Stonewood Insurance Company

Raleigh, North Carolina

Report on Examination

As of December 31, 2013

Stonewood Insurance Company

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REPORT ON EXAMINATION OF FINANCIAL CONDITION

Honorable Wayne Goodwin
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section ("§") 58-2-131 of the General Statutes of North Carolina ("GS"), the North Carolina Department of Insurance ("Department") conducted an examination of the records, business affairs and financial condition of

Stonewood Insurance Company

(hereinafter referred to as the "Company"), at its main administrative office and the Company's statutory home office, located at 6131 Falls of Neuse Road, Suite 306, Raleigh, NC 27609. The following report on examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2010 to December 31, 2013, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department's most recent prior examination of the Company was as of December 31, 2009.

This examination was conducted in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners ("NAIC"). We examined the Company to evaluate the financial condition and identify prospective risks by obtaining information regarding its corporate governance structure, identifying and assessing inherent risks, and evaluating system controls and other procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with GS Chapter 58.

This examination was risk-focused and consisted of a seven-phase process used to identify and assess risk, assess the adequacy and effectiveness of strategies and controls used to mitigate risk, and assist in determining the extent and nature of testing procedures to review the Company's key activities. This process included a determination of the quality and reliability of the Company's corporate governance structure and risk management programs, as well as, verification of specific portions of the financial statement. All accounts and activities of the Company were considered; however, the examination focused on areas of high risk and fewer tests were performed on the accounts identified as having a low risk of misstatement.

Our examination was directed specifically to the quality, value, and integrity of the admitted assets and liabilities reported by the Company in its 2013 Annual Statement, as those balances are critical to determining financial solvency.

SUMMARY OF SIGNIFICANT FINDINGS

Examination Adjustments

There were no adjustments made as a result of this examination.

Comments, Recommendations and Directives

The Company is a wholly-owned subsidiary of Franklin Holdings (Bermuda), Ltd ("Franklin"). There was a change in the Company's holding company structure, whereby, Franklin Holdings II (Bermuda), Ltd. ("Franklin II") merged into Franklin on November 20, 2013. The Company failed to obtain an exemption from the provisions of GS § 58-19-15(a) pursuant to GS § 58-19-15(h) prior to effecting the merger. The Company is directed to comply with GS § 58-19-15 with regard to future acquisitions and mergers.

SUBSEQUENT EVENTS

Franklin, the Company's ultimate parent, changed its name to James River Group Holdings, Ltd. ("JRGH") on September 18, 2014, prior to an Initial Public Offering ("IPO") by its two largest shareholders, D.E. Shaw Oculus Portfolios, L.L.C. and Goldman Sachs Group, Inc. Each offered a portion of their shares for sale through the IPO on December 12, 2014. The JRGH stock is now listed on the Nasdaq Stock Exchange under the ticker JRVR. JRGH did not sell any shares during the IPO and did not receive any proceeds.

COMPANY HISTORY

The Company was incorporated on October 16, 2003, under the laws of the State of North Carolina as a workers' compensation insurance company. The Company commenced business on January 1, 2004, with 50,000 shares of $100 par value capital common stock authorized. The Company issued 20,000 shares of common stock at $100 per share, providing the Company with initial capital of $2.0 million. The Company also received capital contributions of $18.0 million and $3.0 million in 2003 and 2004, respectively, from James River Group, Inc. ("JRG"), its sole shareholder at the time.
The Company became a wholly-owned subsidiary of Franklin on December 11, 2007, when Franklin acquired its sole shareholder, JRG. All operations of the Company are performed by Stonewood Insurance Management Company, Inc., which is another wholly-owned subsidiary of Franklin and an affiliate of the Company.

Prior to January 3, 2012, JRG owned 100% of the issued and outstanding common stock of the Company. On January 3, 2012, upon receipt of all regulatory approvals, JRG contributed all the issued and outstanding common shares of the Company to Stonewood National Insurance Company ("SNIC"), an Ohio domiciled property and casualty company.

The Company had 50,000 shares of $100 par value common stock authorized and 20,000 issued and outstanding, gross paid-in and contributed surplus of $36,500,000, and ($4,141,222) in unassigned funds at December 31, 2013.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board of Directors ("Board") and committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. There were no amendments made to the Articles of Incorporation and the Bylaws.

MANAGEMENT AND CONTROL

Board of Directors

The business of the Company is managed by its management team and subject to review by the Board. The bylaws specify that the number of Directors shall be not more than nine members provided that the size of the Board may be increased or decreased subject to the rights of certain members. Directors are elected annually and shall hold office for such terms as the members determine or, in the absence of such determination, until the next annual general meeting or until successors are elected or appointed or their office is otherwise vacated.

The following individuals were serving as directors at December 31, 2013:

Name	Address	Principal Business Affiliation
Gregg T. Davis	Raleigh, NC	JRG Chief Financial Officer and Director
Steven J. Hartman	Raleigh, NC	Stonewood Insurance Company President & Chief Executive Officer
Thomas R. Fauerbach	Raleigh, NC	Stonewood Insurance Company Chief Financial Officer/Chief Actuary
Michael E. Crow	Raleigh, NC	JRG Chief Accounting Officer
Joseph R. Raia	Raleigh, NC	Stonewood Insurance Company Controller

Committees

The Board has the authority to establish committees including, but not limited to, a compensation committee, an audit committee, a governance committee, and such other committees as the Board may determine.

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. The same person may hold any two offices, not inconsistent with each other.

The following individuals served as officers at December 31, 2013:

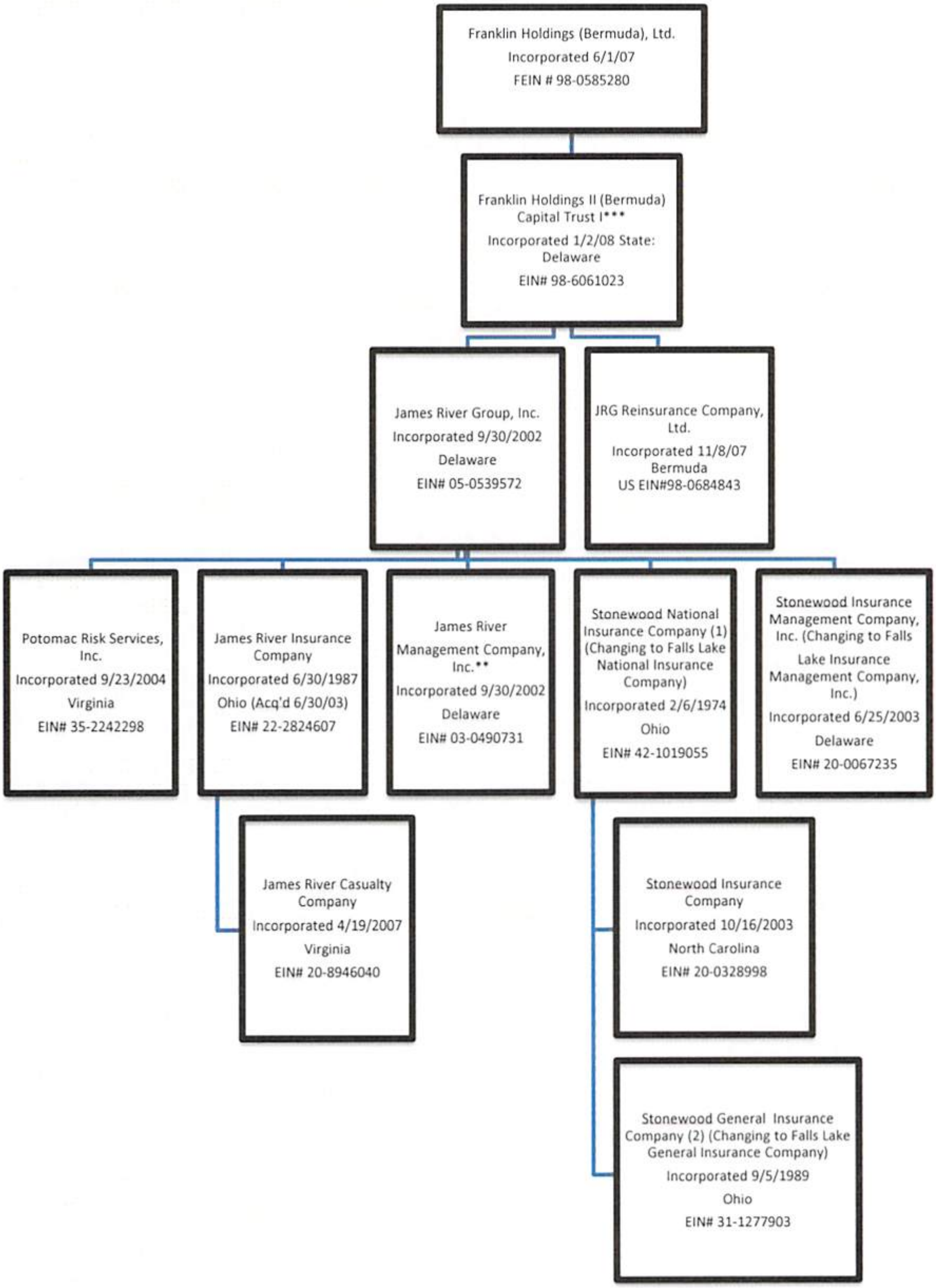
Name	Title
Steven J. Hartman	President/Chief Executive Officer
Thomas R. Fauerbach	Secretary/Chief Financial Officer
Michael E. Crow	Treasurer
Gregg. T. Davis	Chairman

AFFILIATED COMPANIES

Holding Company

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is wholly-owned by JRG and controlled by its ultimate parent company, Franklin. Additional details are included in the organization chart.

Organization Chart



Affiliated Transactions

The Company has a management agreement with Stonewood Insurance Management Company, Inc. ("SIMC"), effective January 23, 2004 and amended on January 1, 2012, under which the Company is provided services including but not limited to management, administration, underwriting, premium collection, claims processing, operations, accounting, information technology, and human resources. The Company reimburses SIMC for expenses paid within 30 days of month end for which the services are performed. Under this agreement, the Company paid management fees totaling $7,512,450 and $5,893,464 in 2013 and 2012, respectively.

The Company is included in a consolidated income tax return in accordance with a tax sharing agreement with JRG, effective December 29, 2003. The provisions for federal income tax are computed as if the Company were filing a separate income tax return. Benefits, which arise from tax credits and net operating losses, are allocated to the company producing such results to the extent they are utilized in the consolidated income tax provision. Intercompany tax balances are to be settled within 90 days of filing the return.

The Company received approval from the Department to pay an extraordinary stockholder dividend totaling $18,000,000 to JRG on December 15, 2011. The dividend was paid on December 28, 2011.

FIDELITY BONDS AND OTHER INSURANCE

The Company has fidelity bond coverage totaling $5 million. The Company is a named insured under a fidelity bond issued to Franklin. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the NAIC for the companies on a consolidated basis.

In addition, the Company had other insurable risks (e.g., business, property, liability, etc.). Based on our review, the Company's insurance coverage for these risks appear to be adequate.

BENEFIT PLANS

The Company has no employees. However, SIMC sponsors a 401(k) plan for its employees. The terms of the 401(k) plan allow employees to contribute the maximum allowed by the U.S. government. One hundred percent (100%) of this contribution, up to a maximum of 6% of salary, is matched by SIMC. All expenses associated with the plan are allocated to the Company in accordance with the terms of its management services agreement. The Company's share of 401(k) plan expenses totaled $172,641 and $178,155 in 2013 and 2012, respectively.

TERRITORY AND PLAN OF OPERATION

At December 31, 2013, the Company was licensed in the states of North Carolina, South Carolina, Virginia and Tennessee. The Company mainly writes workers' compensation coverage, however, the Company also writes other liability, product liability, private passenger auto liability and auto physical damage policies. The Company utilizes independent agents for the distribution of its products and solicitation of business. All Workers' Compensation and Liability policies are issued annually. Private Passenger auto policies are issued with either 6 or 12 month terms. Insureds may elect to pay on an installment basis.

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department and from the last report on examination, illustrates the trends of the Company for the four (4) year period ended December 31, 2013.

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2013	$73,695,108	$34,358,778	$27,333,293	$2,865,418	$3,134,024
2012	64,177,967	29,672,595	33,794,638	9,519,554	(1,130,318)
2011	68,431,731	31,760,851	38,646,108	11,393,615	1,495,364
2010	86,257,671	49,268,988	35,143,647	10,638,489	1,635,642

ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2013 were reviewed and certified by the Company's Appointed Actuary, Sean P. McDermott FCAS, MAAA who is associated with the firm of Towers Watson, Inc. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserves on the loss and loss adjustment expense met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss expense obligations of the Company.

REINSURANCE

Reinsurance Ceded

Intercompany Reinsurance Pooling Arrangement ("Pooling Agreement")

The Company entered into an intercompany reinsurance pooling arrangement ("Pooling Agreement") with its United States affiliated insurance carriers, effective January 1 2013. All lines of business are subject to the Pooling Agreement, net of any outside reinsurance coverage carried by the participants. Net business includes business in force on January 1, 2013 and all business subsequent to that date. The pooling provides for proportionate sharing of premiums earned, losses and loss adjustment expenses incurred, and underwriting expenses incurred. In 2013, the Company ceded approximately $7,265,000 in premiums under this pooling agreement. The lead participant in the Pool is SNIC.

Quota Share Coverage

The Company has a quota share agreement with JRG Reinsurance Company Ltd., of Hamilton, Bermuda, effective January 1, 2011, whereby the Company cedes 70% of net written premiums, which is the Company's gross written premium less the cost of other non-affiliated reinsurance. The Company ceded premiums totaling approximately $14,206,000 and $21,471,000, in 2013 and 2012, respectively, under this agreement..

Excess of Loss Coverage

Effective August 1, 2012, the Company entered in to an excess of loss contract with a group of subscribing reinsurers, which provides up to $500,000 of coverage on its net liability in excess of $500,000 on policies classified by the Company as Statutory Workers' Compensation and Employers Liability.

Effective January 1, 2012, the Company entered in to an additional excess of loss contract with a group of subscribing reinsurers, which provides 3 layers of excess coverage for policies classified by the Company as Statutory Workers' Compensation and Employers Liability. The first layer provides excess coverage of up to $4 million of the net loss in excess of $1 million per occurrence. The second layer provides excess coverage of up to $5 million of the net loss in excess of $5 million per occurrence. The third layer provides excess coverage of up to $10 million of the net loss in excess of $10 million per occurrence. The Company ceded premiums totaling $2,616,000 and $3,318,000 in 2013 and 2012, respectively, under this contract.

Catastrophe Coverage

The Company has a catastrophe contract, effective August 1, 2013, which provides one layer of excess coverage for property business from catastrophes. The single layer provides excess coverage of up to $4 million of the net loss in excess of $1 million per occurrence. The Company pays deposit premiums quarterly, which are adjusted to no less than $195,000 at the contract expiration based on a percentage of net earned premiums.

Reinsurance Assumed

Under the Pooling Agreement, the Company assumes 6% of all direct and other assumed business written by both the reinsurer, SNIC, and the other cedents after deduction for any reinsurance ceded to third party reinsurers and Quota Share cession to its affiliate JRG Re. In 2013, the Company assumed premiums of approximately $4,266,000 under this contract.

The Company participates in the National Workers' Compensation Reinsurance Pool ("Pool"), a residual market reinsurance mechanism for servicing carriers of workers' compensation assigned risk plans administered by the National Council on Compensation Insurance, Inc. As a participant, the Company assumes premiums, losses, costs, and other expenses arising from coverage provided under authorized insurance plans written through a servicing carrier. The business assumed from the Pool is the Company's proportionate share of the total voluntary market for workers' compensation in the state. During 2013, the Company assumed $1,380,944 in premiums from the Pool.

ACCOUNTS AND RECORDS

The Company's books and records are maintained at 6131 Falls of Neuse Road, Suite 306, Raleigh, NC 27609.

Independent Auditor

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Ernst & Young of Richmond, VA, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2013.

INFORMATION SYSTEM

The Company's significant applications are hosted on Windows servers at the primary data center located at Richmond, VA. The majority of the Company's financially significant applications were purchased from outside vendors.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2013 Annual Statement Schedule E Part 3 contains a complete description and listing, by state, of the Company's statutory deposits. As of December 31, 2013, the statutory deposits were sufficient to meet the capital deposit requirements for the states where the Company is doing business.

FINANCIAL STATEMENT

The accompanying financial statement presents the Company's statutory financial position as of December 31, 2013, and statutory results of operations for the period then ended as reported by the Company to the Department in its 2013 Annual Statement and adjusted, as necessary, based on the results of our examination. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the GS. The financial statement and supporting schedules as of December 31, 2012, are unexamined and are presented for comparative purposes only.

Stonewood Insurance Company

Statutory Statement of Admitted Assets

	December 31, 2013	December 31, 2012
		(unexamined)
Admitted Assets		
Bonds	37,031,070	53,002,886
Preferred stocks	4,160,211	3,450,076
Common stocks	3,339,317	0
Cash and short-term investments	8,329,571	3,699,290
Total cash and invested assets	52,860,168	60,152,252
Investment income due and accrued	495,491	631,113
Premiums and agents' balances in course of collection	1,077,434	958,232
Premiums and agents' balances booked but deferred and not yet due	3,849,997	516,700
Reinsurance recoverable	4,516,692	1,564,898
Funds held by or deposited with reinsured companies	10,041,302	0
Other amounts receivable under reinsurance contracts	22,717	0
Current federal and foreign income tax recoverable and interest thereon	0	112,299
Net deferred tax asset	558,031	0
Guaranty funds receivable or on deposit	166,388	191,601
Electronic data processing equipment and software	106,888	50,871
Total admitted assets	$ 73,695,108	$ 64,177,967

See accompanying notes to the statutory financial statement

Stonewood Insurance Company

Statutory Statement of Liabilities, Capital and Surplus

		December 31, 2013	December 31, 2012
			(unexamined)
Liabilities			
Losses	$	5,325,446	19,951,952
Reinsurance payable on paid losses and loss adjustment expenses		439,792	210,292
Loss adjustment expenses		3,315,533	6,199,135
Commissions payable, contingent commissions and other similar charges		726,506	420,609
Other expenses		31,834	44,996
Taxes, licenses and fees		217,780	528,566
Federal income tax liability		228,299	0
Unearned premiums		1,400,322	1,124,799
Advance premium		299,253	237,753
Ceded reinsurance premiums payable		4,592,646	3,561,205
Funds held by Company under reinsurance contracts		21,487,515	0
Remittances and items not allocated		(1,609)	(3,964)
Provision for reinsurance		7,000	0
Payable to parent, subsidiaries and affiliates		121,899	837,465
Policyholder deposits		786,908	813,701
Premium deficiency reserve		0	293,763
Deferred ceding commission		285,713	192,059
Summary of remaining write-ins		71,492	93,040
Total liabilities		39,336,330	34,505,372
Capital and Surplus			
Common capital stock		2,000,000	2,000,000
Gross paid in and contributed surplus		36,500,000	36,500,000
Unassigned funds		(4,141,222)	(8,827,405)
Total capital and surplus		34,358,778	29,672,595
Total liabilities, capital and surplus	$	73,695,108	64,177,967

See accompanying notes to the statutory financial statement

Stonewood Insurance Company

Statutory Statement of Operations

	Year Ended December 31, 2013	Year Ended December 31, 2012
		(unexamined)
Underwriting Income		
Premiums earned	$ 2,865,418	9,519,554
Losses incurred	422,229	7,002,410
Loss adjustment expenses incurred	630,558	3,895,412
Other underwriting expenses incurred	1,251,123	4,513,340
Change in premium deficiency reserve-intercompany pooling	(17,626)	293,763
Total underwriting deductions	2,286,285	15,704,924
Net underwriting gain (loss)	579,133	(6,185,370)
Investment Income		
Net investment income earned	2,565,374	2,755,987
Net realized capital gains (losses)	662,375	1,358,636
Net investment gain (loss)	3,227,749	4,114,622
Other Income		
Net gain (loss) from agents' or premium balances charged off	(646,394)	(545,243)
Finance and service charges not included in premiums	67,468	49,630
Miscellaneous	(95)	275
Total other income (loss)	(579,021)	(495,338)
Dividends to policyholders	0	0
Federal income tax incurred	93,837	(1,435,768)
Net income	$ 3,134,024	(1,130,318)

See accompanying notes to the statutory financial statement

Stonewood Insurance Company

Statutory Statement of Capital and Surplus

	December 31, 2013	December 31, 2012 *(unexamined)*
Capital and surplus, beginning of year	$ 29,672,595	31,760,851
Capital and surplus increases (decreases):		
Net income	3,134,024	(1,130,318)
Change in net unrealized capital gains or (losses)	(276,014)	(494,452)
Change in net deferred income tax	721,455	(266,244)
Change in non-admitted assets	1,129,679	(213,856)
Change in provison for reinsurance	(7,000)	0
Non-admitted premium receivable adj. on NCCI pool	(15,961)	16,614
Change in surplus as regards policyholders for the year	4,686,183	(2,088,256)
Capital and surplus, end of year	$ 34,358,778	29,672,595

See accompanying notes to the statutory financial statement

Stonewood Insurance Company

Statutory Statement of Cash Flow

		Year ended December 31, 2013	2012
Cash From (Used by) Operations			*(unexamined)*
Premiums collected net of reinsurance	$	1,881,945	8,661,924
Net investment income		2,865,954	2,934,164
Miscellaneous income		(579,021)	(495,338)
Totals		4,168,879	11,100,750
Benefit and loss related payments		27,835,048	8,174,974
Commissions, expenses paid and aggregate write-ins for deductions		4,738,843	8,390,021
Federal income taxes paid (recovered) net of tax on capital gains (losses)		109,903	(901,773)
Totals		32,683,794	15,663,223
Net cash from (used by) operations		(28,514,915)	(4,562,472)
Cash From (Used by) Investments			
Proceeds from investments sold, matured or repaid		21,464,722	24,267,333
Cost of investments acquired		8,771,475	17,776,534
Net cash from (used by) investments		12,693,247	6,490,799
Cash From (Used by) Financing and Miscellaneous Sources			
Other cash applied		20,451,949	675,130
Net cash from (used by) financing and miscellaneous sources		20,451,949	675,130
Reconciliation of Cash and Short-Term Investments			
Net change in cash and short term investments		4,630,281	2,603,457
Cash and short-term investments, beginning of year		3,699,290	1,095,833
Cash and short-term investments, end of year	$	8,329,571	3,699,290

See accompanying notes to the statutory financial statement

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statement has been prepared in conformity with the accounting practices prescribed by the GS. The more significant accounting policies followed by the Company are as follows:

Bonds: Investment grade bonds not backed by other loans are stated at amortized value using the interest method. Non-investment grade bonds with NAIC designations of 3 through 6 are stated at the lower of amortized costs or fair market value.

Preferred stocks: Investment grade perpetual preferred stocks are stated at fair value. Non-investment grade perpetual preferred stocks are stated at the lower of cost or fair value. The Company does not own redeemable preferred stock.

Common stocks: Carried at fair value.

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Premiums: Earned over the policy period and reduced for reinsurance ceded.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items.

2. Analysis of Assets

The following represents an analysis of the Company's net admitted assets:

	December 31, 2013		
	Assets	Assets not Admitted	Net Admitted Assets
Bonds	$ 37,031,070		37,031,070
Common stocks	4,160,211		4,160,211
Preferred stocks	3,339,317		3,339,317
Cash and short-term investments	8,329,571		8,329,571
Total cash and invested assets	52,860,168		52,860,168
Investment income due and accrued	495,491		495,491
Premiums and agents' balances in course of collection	1,459,345	381,910	1,077,435
Premiums and agents' balances booked but not yet due	4,026,622	176,625	3,849,997
Reinsurance recoverable	4,516,692		4,516,692
Funds held by reinsured companies with reinsured companies	10,041,302		10,041,302
Other amounts receivable under reinsurance contracts	22,717		22,717
Net deferred tax assets	870,078	312,047	558,031
Guaranty funds receivable or on deposit	166,388		166,388
Electronic data processing equipment and software	106,888		106,888
Installment fees receivable	5,219	5,219	0
Total admitted assets	$ 74,570,910	875,801	73,695,108

3. Reinsurance

The Company has quota share, excess of loss and catastrophe reinsurance contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company utilizes Guy Carpenter & Company as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct and assumed, and ceded premiums written and earned are as follows:

		December 31,	
		2013	2012
			(unexamined)
Direct and assumed written	$	**27,333,293**	33,794,638
Ceded written		**24,192,353**	24,788,823
Net written		**3,140,940**	9,005,815
Direct and assumed earned	$	**22,973,561**	35,084,426
Ceded earned		**20,108,143**	25,564,872
Net earned	$	**2,865,418**	9,519,554

4. Reserves

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	December 31, 2013	December 31, 2012 (unexamined)
Reserve for losses and loss adjustment expenses, beginning of year	$ 26,151,087	$ 27,205,499
Add:		
Provision for losses and loss adjustment expenses, current year	2,406,499	11,355,138
Change in estimated losses and loss adjustment expenses, prior years	(1,353,712)	(457,317)
Total incurred	1,052,787	10,897,821
Deduct:		
Losses and loss adjustment expenses paid, current year	232,358	3,495,270
Losses and loss adjustment expenses paid, prior year	18,330,538	8,456,964
Total paid	18,562,896	11,952,234
Reserve for losses and loss adjustment expenses, end of year	8,640,978	26,151,086
Increase in reserve for losses and loss adjustment expenses	$ (17,510,109)	(1,054,413)

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2013 and 2012, the liability for losses and loss adjustment expenses were reduced by approximately $17,636,000 and $49,858,000, respectively, for amounts to be recovered from reinsurers.

5. Capital and Surplus

The following, in conjunction with the Statutory Statement of Surplus (see page 15), represents the changes in the Company's capital and surplus since the Department's last examination:

	December 31, 2011	December 31, 2010
	(unexamined)	*(unexamined)*
Capital and surplus, beginning of year	$ 49,268,988	46,415,804
Capital and surplus increases (decreases):		
Net income	1,495,364	1,635,642
Change in net unrealized capital gain (loss)	837,203	(206,578)
Change in net deferred income tax	(3,154,905)	(1,270,388)
Change in nonadmitted assets	1,314,200	2,694,508
Dividends to stockholders	(18,000,000)	0
Change in surplus as regards policyholders for the year	(17,508,137)	2,853,184
Capital and surplus, end of year	$ 31,760,851	49,268,988

6. Contingencies and Commitments

During the year ended December 31, 2013, the Company entered into contingent commission agency contracts, whereby an additional commission would be due and payable based on a series of volume production factors combined with loss development threshold results. As of December 31, 2013, the Company has accrued a contingent commission liability of $102,935.

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. The Company is of the opinion that these proceedings will not have a material effect on the financial position of the Company.

Stonewood Insurance Company
Appendix A – Report Distribution
December 31, 2013

Thomas R. Fauerbach, Chief Financial Officer/Chief Actuary
6131 Falls of Neuse Road, Suite 306
Raleigh, NC 27609

Steven J. Hartman, President/Chief Executive Officer
6131 Falls of Neuse Road, Suite 306
Raleigh, NC 27609

Joseph R. Raia, Controller
6131 Falls of Neuse Road, Suite 306
Raleigh, NC 27609

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is $2,250,000.

Respectfully submitted,

Monique D. Smith, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

December 31, 2014

STATE OF NORTH CAROLINA
COUNTY OF WAKE

Milton Richardson, Jr., Senior Financial Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: ______________________ Date: 2/11/15
Milton Richardson, Jr.

Sworn and subscribed before me this 11 day of February, 2015.

Notary Public Signature: ______________________ Notary Public Seal:

THOMAS SMITH
NOTARY PUBLIC
WAKE COUNTY, NC