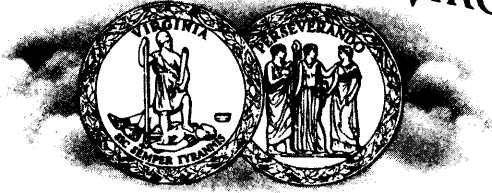


EXAMINATION REPORT
on
JAMES RIVER CASUALTY COMPANY
Richmond, Virginia
as of
December 31, 2009

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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RICHMOND, VIRGINIA 23218
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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of James River Casualty Company as of December 31, 2009, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 17th day of November, 2010

Alfred W. Gross
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

Description 1

History 1

Management and Control 2

Related Party Transactions 5

Fidelity Bond and Other Insurance 5

Territory and Plan of Operation 6

Reinsurance 6

Scope 8

Financial Statements 8

Conclusion 14

Richmond, Virginia
August 13, 2010

Honorable Alfred W. Gross
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

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

James River Casualty Company

Richmond, Virginia

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

DESCRIPTION

The Company is a stock property and casualty insurer and is licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia. This is the first examination of the Company and covers the period from August 26, 2009, through December 31, 2009.

HISTORY

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

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

MANAGEMENT AND CONTROL

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

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

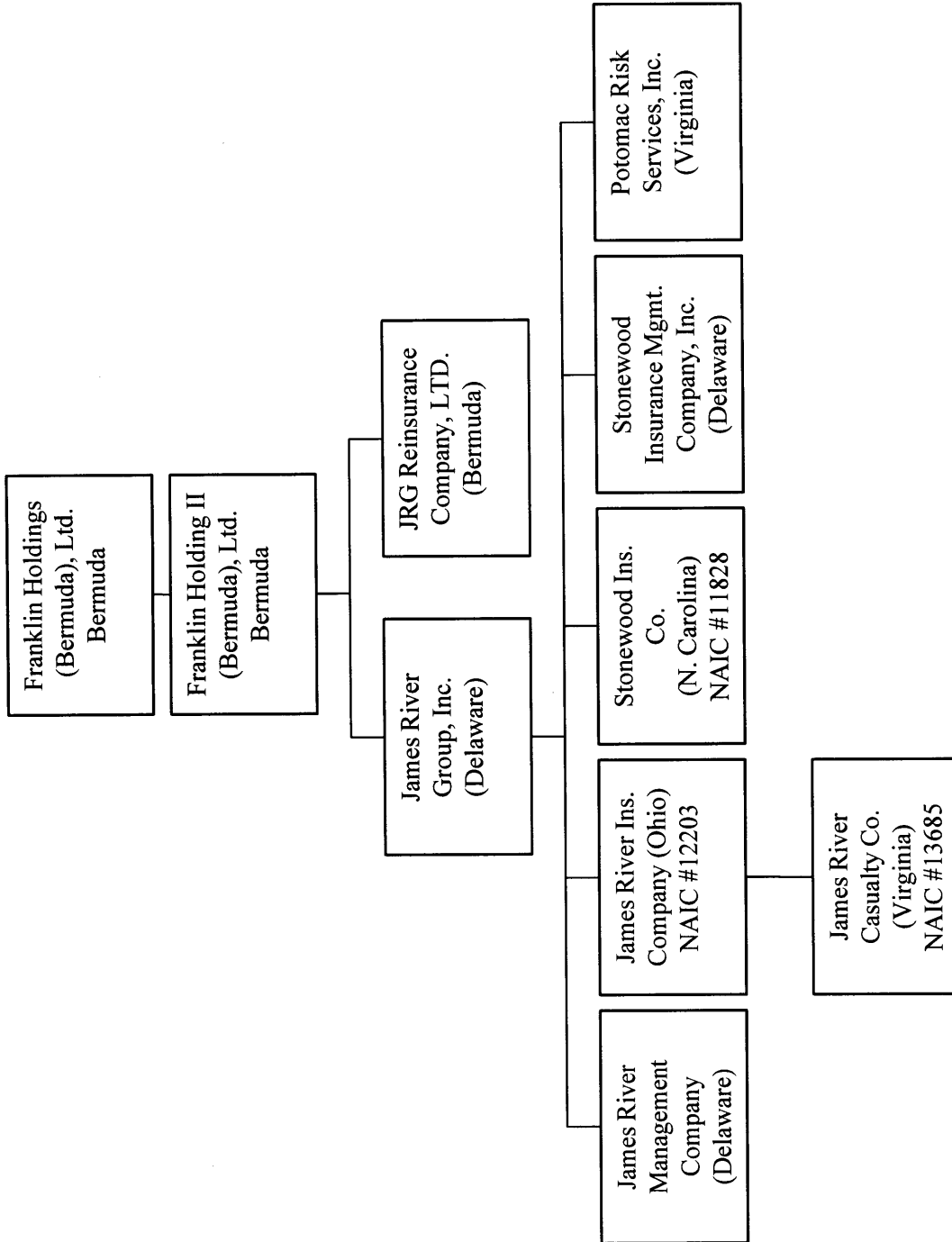
Directors and officers at December 31, 2009 were as follows:

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

Officers:

Gregg T. Davis	Chairman of the Board
Joseph F. Morris, Jr.	President
Bruce E. Short	Vice President and Chief Financial Officer
Denise L. Hustead	Treasurer
Steven P. Earhart	Secretary

The Company is a wholly owned subsidiary of JRIC. The following chart illustrates this insurance holding company system at December 31, 2009:



RELATED PARTY TRANSACTIONS

Management Service Agreements

Effective August 12, 2009, the Company entered into a management services cost sharing agreement with James River Management Services, Inc. (JRMS), an affiliate. Pursuant to this Agreement, JRMS will provide accounting, administrative, underwriting, and claim services. Fees allocated to the Company for these services during 2009 were \$5,508.

Consolidated Tax Sharing Agreement

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

Dividends

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

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2009, the Company was a named insured on a financial institution bond providing coverage of \$5,000,000 for a single loss, with a deductible of \$50,000. The Company was also a named insured on other insurance coverages as of December 31, 2009.

TERRITORY AND PLAN OF OPERATION

The Company is domiciled and licensed in the Commonwealth of Virginia. As of December 31, 2009, the Company was approved to write the following lines of business in Virginia:

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

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

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

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

REINSURANCE

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

Unaffiliated Reinsurance Ceded:

The Company's reinsurance program includes a combination of excess of loss and quota share treaties with unaffiliated reinsurers. The retention level per occurrence for primary casualty is \$1,000,000 per occurrence and for excess casualty it is approximately \$750,000 per occurrence. The retention level per risk for excess property is \$2,500,000 per risk. The combination of property catastrophe and per risk reinsurance treaties provides coverage for a single occurrence of up to approximately \$50,000,000 as of December 31, 2009.

Affiliated Reinsurance Ceded:

On April 1, 2009, the Company entered into a quota share reinsurance agreement with JRIC. Under the agreement, the Company cedes 90% of its net retained premiums and losses to JRIC and receives a 35% commission on all premiums ceded to JRIC. JRIC has a quota share reinsurance arrangement in place whereby JRIC cedes 70% of its net written and assumed premiums to JRG Reinsurance Company Ltd., an affiliated company. This agreement was effective as of January 1, 2008.

All contracts contained an insolvency clause.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from August 26, 2009 through December 31, 2009. Assets were verified and liabilities were established at December 31, 2009.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

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

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2009, a statement of income for the period ending December 31, 2009, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2009. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$5,838,308		\$5,838,308
Cash and short-term investments	179,449		179,449
Investment income due and accrued	23,006		23,006
Uncollected premiums and agents' balances in course of collection	22,701		22,701
Net deferred tax asset	81	6	75
Totals	<u>\$6,063,545</u>	<u>\$6</u>	<u>\$6,063,539</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$56
Loss adjustment expenses		120
Current federal income taxes		11,683
Unearned premiums		1,040
Ceded reinsurance premiums payable		22,807
Payable to parent, subsidiaries and affiliates		1,188
Aggregate write-ins for liabilities		<u>3,570</u>
 Total liabilities		 \$40,464
 Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	5,000,000	
Unassigned funds (surplus)	<u>23,075</u>	
 Surplus as regards policyholders		 <u>6,023,075</u>
 Totals		 <u><u>\$6,063,539</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	\$90
Deductions:	
Losses incurred	\$57
Loss expenses incurred	120
Other underwriting expenses incurred	5,169
Total underwriting deductions	\$5,346
Net underwriting gain	(\$5,256)

INVESTMENT INCOME

Net investment income earned	\$30,680
Net realized capital gains	10,376
Net investment gain	\$41,056

OTHER INCOME

Aggregate write-ins for miscellaneous income	(\$292)
Total other income	(\$292)
Net income before federal income taxes	\$35,508
Federal income taxes incurred	12,508
Net income	\$23,000

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	2009
Surplus as regards policyholders, December 31, previous year	\$0
Net income	\$23,000
Change in net deferred income tax	81
Change in nonadmitted assets	(6)
Capital changes: paid in	1,000,000
Surplus adjustments: paid in	5,000,000
Change in surplus as regards policyholders for the year	\$6,023,075
Surplus as regards policyholders, December 31, current year	\$6,023,075

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$1,235
Net investment income	14,997
Miscellaneous income	(292)
Total	<u>\$15,940</u>
Commissions, expenses paid and aggregate write-ins for deductions	\$5,169
Federal income taxes paid	826
Total	<u>\$5,995</u>
Net cash from operations	<u>\$9,945</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$2,166,091
Total investment proceeds	<u>\$2,166,091</u>
Cost of investments acquired (long-term only):	
Bonds	\$8,001,346
Total investments acquired	<u>\$8,001,346</u>
Net cash from investments	<u>(\$5,835,255)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Capital and paid in surplus	\$6,000,000
Other cash provided	\$4,759
Net cash from financing and miscellaneous sources	<u>\$6,004,759</u>
Net change in cash and short-term investments	<u>\$179,449</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$0
End of year	179,449
Net change in cash and short-term investments	<u>\$179,449</u>

CONCLUSION

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "T. Bradford Earley, Jr.", with a stylized flourish at the end.

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



STATE CORP COMMISSION
BUREAU OF INSURANCE
10 NOV -1 AM 10:14

October 29, 2010

David H. Smith
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

Dear Mr. Smith:

This letter is written in response to your letter dated October 13, 2010 regarding the recently concluded examination of James River Casualty Company ("the Company").

The Company has reviewed the report and agrees with the content therein. Could you please provide us with 5 copies of the report. I would like to take this opportunity to thank the examiners involved for their professionalism displayed at all times throughout the examination.

Please feel free to contact me if you have any questions or would like to discuss further.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Schmitzer", is written over a horizontal line.

Richard Schmitzer
Chief Executive Officer

James River Insurance Company

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