of Fairfax Financial Holdings Limited. V. Prem Watsa personally and beneficially owns 258,115 subordinate voting shares of Fairfax Financial Holdings Limited. Calculated as 308,735 subordinate voting common shares held (258,115 plus 50,620 (see {3})) / 20,427,398 total subordinate voting common shares X \$8,361,000,000 [FFH common stock equity] / \$9,525,700,000 [FFH common stock and preferred stock equity] (see {7})

{3} Including through his control of The Sixty Two Investment Company Limited, V. Prem Watsa's holdings represent 43.97% of the total votes attached to all shares of Fairfax Financial Holdings Limited at December 31, 2014. Calculated as 0.72% through V. Prem Watsa and 43.25% through The Watsa Family Trust and the four entities described in {1}. The 0.72% part is calculated as 139,835 subordinate voting common shares (139,835 votes) through 810679 Ontario Limited + 84,780 subordinate voting common shares (84,780 votes) held personally by Mr. V. Prem Watsa + 33,500 subordinate voting common shares (33,500 votes) held through Prenstin Holdings Ltd. which = 258,115 votes / 35,907,398 total votes. The 43.25% part is calculated as 50,620 subordinate voting common shares (50,620 votes) + 1,548,000 subordinate 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 / 35,907,398 total votes (see {7})

{4} No individual or entity owns or controls greater than 10% of FFH as of December 31, 2014

{5} Calculated as 100.00% - 1.51% {2} = 98.49%

{6} Calculated as 100.00% - 43.97% {3} = 56.03%

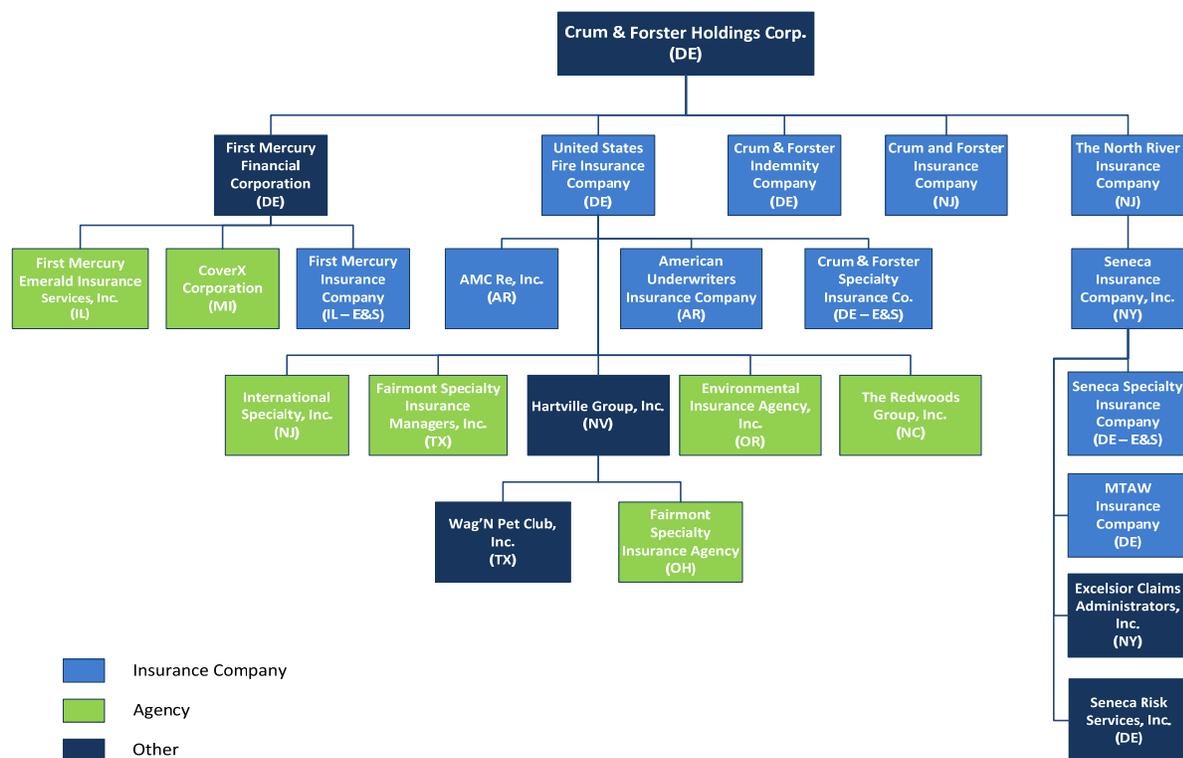
{7} Common shares are publicly traded on the Toronto Stock Exchange under the symbol "FFH" and secondarily on the Over-The-Counter market (OTC, or "pink sheets") in the U.S. under the symbol "FRFHF".

At December 31, 2014, FFH has issued 1,548,000 multiple voting common shares (which carry ten votes per share), 20,865,653 subordinate voting common shares [less 438,247 shares held in treasury for an outstanding balance of 20,427,398 shares] (which carry one vote per share), 6,016,384 non-voting preferred Series C shares, 3,983,616 non-voting preferred Series D shares, 7,924,674 non-voting preferred Series E shares, 10,000,000 non-voting preferred Series G shares, 12,000,000 non-voting preferred Series I shares and 9,500,000 non-voting preferred Series K shares. The total votes then consist of 35,907,398 as follows: 15,480,000 votes attributable to the 1,548,000 subordinate multiple voting common shares and 20,427,398 votes attributable to the 20,427,398 subordinate voting common shares. FFH's non-minority capital account at December 31, 2014, totals \$9,525,700,000 (\$ U.S.) which consists of \$8,361,000,000 related to voting common shares (87.77% of the total) and \$1,164,700,000 related to non-voting preferred shares (12.23% of the total)

As of the date of the prior examination (December 31, 2010), Southeastern Asset Management, Inc. (SAM), beneficially held 2,717,437 of the 19,627,026 subordinate voting shares of Fairfax Financial Holdings Limited then outstanding, which represented 13.85% ownership control and 7.75% voting control of Fairfax Financial Holdings Limited. SAM filed a disclaimer of affiliation with the Delaware Department of Insurance dated November 22, 2004. In the first quarter of 2014, SAM disposed of 887,749 of its subordinate voting shares of Fairfax Financial Holdings Limited, reducing its holdings to 1,829,688 subordinate voting shares. As a result, SAM's ownership and voting control percentages both fell below 10%.

INTERCOMPANY AGREEMENTS

The relationship of each insurance company within the Group is illustrated below:



Affiliated Agreements:

The Company has entered into various agreements with members of the affiliated group in an effort to obtain efficiencies in operations and limit cost. The Company had the following material intercompany agreements in effect as of December 31, 2014:

Administrative Service Agreements

The Company is a party to an administrative service agreement with its affiliate United State Fire Insurance Company (US Fire). Under terms of the agreement US Fire performs all administrative services such as underwriting, claim and administrative services on behalf of the Company. Operating expenses incurred in the performance of services are allocated in accordance with SSAP 70. Pool participants are charged their respective shares of operating expenses.

Tax Allocation Agreement

The Company is a party to a tax allocation agreement with the Parent along with certain of its affiliates effective January 1, 2009. The Parent, the Company and affiliates constitute an affiliated group and have elected to file a consolidated return under the provisions of §1501 of the Internal Revenue Code of 1986. Pursuant to the terms of the tax allocation agreement, no party will be required to pay more in taxes or receive a lesser payment of a refund than it would have paid or received if it computed its taxes independently and filed a separate tax return.

Additionally, the Company has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

Master Repurchase Agreement

The Company is a party to a master repurchase agreement with FFH effective July 1, 2000, with an amendment dated September 11, 2001. The agreement provides for the repurchase of securities that are transferred to FFH from time to time in order to provide liquidity in the event that the Company is required to pay claims or other corporate obligations, subject to an aggregate limitation for US Fire and North River of \$100 million and for Crum & Forster Indemnity Company (CFIC) and Crum and Forster Insurance Company (CFInSCO) of \$5 million.

Pursuant to the agreement, the Company is obligated to repurchase from FFH securities that are transferred for this purpose before the end of each calendar year in which the original purchase took place at a price equal to the amount initially raised from their sale plus the stated interest rate for each security pursuant to the initial sale. During the time that such securities are transferred to FFH, the Company is entitled to receive income payable on such securities. There were no transactions under this agreement during the examination period.

Investment Agreement

The Company is a party to an investment management and administrative services agreement among Hamblin Watsa Investment Counsel Ltd. (Hamblin Watsa) and FFH effective October 1, 2002 and amended April 1, 2007. Pursuant to the agreement, Hamblin Watsa is authorized to supervise and direct all investments of the Company and to exercise whatever powers the Company may possess with respect to its invested assets. Investment transactions will be in

accordance with investment objectives of the Company and subject to restrictions established by the Company, as communicated to Hamblin Watsa in writing from time to time.

Subject to these limitations, Hamblin Watsa may buy, sell, exchange, convert and otherwise trade in and engage in investment transactions of any nature whatsoever involving any stocks, bonds, commercial paper, money market instruments and other securities and assets when it deems appropriate and without prior consultation with the Company.

Master Administrative Service Agreements

The Company is a party to an administrative service agreement with various affiliates, effective November 1, 2014. The agreement allows for the exchange of certain administrative and general services between affiliates.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2014, the Company was licensed to transact multiple property and casualty lines of insurance in all fifty states and the District of Columbia.

The Company and the insurers in the group are national commercial property and casualty insurers with a focused underwriting strategy, targeting specialty classes of business and underserved market opportunities. The Group writes business through approximately 2,000 insurance producers nationwide who, on a direct written basis, generally fall into four categories: wholesale brokers 27%, independent regional retail firms 58%, national brokers 14% and Managing General Underwriters ("MGU") / Managing General Agents ("MGA") 1%. Specialty program business is written through MGUs where appropriate for the class (Accident & Health (A&H), Bail Bonds, and Excess & Surplus binding authorities). The Company/Group generally conducts business on a brokerage basis through their home office and regional branch network, allowing them to control the underwriting process and build close relationships with producers and policyholders. The Group has producers located throughout the United States, writing a broad range of coverage, including general liability, A&H, workers' compensation on both a guaranteed cost and large deductible basis, excess and umbrella, commercial multi-peril, environmental, and commercial automobile.

REINSURANCE

General

The Company reported the following distribution of net premiums written for 2014:

Direct	\$ 172,441,280
Reinsurance assumed from affiliate	356,285,476
Reinsurance assumed from non-affiliates	<u>112,912</u>
Total gross (direct and assumed)	<u>\$ 528,839,668</u>

Reinsurance ceded to affiliates	\$ 175,361,829
Reinsurance ceded to non-affiliates	56,740,502
Total ceded	<u>\$ 232,102,331</u>
Net premiums written	<u>\$ 296,737,337</u>

Ceded

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 & Forster Insurance Company	1%
Crum & Forster Indemnity Company	1%

The Pooling Agreement provides that the US Fire, acting as lead Company, assumes from the Pool Participants 100% of the premiums, losses, dividends to policyholders and other underwriting expenses and cedes back to the participants their respective pool percentages.

As of December 31, 2014, the Company was a party to the following significant reinsurance contracts on a per risk basis:

<u>Coverage</u>	<u>Limits</u>	<u>Retention</u>
Property catastrophe	\$90 million, excess of	\$30 million
Property per risk	\$48 million, excess of	\$2 million
Consolidated casualty	\$35 million, excess of	\$5 million

During 2014, the Company reviewed its reinsurance programs and modified the coverage and retention levels of certain programs as deemed necessary. In general, the Company's reinsurance contracts provide coverage for domestic acts of terrorism. The agreements have additional terrorism coverage under the Terrorism Risk Insurance Program Reauthorization Act of 2007.

Finite

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. This contract provided \$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 were based on 35% of amounts ceded plus a reinsurer margin of \$8 million. The contract contained provisions that would increase the premium rate to as high as 62% under conditions that Company management considers unlikely. The contract was on a funds held basis with interest credited at 7%. As of December 31, 2014, the Pool had ceded \$334 million in cumulative losses, and

incurred premium of \$116.9 million and accrued funds held interest of \$208.1 million for a pretax surplus benefit of \$9.0 million (North River recorded its 22% share under the Pooling Agreement). At December 31, 2014, and December 31, 2013, the Pool Participants had reinsurance recoverable balances of \$334 million (for 2014 and 2013) and funds held balances of \$317.0 million and \$296.2 million, respectively, related to this agreement, of which the Company is a 22% participant.

The Company recorded this contract with North American as retroactive reinsurance, in accordance with SSAP 62R.

Subsequent to the examination date, on October 15, 2015, the Company commuted this contract. The funds held by the Company were used to offset the reinsurer's liabilities as full and final settlement of the agreement. The funds held were determined to be equal to the reinsurer's liabilities which did not require any additional settlement by either party.

The Pool Participants entered into a reinsurance agreement with an affiliate, Clearwater Insurance Company (Clearwater), effective December 31, 2011 in which the Companies ceded certain liabilities for asbestos, environmental and other latent claims but exclusive of workers' compensation and surety under insurance and reinsurance contracts covering substantially all of the Companies' liabilities for these lines of business incurred on or prior to December 31, 1998. Effective December 31, 2014, the Companies transferred an additional \$73.0 million, including \$29.6 million of net loss and loss adjustment reserves from assumed retroactive reinsurance, of net reserves related to the New York Branch office and other builders and contractors business. Cash and securities of equal value were transferred resulting in no surplus impact. The Companies had reinsurance recoverable of \$404.5 million and \$391.9 million at December 31, 2014 and 2013 respectively from Clearwater related to this agreement. The Company recorded its 22% share as part of the Pooling Agreement.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

As of December 31, 2014, the Company had in effect a Financial Institution Bond in the amount of \$10,000,000 with an aggregate limit of \$20,000,000. In addition, the Company maintained various types of insurance policies, including but not limited to: Property, Commercial General Liability, Business Auto, Umbrella, Travel Accident, Excess Liability, Fiduciary Liability, Workers' Compensation and Foreign package. Limits for these various policies were maintained at levels deemed adequate by management.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

- Exhibit A Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2014.
- Exhibit B Underwriting and Investment Exhibit for the Period Ended December 31, 2014.
- Exhibit C Capital and Surplus Account for the Period Ended
December 31, 2014.

Comparative Statement of Assets
Liabilities, Surplus and Other Funds at December 31, 2014

Exhibit A

Assets:	Current Examination at 12/31/14	Balance per Company at 12/31/14	Exam Change	Note
Bonds	\$ 382,132,296	\$ 382,132,296		
Preferred stocks	-	-		
Common stocks	218,340,724	218,340,724		
Mortgage loans on real estate	-	-		
Cash, cash equivalents & short term investments	207,623,444	207,623,444		
Derivatives	3,897,303	3,897,303		
Other invested assets	21,986,681	21,986,681		
Receivable for securities	4,725	4,725		
Investment income due and accrued	4,527,686	4,527,686		
Uncollected premium and agents' balances in the course of collection	25,783,792	25,783,792		
Deferred premiums, agents' balances and installments booked but deferred and not yet due	13,158,483	13,158,483		
Accrued retrospective premiums	7,920,000	7,920,000		
Amounts recoverable from reinsurers	3,922,803	3,922,803		
Funds held by or deposited with reinsured companies	4,972,737	4,972,737		
Current federal and foreign income tax recoverable and interest	587,523	587,523		
Net deferred tax asset	37,613,446	37,613,446		
Guaranty funds receivable or on deposit	-	-		
Electronic data processing equipment and software	343,501	343,501		
Receivable from parent, subsidiaries and affiliates	-	-		
Healthcare and other amounts receivable	-	-		
Aggregate write-ins for other than invested assets	13,007,190	13,007,190		
Total assets	<u>\$ 945,822,334</u>	<u>\$ 945,822,334</u>		

Comparative Statement of Assets
Liabilities, Surplus and Other Funds at December 31, 2014

Exhibit A

Liabilities:		
Losses	\$ 395,023,443	\$ 395,023,443
Reinsurance payable on paid loss and LAE	15,394,745	15,394,745
Loss adjustment expenses	118,970,950	118,970,950
Commission payable, contingent commissions and other similar charges	1,403,509	1,403,509
Other expenses	13,409,060	13,409,060
Taxes, licenses and fees	3,571,050	3,571,050
Current federal and foreign income taxes	-	-
Unearned premiums	106,635,357	106,635,357
Advance premiums	1,595,688	1,595,688
Dividends declared and unpaid: policyholders	-	-
Ceded reinsurance premium payable	4,448,496	4,448,496
Funds held by company under reinsurance treaties	73,580,999	73,580,999
Amounts withheld or retained by company for account of others	10,881,192	10,881,192
Provision for reinsurance	326,763	326,763
Payable to parent, subsidiaries and affiliates	1,055,989	1,055,989
Derivatives	99,001	99,001
Payable for securities	12,399	12,399
Aggregate write ins for liabilities	(65,340,786)	(65,340,786)
 Total liabilities	 \$ 681,067,855	 \$ 681,067,855
 Capital and surplus:		
 Aggregate write-ins for special surplus funds	 \$ 43,133,564	 \$ 43,133,564
Common capital stock	4,200,000	4,200,000
Surplus notes	-	-
Gross paid in and contributed surplus	122,599,823	122,599,823
Unassigned funds (surplus)	94,821,092	94,821,092
Surplus as regards policyholders	\$ 264,754,479	\$ 264,754,479
Total liabilities and surplus and other funds	\$ 945,822,334	\$ 945,822,334

Underwriting and Investment Exhibit
For the Four Year Period Ending
December 31, 2014

Exhibit B

<u>Underwriting Income</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Premiums earned	169,483,557	228,500,896	266,742,938	285,225,226
Deductions:				
Loss incurred	108,012,433	148,587,428	154,225,084	142,002,585
Loss adjustment expenses incurred	29,233,910	37,020,728	36,211,781	50,610,931
Other underwriting expenses incurred	64,521,152	72,583,290	81,834,143	100,176,895
Total underwriting deductions	<u>201,767,495</u>	<u>258,191,446</u>	<u>272,271,008</u>	<u>292,790,411</u>
Net underwriting gain or loss	(32,283,938)	(29,690,550)	(5,528,070)	(7,565,185)
 <u>Investment Income</u>				
Net investment income earned	100,485,277	16,986,007	76,316,866	12,230,242
Net realized capital gains or losses	2,933,834	(6,330,327)	11,473,532	2,862,653
Net investment gain or loss	<u>103,419,111</u>	<u>10,655,680</u>	<u>87,790,398</u>	<u>15,092,895</u>
 <u>Other income</u>				
Finance and service charges not included in premiums	-	-	-	263,068
Aggregate write-ins for miscellaneous income	<u>(2,539,675)</u>	<u>(4,809,194)</u>	<u>(7,275,513)</u>	<u>(4,091,399)</u>
Total other income	(2,539,675)	(4,809,194)	(7,275,513)	(3,828,331)
 Net income before dividends to policyholders and before federal and foreign income taxes	68,595,498	(23,844,064)	74,986,815	3,699,379
Less: Federal & Foreign income taxes incurred	<u>332,384</u>	<u>(6,654,946)</u>	<u>(12,678,893)</u>	<u>(679,693)</u>
Net income	<u><u>68,263,114</u></u>	<u><u>(17,189,118)</u></u>	<u><u>87,665,708</u></u>	<u><u>4,379,072</u></u>

Capital and Surplus
For the Four Year Period Ending
December 31, 2014

Exhibit C

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>Gains and Losses in Surplus</u>				
Net income or (loss)	68,263,114	(17,189,118)	87,665,708	4,379,072
Change in net unrealized capital gains or losses less capital gains tax	(73,010,420)	34,174,622	(28,315,172)	9,048,428
Change in unrealized foreign exchange capital gain (loss)	(118,274)	-	-	-
Change in net deferred income tax	8,218,460	2,696,032	(9,442,569)	3,988,712
Change in non-admitted assets	(16,082,621)	7,580,703	(9,081,213)	(834,649)
Change in provision for reinsurance	1,395,458	276,674	215,722	93,022
Dividends to stockholders	(114,900,000)	(32,800,000)	(55,000,000)	(15,000,000)
Aggregate write-ins for gains and losses in surplus	8,674,628	-	-	-
Change in surplus as regards to policyholders for the year	<u>(117,559,655)</u>	<u>(5,261,087)</u>	<u>(13,957,524)</u>	<u>1,674,585</u>
Surplus, December 31 previous year	<u>399,858,159</u>	<u>282,298,504</u>	<u>277,037,417</u>	<u>263,079,893</u>
Surplus, December 31, current year	<u><u>282,298,504</u></u>	<u><u>277,037,417</u></u>	<u><u>263,079,893</u></u>	<u><u>264,754,478</u></u>

NOTES TO FINANCIAL STATEMENTS

(Note 1) - Losses and Loss Adjustment Expenses

At December 31, 2014 the Company reported reserves of \$395.0 million for Losses and \$118.9 million for Loss Adjustment Expenses respectively. INS Consultants, Inc. (“INS”) performed a review of the inherent risks, management oversight and other mitigating controls over the Company’s actuarial processes and procedures. INS’s review included detail testing and an independent calculation of the Company’s loss and loss adjustment expense reserves as of December 31, 2014. The Company’s actuarial staff provided the INS its Statement of Actuarial Opinion and the supporting actuarial data, documents and calculations. The Consulting Actuary determined the Company’s loss and loss adjustment expenses reserves were sufficient on both a gross and net basis as of December 31, 2014.

The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectability of reinsurance recoverables. The INS reserve review found the Company’s combined net loss and LAE reserves were adequate to support the business underwritten.

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. The review was conducted in conjunction with the current financial examination

(Note 2) - Surplus as Regards Policyholders

This examination determined total surplus as regards policyholders as of December 31, 2014 to be \$221.6 million, 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	43,133,564
Unassigned Funds	<u>94,821,092</u>
Total	<u>\$ 264,754,479</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 Corp. 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, Corp. made no capital contributions to North River.

The aggregate write-ins for other special surplus funds of \$43.1 million 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.

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/

Nancy Lee Chice, CFE
Examiner-in-Charge
Department of Banking & Insurance
State of New Jersey

THE NORTH RIVER INSURANCE COMPANY

I, Nancy Lee Chice, 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, 2014 to the best of my information, knowledge, and belief.

Respectfully submitted,

/S/

Nancy Lee Chice, CFE
Examiner-In-Charge
Department of Banking & Insurance
State of New Jersey

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Sheila M. Tkacs, on
this 6th day of June, 2016.

/S/

Sheila M. Tkacs
Notary Public of New Jersey

My commission expires: July, 2020