

Report of Examination of

Falls Lake General Insurance Company
Columbus, Ohio

As of December 31, 2014

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Columbus, Ohio
October 23, 2015

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

Dear Madam:

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

Falls Lake General Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 6131 Falls of Neuse Rd, Suite 306, Raleigh, North Carolina.

Scope of Examination

The Department last examined the Company as of December 31, 2011. The Department’s current examination covers the period from and including January 1, 2012 through December 31, 2014.

The Department, as the lead regulator for James River Group and the examination facilitator, led the multi-state coordinated examination. In addition to the Department, the North Carolina Insurance Department and the Virginia Bureau of Insurance also participated on the examination. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is

identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the ORC Section 3901.07 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination reports but separately communicated to other regulators and/or the Company.

Management and Control

Board of Directors

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

<u>Name</u>	<u>Principal Occupation</u>
Michael E. Crow	Senior Vice President-Finance and Chief Accounting Officer, James River Group, Inc.
Gregg T. Davis	Chief Financial Officer, James River Group Holdings, Ltd.
Thomas R. Fauerbach	Chief Financial Officer and Chief Actuary, Falls Lake Insurance Companies
Steven J. Hartman	President and Chief Executive Officer, Falls Lake Insurance Companies
Joseph R. Raia	Controller, Falls Lake Insurance Companies

Officers

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

<u>Name</u>	<u>Title</u>
Gregg T. Davis	Chairman
Steven J. Hartman	President and Chief Executive Officer
Thomas R. Fauerbach	Secretary and Chief Financial Officer
Michael E. Crow	Treasurer

Insurance Holding Company System

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

James River Group Holdings, Ltd.

JRG Reinsurance Company, Ltd.

Franklin Holdings II Capital Trust I

James River Group, Inc.

Potomac Risk Services, Inc.

James River Insurance Company

James River Casualty Company

James River Management Company, Inc.

Falls Lake National Insurance Company

Falls Lake Fire and Casualty Company

Stonewood Insurance Company

Falls Lake General Insurance Company

Falls Lake Insurance Management Company, Inc.

Territory and Plan of Operations

The Company was licensed to transact business in the states of Georgia, New York, Ohio and Oklahoma. Although the Company did not write any direct business for the years under examination, it is anticipated that workers' compensation, specialty property and casualty program business and individual risks that fit management's rating criteria will be written on an admitted basis.

Reinsurance

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

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

Financial Statements

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

Statement of Assets, Liabilities, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets
December 31, 2014**

Admitted assets

Bonds	\$ 3,285,812
Cash and short-term investments	<u>746,287</u>
Total cash and invested assets	4,032,099
Investment income due and accrued	14,573
Uncollected premiums and agents' balances in the course of collection	151,687
Funds held by or deposited with reinsured companies	1,785,180
Current federal and foreign income tax recoverable and interest thereon	11,620
Net deferred tax asset	<u>70,566</u>
Total admitted assets	<u>\$ 6,065,725</u>

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

Liabilities

Losses	\$ 900,494
Reinsurance payable on paid losses and loss adjustment expenses	114,893
Loss adjustment expenses	590,947
Other expenses	9,939
Taxes, licenses and fees	5,000
Unearned premiums	293,738
Ceded reinsurance premiums payable	<u>(17,381)</u>
Total liabilities	1,897,630

Capital and Surplus

Common capital stock	1,500,000
Gross paid in and contributed surplus	1,000,000
Unassigned funds	<u>1,668,095</u>
Surplus as regards policyholders	<u>4,168,095</u>
Total liabilities, capital and surplus	<u>\$ 6,065,725</u>

Statement of Income
As of December 31, 2014

Premiums earned	<u>\$ 675,996</u>
Losses incurred	172,243
Loss adjustment expenses	209,133
Other underwriting expenses	<u>237,969</u>
Net underwriting gain	56,651
Net investment income earned	<u>35,193</u>
Net investment gain	<u>35,193</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>91,844</u>
Federal and foreign income taxes incurred	<u>16,780</u>
Net income	<u>\$ 75,064</u>

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

<u>Capital and Surplus</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Capital & surplus, prior year end	<u>\$ 4,074</u>	<u>\$ 3,912</u>	<u>\$ 3,895</u>
Net income	75	37	17
Change in net deferred income tax	(14)	149	-
Change in non-admitted assets	33	(97)	-
Paid in surplus	-	<u>73</u>	-
Net change in capital and surplus	<u>94</u>	<u>162</u>	<u>17</u>
Capital and surplus, current year end	<u>\$ 4,168</u>	<u>\$ 4,074</u>	<u>\$ 3,912</u>

Notes to Financial Statements

Investments

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

Loss and Loss Adjustment Expense Reserves

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

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

Conclusion

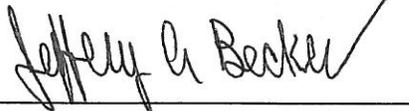
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

Total Admitted Assets	<u>\$ 6,065,725</u>
Liabilities	1,897,630
Surplus as Regards Policyholders	<u>4,168,095</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 6,065,725</u>

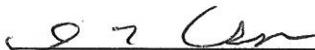
Acknowledgement

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

Respectfully,



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



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

Verification

As required by Section 3901.07 of the ORC, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2014.

Jeffery A Becker 11/9/15 [Signature] 11/9/15
Examiner-In-Charge Date Assistant Chief Examiner Date

State of Ohio
County of Franklin

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

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

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

State of Ohio
County of Franklin

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

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

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