

Stonewood Insurance Company

Raleigh, North Carolina

Report on Examination

As of December 31, 2014

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, North Carolina 27609. The following report on examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2014 to December 31, 2014, 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, 2013.

The examination was a coordinated examination and was conducted concurrently with examinations of its affiliates, James River Insurance Company, Falls Lake National Insurance Company (“FLNIC”), Falls Lake General Insurance Company, and James River Casualty Company, and included participation from the States of Ohio and Virginia. Ohio served as lead state in this coordinated examination.

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.

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Our examination was directed specifically to the quality, value and integrity of the admitted assets and liabilities reported by the Company in its 2014 Annual Statement, as those balances are critical to determining financial solvency.

SUMMARY OF SIGNIFICANT FINDINGS

Comments, Recommendations and Directives

1. During 2014, the Company had certain premiums produced under a General Agency Agreement with Allstar, Inc. During December 2014, the premiums produced under the General Agency Agreement met the requirements of a managing general agent ("MGA"). The Company did not provide a timely notification of the MGA relationship and the required MGA agreement to the Department pursuant to GS § 58-34-2(i).

The Company is directed to comply with the GS § 58-34-2(i) and provide a timely notification of appointment of an MGA in the future.

SUBSEQUENT EVENTS

On October 15, 2014, the Board of Directors ("Board") declared an extraordinary stock dividend of \$15 million, payable on November 20, 2014, to the parent company, FLNIC. Subsequently, on November 18, 2014, the Company reduced the dividend amount to \$12,500,000, payable on December 22, 2014. The Department approved the amended dividend request on December 19, 2014. However, the dividend payment did not take place until March 23, 2015.

In February 2015, the General Agency Agreement with Allstar, Inc., as referred to above in Comment 1, was terminated.

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 initial capital of \$2,000,000. The Company received capital contributions of \$18,000,000 and \$3,000,000 in 2003 and 2004, respectively, from James River Group, Inc. ("JRG"), its sole shareholder at the time.

On August 1, 2014, Stonewood National Insurance Company ("SNIC"), the immediate parent of the Company, changed its name to FLNIC. On September 18, 2014, Franklin Holdings (Bermuda), Ltd., the Company's ultimate parent, changed its name to James River Group Holdings, Ltd. ("JRGH"). On December 12, 2014, JRGH became a publically traded entity.

The Company has 50,000 shares of \$100 par value common stock authorized and 20,000 shares issued and outstanding. At December 31, 2014, the Company had \$36,500,000 in gross paid-in and contributed surplus, and negative \$2,344,164 in unassigned funds.

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CORPORATE RECORDS

We reviewed the minutes of the Board and committee meetings 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. In 2014, the Company amended its Bylaws and Article of Incorporation to change its name to Falls Lake Specialty Insurance Company. The Company later amended the Bylaws and Article of Incorporation to cancel the change. The name of the Company remained unchanged during the examination period.

MANAGEMENT AND CONTROL

Board of Directors

The Company's business is managed by its management team and subject to review by the Board. The Bylaws specify that the number of directors shall not be 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 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, 2014:

<u>Name</u>	<u>Address</u>	<u>Principal Business Affiliation</u>
Gregg T. Davis	Raleigh, NC	JRG Chief Financial Officer/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.

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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, 2014:

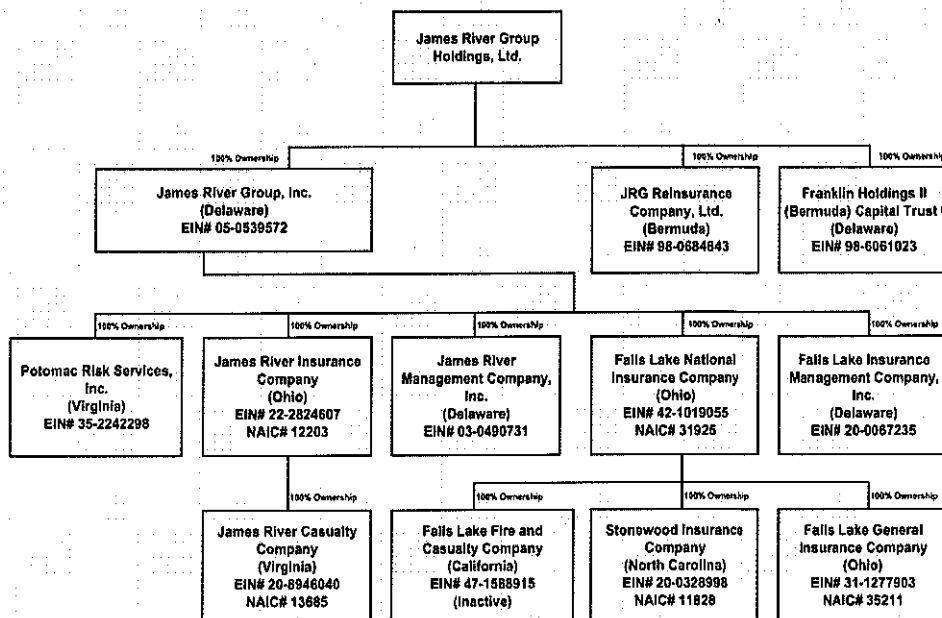
<u>Name</u>	<u>Title</u>
Steven J. Hartman	President/Chief Executive Officer
Thomas R. Fauerbach	Secretary/Chief Financial Officer
Michael E. Crow	Treasurer
Gregg T. Davis	Chairman of the Board

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, JRGH. Additional details are included in the organization chart.

Organization Chart



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Affiliated Transactions

The Company has a management agreement with Falls Lake Insurance Management Company, Inc. ("FLIMC"), 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 FLIMC for expenses incurred within 30 days of month end for which the services are performed. Under this agreement, the Company paid management fees totaling \$5,780,284 and \$7,512,450 in 2014 and 2013, 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.

FIDELITY BONDS AND OTHER INSURANCE

The parent company, JRG, has fidelity bond coverage totaling \$5,000,000 of which the Company is a named insured among other affiliates. 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, FLIMC 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 FLIMC. 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 \$149,738 and \$172,641 in 2014 and 2013, respectively.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company was licensed in the states of North Carolina, South Carolina, Virginia and Tennessee. The Company primarily provides workers' compensation insurance coverage. In addition, the Company 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 six or twelve month terms. Insureds may elect to pay premiums on an installment basis.

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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 five (5) year period ended December 31, 2014.

	Net Admitted	Capital and	Gross	Net Earned	Net
Year	Assets	Surplus	Premiums	Premiums	Income
			Written		
2014	\$78,249,673	\$36,155,836	\$36,615,416	\$4,055,976	\$1,495,305
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, respectively.

The statutory reserves and related items for 2014 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. An actuarial opinion regarding the Company's reserves for loss and loss adjustment expenses was issued by the appointed actuary for the year 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 opinion, the Company's reserves on the loss and loss adjustment expenses 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 ("Intercompany Pooling Agreement")

The Company entered into an intercompany pooling agreement with its affiliated United States insurance carriers, effective January 1, 2013. All lines of business, net after all other reinsurance, are subject to the Intercompany Pooling Agreement. 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. The Company ceded approximately \$8,226,000 in premiums under this pooling agreement to FLNIC in 2014 and \$7,265,000 to SNIC in 2013.

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Quota Share Coverage

The Company has a quota share agreement with affiliate JRG Reinsurance Company Ltd. ("JRG Re") of Hamilton, Bermuda, effective January 1, 2008, and revised on 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 agreement provides coverage for all statutory workers compensation policies and employers liability policies written and assumed by the Company. The Company ceded premiums totaling approximately \$19,087,000 and \$14,206,000, in 2014 and 2013, respectively, under this agreement.

Excess of Loss Coverage

Effective January 1, 2014 the Company was included in a four-layer per occurrence excess of loss agreement with a group of subscribing reinsurers, which provides the following coverage on policies classified by the Company as statutory workers' compensations and employers liability: The first layer provides excess coverage of up to \$500,000 in excess of \$500,000. The second layer provides \$4,000,000 coverage in excess of \$1,000,000. The third layer provides \$5,000,000 coverage in excess of \$5,000,000. The fourth layer provides \$10,000,000 coverage in excess of \$10,000,000. The agreement is subject to \$30,000,000 maximum coverage. In 2014 and 2013, the Company ceded premiums totaling approximately \$2,867,000 and \$2,616,000, respectively, under this agreement.

Contingency Clash Excess of Loss Coverage

Effective July 1, 2014, JRG entered into a contingency clash excess of loss agreement with a group of subscribing reinsurers, which provides group coverage of \$6,000,000 in excess of \$2,500,000 per occurrence for policies classified by the Company as casualty business, extra contractual obligations and loss in excess of policy limits. The annual group premium under this agreement is \$400,000, of which the Company paid \$15,000 in 2014.

Catastrophe Coverage

The Company is a party of a catastrophe agreement between FLNIC, the parent company, and the subscribing reinsurers, effective June 1, 2014. The agreement provides one layer of excess coverage for property business up to \$4,000,000 of the net loss in excess of \$1,000,000 per occurrence. In 2014 and 2013, the Company ceded premiums totaling \$178,039 and \$0, respectively, under this agreement.

Multi Line Quota Share

The Company entered into a Multi-Line Quota Share Agreement with subscribing reinsurers, effective November 1, 2013 and expiring on July 1, 2015. Under the terms of the agreement, the Company cedes 70% of written premiums for \$1,000,000 coverage for each of its property or casualty liability, each occurrence. In 2014 and 2013, the Company ceded premiums totaling \$28,080 and \$8,417, respectively, under this agreement.

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Commercial and Personal Automobile Quota Share

The Company entered into a commercial and personal automobile quota share agreement with a group of subscribing reinsurers, effective August 1, 2014. Under the terms of the agreement, the Company cedes 75% of the premiums and losses for personal and commercial auto physical damage and commercial auto liability in excess of \$750,000 to the subscribing reinsurers. In 2014 and 2013, the Company ceded premiums totaling \$617,542 and \$34,981, respectively, under this agreement.

The Company cedes 100% of premiums and losses for all personal lines auto liability and commercial auto liability up to the limit of \$750,000 to the North Carolina Reinsurance Facility ("NCRF"). Premiums ceded to the NCRF for years 2014 and 2013, were \$1,162,665 and \$62,492, respectively.

Reinsurance Assumed

Under the Intercompany Pooling Agreement, the Company assumes a 6% proportionate share of the premium, net reinsurance commissions, net losses, and net loss adjusting expenses, which are ceded to the pool. In 2014 and 2013, premiums assumed by the Company amounted to approximately \$4,418,000 and \$4,266,000, respectively.

The Company participates in the National Workers' Compensation Reinsurance Pool ("Unaffiliated 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 Unaffiliated Pool is the Company's proportionate share of the total voluntary market for workers' compensation in the state. During 2014 and 2013, the Company assumed approximately \$1,725,000 and \$1,381,000 in premiums from the Unaffiliated Pool, respectively.

ACCOUNTS AND RECORDS

The Company's books and records are maintained at its corporate office located at 6131 Falls of Neuse Road, Suite 306, Raleigh, North Carolina 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, 2014.

INFORMATION SYSTEM

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

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STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2014 Annual Statement Schedule E Part 3 contains a complete description and listing, by state, of the Company's statutory deposits. As of December 31, 2014, the statutory deposits were sufficient to meet the capital deposit requirements for the states where the Company is doing business.

FINANCIAL STATEMENTS

The accompanying financial statement presents the Company's statutory financial position as of December 31, 2014, and statutory results of operations for the period then ended as reported by the Company to the Department in its 2014 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 statements and supporting schedules as of December 31, 2013, were examined in a previous examination and are presented for comparative purposes.

Stonewood Insurance Company
Statutory Statement of Admitted Assets

	December 31,	
	2014	2013
<u>Admitted Assets</u>		
Bonds	\$ 37,786,495	37,031,070
Preferred stocks	5,614,297	4,160,211
Common stocks	3,000,539	3,339,317
Cash and short-term investments	8,561,041	8,329,571
Total cash and invested assets	54,962,372	52,860,168
Investment income due and accrued	463,291	495,491
Premiums and agents' balances in course of collection	2,397,796	1,077,434
Premiums and agents' balances booked but deferred and not yet due	5,798,869	3,849,997
Reinsurance recoverable	2,807,901	4,516,692
Funds held by or deposited with reinsured companies	10,711,079	10,041,302
Other amounts receivable under reinsurance contracts		22,717
Net deferred tax asset	889,419	558,031
Guaranty funds receivable or on deposit	99,884	166,388
Electronic data processing equipment and software	119,062	106,888
Total admitted assets	\$ 78,249,673	73,695,108

See accompanying notes to the statutory financial statement

Stonewood Insurance Company
Statutory Statement of Liabilities, Capital and Surplus

	December 31,	
	2014	2013
<u>Liabilities</u>		
Losses	\$ 5,402,966	5,325,446
Reinsurance payable on paid losses and loss adjustment expenses	936,335	439,792
Loss adjustment expenses	3,545,682	3,315,533
Commissions payable, contingent commissions and other similar charges	1,775,503	726,506
Other expenses	15,859	31,834
Taxes, licenses and fees	747,365	217,780
Federal income tax liability	290,821	228,299
Unearned premiums	1,762,431	1,400,322
Advance premium	466,314	299,253
Ceded reinsurance premiums payable	6,873,164	4,592,646
Funds held by Company under reinsurance contracts	18,588,076	21,487,515
Amounts withheld or retained by Company for account of others	10,593	
Remittances and items not allocated	19,822	(1,609)
Provision for reinsurance		7,000
Payable to parent, subsidiaries and affiliates	7,261	121,899
Policyholder deposits	1,211,929	786,908
Deferred ceding commission	342,415	285,713
Summary of remaining write-ins	97,301	71,493
Total liabilities	42,093,837	39,336,330
<u>Capital and Surplus</u>		
Common capital stock	2,000,000	2,000,000
Gross paid in and contributed surplus	36,500,000	36,500,000
Unassigned funds	(2,344,164)	(4,141,222)
Total capital and surplus	36,155,836	34,358,778
Total liabilities, capital and surplus	\$ 78,249,673	73,695,108

See accompanying notes to the statutory financial statement

Stonewood Insurance Company
Statutory Statement of Operations

	Year Ended December 31,	
	2014	2013
<u>Underwriting Income</u>		
Premiums earned	\$ 4,055,976	2,865,418
Losses incurred	1,033,460	422,229
Loss adjustment expenses incurred	1,254,797	630,558
Other underwriting expenses incurred	1,427,816	1,251,123
Aggregate write-ins for underwriting deductions		(17,626)
Total underwriting deductions	3,716,072	2,286,285
Net underwriting gain	339,904	579,133
<u>Investment Income</u>		
Net investment income earned	2,248,109	2,565,374
Net realized capital gains	20,266	662,375
Net investment gain	2,268,375	3,227,749
<u>Other Income or (Loss)</u>		
Net loss from agents' or premium balances charged off	(222,521)	(646,394)
Finance and service charges not included in premiums	95,191	67,468
Aggregate write-ins for miscellaneous income	303	(95)
Total other loss	(127,027)	(579,021)
Federal income tax incurred	985,948	93,837
Net income	\$ 1,495,305	3,134,024

See accompanying notes to the statutory financial statement

Stonewood Insurance Company
Statutory Statement of Capital and Surplus

	December 31,	
	2014	2013
Capital and surplus, beginning of year	\$ 34,358,778	29,672,595
Capital and surplus increases (decreases):		
Net income	1,495,305	3,134,024
Change in net unrealized capital gains or (losses)	46,210	(276,014)
Change in net deferred income tax	313,963	721,455
Change in non-admitted assets	(64,768)	1,129,679
Change in provision for reinsurance	7,000	(7,000)
Non-admitted premium receivable adjustment on NCCI pool	(652)	(15,961)
Change in surplus as regards policyholders for the year	1,797,058	4,686,183
Capital and surplus, end of year	\$ 36,155,836	34,358,778

See accompanying notes to the statutory financial statement

Stonewood Insurance Company

Statutory Statement of Cash Flow

	Year ended December 31,	
	2014	2013
Cash From (Used by) Operations		
Premiums collected net of reinsurance	\$ 3,521,628	1,881,945
Net investment income	2,419,813	2,865,954
Miscellaneous (loss)	(127,027)	(579,021)
Totals	<u>5,814,414</u>	<u>4,168,879</u>
Benefit and loss related payments	(602,333)	27,835,048
Commissions, expenses paid and aggregate write-ins for deductions	810,009	4,738,843
Federal income taxes paid net of tax on capital gains	934,339	109,903
Totals	<u>1,142,015</u>	<u>32,683,794</u>
Net cash from (used by) operations	<u>4,672,399</u>	<u>(28,514,915)</u>
Cash From (Used by) Investments		
Proceeds from investments sold, matured or repaid	5,846,937	21,464,722
Cost of investments acquired	<u>7,799,630</u>	<u>8,771,475</u>
Net cash from (used by) investments	<u>(1,952,693)</u>	<u>12,693,247</u>
Cash From (Used by) Financing and Miscellaneous Sources		
Other cash applied (used)	<u>(2,488,236)</u>	<u>20,451,949</u>
Net cash from (used by) financing and miscellaneous sources	<u>(2,488,236)</u>	<u>20,451,949</u>
Reconciliation of Cash and Short-Term Investments		
Net change in cash and short-term investments	231,471	4,630,281
Cash and short-term investments, beginning of year	<u>8,329,571</u>	<u>3,699,290</u>
Cash and short-term investments, end of year	<u>\$ 8,561,041</u>	<u>8,329,571</u>

See accompanying notes to the statutory financial statement

Stonewood Insurance Company
Notes to the Statutory Financial Statement
December 31, 2014

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: Carried at amortized cost or fair value based on their NAIC rating.

Preferred stocks: Where permitted are carried at cost, all others are carried at values provided by the NAIC Securities Valuation Office.

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 for 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. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

Stonewood Insurance Company
Notes to the Statutory Financial Statement
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2. Analysis of Assets

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

	December 31, As Of 2014		
	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$ 37,786,495		37,786,495
Common stocks	5,614,297		5,614,297
Preferred stocks	3,000,539		3,000,539
Cash and short-term investments	8,561,041		8,561,041
Total cash and invested assets	54,962,372		54,962,372
Investment income due and accrued	463,291		463,291
Premiums and agents' balances in course of collection	2,712,036	314,240	2,397,796
Premiums and agents' balances booked but not yet due	6,117,968	319,100	5,798,868
Reinsurance recoverable	2,807,901		2,807,901
Funds held by reinsured companies with reinsured companies	10,711,079		10,711,079
Net deferred tax assets	1,190,545	301,126	889,419
Guaranty funds receivable or on deposit	99,884		99,884
Electronic data processing equipment and software	119,062		119,062
Installment fees receivable	6,105	6,105	-
Total admitted assets	<u>\$ 79,190,243</u>	<u>940,571</u>	<u>78,249,673</u>

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Notes to the Statutory Financial Statement
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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,	
	2014	2013
Direct and assumed written	\$ 36,615,416	27,333,293
Ceded written	32,197,331	24,192,353
Net written	4,418,085	3,140,940
Direct and assumed earned	17,005,353	22,973,561
Ceded earned	12,949,377	20,108,143
Net earned	\$ 4,055,976	2,865,418

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4. Reserves

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

	December 31,	
	2014	2013
Reserve for losses and loss adjustment expenses, beginning of year	\$ 8,640,979	26,151,087
Add:		
Provision for losses and loss adjustment expenses, current year	3,395,877	2,406,499
Change in estimated losses and loss adjustment expenses, prior years	(1,107,620)	(1,353,711)
Total incurred	2,288,257	1,052,788
Deduct:		
Losses and loss adjustment expenses paid, current year	429,591	232,358
Losses and loss adjustment expenses paid, prior year	1,550,997	18,330,538
Total paid	1,980,588	18,562,896
Reserve for losses and loss adjustment expenses, end of year	8,948,648	8,640,979
Increase in reserve for losses and loss adjustment expenses	\$ 307,669	(17,510,108)

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, 2014 and 2013, the liability for losses and loss adjustment expenses was reduced by approximately \$20,261,000 and \$17,636,000, respectively, for amounts to be recovered from reinsurers.

Stonewood Insurance Company
Notes to the Statutory Financial Statement
December 31, 2014

5. 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 productivity and loss development results. As of December 31, 2014, the Company has accrued a contingent commission liability of \$737,583.

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, 2014

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,



Ke Xu, CPA, CFE
Chief Financial Examiner
Agile Enterprise Section
Financial Evaluation Division
North Carolina Department of Insurance

12/31/2015

STATE OF NORTH CAROLINA
COUNTY OF WAKE

Eileen Culliney, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature: Eileen Culliney Date: 1/26/2016
Eileen Culliney

Sworn and subscribed before me this 26 day of January, 2016.

Notary Public Signature: [Signature] Notary Public Seal:

