EXAMINATION REPORT

OF

THE NORTH RIVER INSURANCE COMPANY

MORRISTOWN, NEW JERSEY

AS OF

DECEMBER 31, 2010

NAIC COMPANY CODE 21105

NAIC GROUP CODE 0158

FILED

June 26, 2012

Commissioner
Department of Banking &
Insurance

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State of New Jersey
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KENNETH E. KOBYLOWSKI
Acting Commissioner

KIM GUADAGNO
LT. GOVERNOR

May 15, 2012

SALUTATION

Honorable Kenneth E. Kobylowski
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 and liabilities, methods of conducting business and all other affairs 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, 2007 through December 31, 2010.

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 Association Plan of Examination guidelines established by the National Association of Insurance Commissioners.

The examination was conducted in accordance with the 2010 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 2010 NAIC Financial Condition Examiners Handbook.

In addition, a review or audit was also made of the following items:

Compliance with Prior Report Recommendations
History and Kinds of Business
Territory and Plan of Operation
Reinsurance
Intercompany Agreements
Parent, Subsidiaries and Affiliates
Management and Control
Fidelity Bond and Other Insurance Coverages
Employee Welfare and Pension Plans
Accounts and Records
Treatment of Policyholders
Statutory Deposits

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

Common Capital Stock	$	4,200,000
Aggregate Write-Ins for Special Surplus Funds		45,134,049
Gross Paid in and Contributed Surplus		122,599,823
Unassigned Funds		227,924,287
Surplus as Regards Policyholders	$	399,858,159

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

	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Assets	$880,495,501	$1,069,775,190	$1,095,457,075	$971,070,060
Liabilities	$480,637,342	$ 514,889,135	$ 654,188,025	$517,310,966
Surplus	$399,858,159	$ 554,886,055	$ 441,269,050	$453,759,094

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

1.) It was recommended that MacKenzie Financial Corporation, as another entity that controls greater than 10% of the Company as of March 31, 2008, either file a Form "A" or a disclaimer of control.

This examination has determined that the Company complied with this recommendation.

HISTORY AND KINDS 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 Holdings, 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.

For the entire holding company structure, see page 10 of this report.

The authorized capital stock of the Company as of December 31, 2010, was 25,000 common shares with a par value of $168.00 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 is Sonia Konopi.

TERRITORY AND PLAN OF OPERATION

The Company and the insurers in the group are national commercial property and casualty insurers that focus on specialty classes of business and overlooked market opportunities. The group writes a broad range of commercial coverages, including general liability, property, workers' compensation, commercial automobile and surety.

As of January 1, 2006, certain businesses of the insurance companies of Fairmont Specialty Group, affiliates of Fairfax, were continued as a new division of Crum and Forster. The Fairmont business consists of standard commercial and personal lines, bail bonds, and accident and health coverages.

The Company/Group's business is distributed through more than 1,600 producers located throughout the United States. The producers tend to fall into three categories: independent agents and brokers, national brokers and wholesale brokers. Independent agents and brokers generally operate in a limited geographical region. These producers focus on small to midsize accounts. National brokers have a significant number of locations throughout the United States and target larger risks requiring complex insurance analysis and placement. The Company's policies with these producers tend to be large, loss rated casualty products and property policies. Wholesale brokers primarily produce business that retail agents and brokers have difficulty placing due to unique and unusual hazards. The Company's strategy is designed to increase gross premiums written through increasing premium volume with existing producers while selectively adding new producers.

The Company is authorized to write business in all fifty states and the District of Columbia.

REINSURANCE

For 2010, the Company reported the following distribution of net written premiums:

Total Direct Written Premiums		$155,086,170
Assumed premiums, non-affiliated		$176,250
Assumed premiums, affiliated, non-pool		0
Assumed premiums, affiliated, pool		164,082,644
Total Assumed Premiums		$164,258,894
Total Gross Premiums		$319,345,064
Ceded premiums, non-affiliated		$28,182,570
Ceded premiums, affiliated, non-pool		1,964,892
Ceded premiums, affiliated, pool		155,262,420
Total Ceded Premiums		$185,409,882
Net Written Premiums		$133,935,182

Percentage Ceded of Gross 58.1%

Pooling Assumed

The Company is a 22% participant in a pool with its affiliates. The Company only assumes reinsurance from the pool participants and other mandatory pools as required by regulation.

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

The Pooling Agreement provides that United States Fire Insurance Company (USF), acting as lead company, assumes from the Pool Participants 100% of their premiums, losses, dividends to policyholders and other underwriting expenses.

Per Risk

As of December 31, 2010, the Company as a Participant in the Crum and Forster Pool was a party to the following significant reinsurance contracts on a per risk basis:

Coverage	Limits	Retention
Property Catastrophe	$70 million excess of	$20 million retention
Property per risk –C&F Specialty	$28 million excess of	$2 million retention
Property per risk- Standard & Package	$45 million excess of	$5 million retention
Umbrella Admitted	$20 million excess of	$5 million retention
Umbrella – non-admitted	$10 million limit	$5 million retention (50% QS retention up to $10 million)
Crisis Management	$10 million limit	$4.5 million (45% QS retention up to $10 million)
D&O and Professional Liability	$7 million, excess of	$3 million retention plus (30% QS retention from $3 million to $10 million)

During 2010, the Company reviewed its reinsurance programs and modified the coverage and retention levels of certain programs as deemed necessary in the current market environment. In general, the Company's reinsurance contracts provide coverage for domestic acts of terrorism. Certain casualty contracts have additional terrorism coverage for acts of terrorism certified under the Terrorism Risk Insurance Program Reauthorization Act of 2007. None of the contracts cover acts of terrorism involving use of nuclear, biological, or chemical agents.

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. The contract provides $400 million of limit in excess of a 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 are currently based on 35% of amounts ceded plus a reinsurer margin of $8 million. The contract contains provisions that would increase the premium rate to as high as 62% under conditions that Company management considers unlikely. The contract is on a funds held basis with interest credited at 7%. As of December 31, 2010, the Pool had ceded $349 million in losses and LAE under this contract, and incurred premium and interests cost of $143.8 million and accrued funds held interest of $116.9 million for a pretax surplus benefit of $88.3 million. (North River recorded its 22% share under the Pooling Agreement). At December 31, 2010, and December 31, 2009, the Pool Participants had reinsurance recoverable balances of $349.0 million (for 2010 and 2009) and funds held balances of $252.8 million and $236.3 million, respectively, related to this agreement. The coverage remaining on this treaty is $51 million with no coveage available for asbestos development.

INTERCOMPANY AGREEMENTS

At December 31, 2010, the Company was party to the following intercompany agreements:

Tax Allocation Agreement

The purpose of this agreement is to determine the amount of federal and state income tax allocated to members of the affiliated group and the amount each will pay or receive from Holdings. This agreement is between Holdings and named subsidiaries, including the Company.

Under this agreement, each Group member shall compute and pay to Holdings its federal income tax liability as if computed on a separate return. Each Group member shall have first use of all of its respective current operating losses and credits. The calculation of the separate federal income tax liability of each Group member shall be made pursuant to Section 1501 of the Internal Revenue Code of 1986.

Effective January 1, 2009, this agreement terminated the existing tax sharing agreement between Holdings and its subsidiaries.

Administrative Services Agreement

This agreement, effective January 1, 1993, is between the Company and USF, an affiliate.

Under this agreement, USF agreed to provide certain underwriting and administrative services, subject to guidelines, procedures and limitations established by the Company's Board of Directors or an authorized committee of that Board.

Services provided include underwriting advice and services, policy issuing and billing services, claims services, maintenance of company records, preparation and rendering of reports to any regulatory agency, collection of premiums, as well as the necessary provision of office accommodations, and paying all operating expenses of the Company, except those retained by the Company, and listed as follows: allocable policy and other printed supplies necessary to conduct its business, commissions to producers, taxes, board and bureau assessments, auditing expenses, license fees, legal expenses, investment expenses, and all losses and loss adjustment expenses.

This agreement specifically states that the control of the underwriting policies of the Company and the acceptance of risks, whether by class of business or on an individual basis, shall be retained by the Company.

The Company must pay all costs and expenses incurred by USF on its behalf, within thirty days following the end of the month the service was rendered.

Master Repurchase Agreement

The Company entered into a master repurchase agreement with FFH, dated January 8, 2004.

This agreement is designed to assist the Company in managing its cash flow to eliminate or minimize investment losses resulting from the sale or liquidation of securities in order to cover short-term cash requirements.

From time to time, the parties may enter into transactions in which the Company agrees to transfer to FFH certain securities against the transfer of an amount in US dollars equal to the fair market value of such Securities on the date of transfer. The amount of each transaction cannot exceed $100,000,000 individually or in the aggregate when combined with amounts then outstanding from any other transaction. Fairfax agrees to transfer to the Company such securities on or before one hundred eighty-three (183) days after the transfer is made (the "Repurchase Date"), against the transfer of funds by the Company. From the date of the transfer of securities from the Company to FFH until such time that the securities are returned by FFH to the Company, the securities are to be held by The Bank of New York. The transactions pursuant to the agreement shall be reported in accordance with SSAP 91.

The Company shall repurchase the securities from FFH on or before the Repurchase Date for an amount not to exceed the sum of the purchase price and the aggregate amount obtained by daily application of the stated interest rate of each security to the purchase price paid for the actual number of days during the period commencing on the purchase date and ending on the repurchase date.

To the extent required by applicable law, all securities in the possession of FFH shall be segregated from other securities in its possession and shall be identified as subject to this agreement.

The agreement shall be governed by the laws of the State of New Jersey without giving effect to the conflict of law principles thereof.

Investment Agreement

North River entered into an investment agreement dated as of January 8, 2004, with Hamblin Watsa Investment Counsel Ltd. (HW), an affiliate, and FFH. Under this agreement, the Company's account is to be managed in accordance with investment guidelines that shall at all times be in compliance with the investment statutes of the State of New Jersey.

The agreement specifies that the securities and funds shall be held by a custodian approved by the New Jersey Department of Banking and Insurance.

The agreement specifies that HW would be liable for any losses suffered as a result of an error in implementing investment decisions caused by its own negligence or dishonesty. It requires that the Company be notified in writing of all relevant facts describing such errors.

The agreement specifies that as soon as practicable after implementation of an investment decision, HW shall deliver written confirmation to enable the Company to ascertain that such implementation has been effected pursuant to the investment guidelines and procedures of its Board of Directors or a duly authorized committee thereof.

This agreement may be terminated by either party without penalty provided thirty days written notice is given to the other party.

Investment fees charged by HW are comprised of three parts:

(A) The Base Fee Amount The base amount is calculated as .30% of the Total Market Value of the Portfolio and is payable on a quarterly basis.

(B) The Incentive Fee Amount The incentive fee amount is based on the investment management of equity securities only. The Benchmark is S&P 500 + 200 basis points. The fee is payable annually based on calendar year results, however, no incentive fee is earned or paid unless results since inception (net of all fees) exceed benchmark return.

(C) Maximum Investment Management Fee The maximum investment management fee payable in any calendar year is 40% of the Total Market Value of the Portfolio.

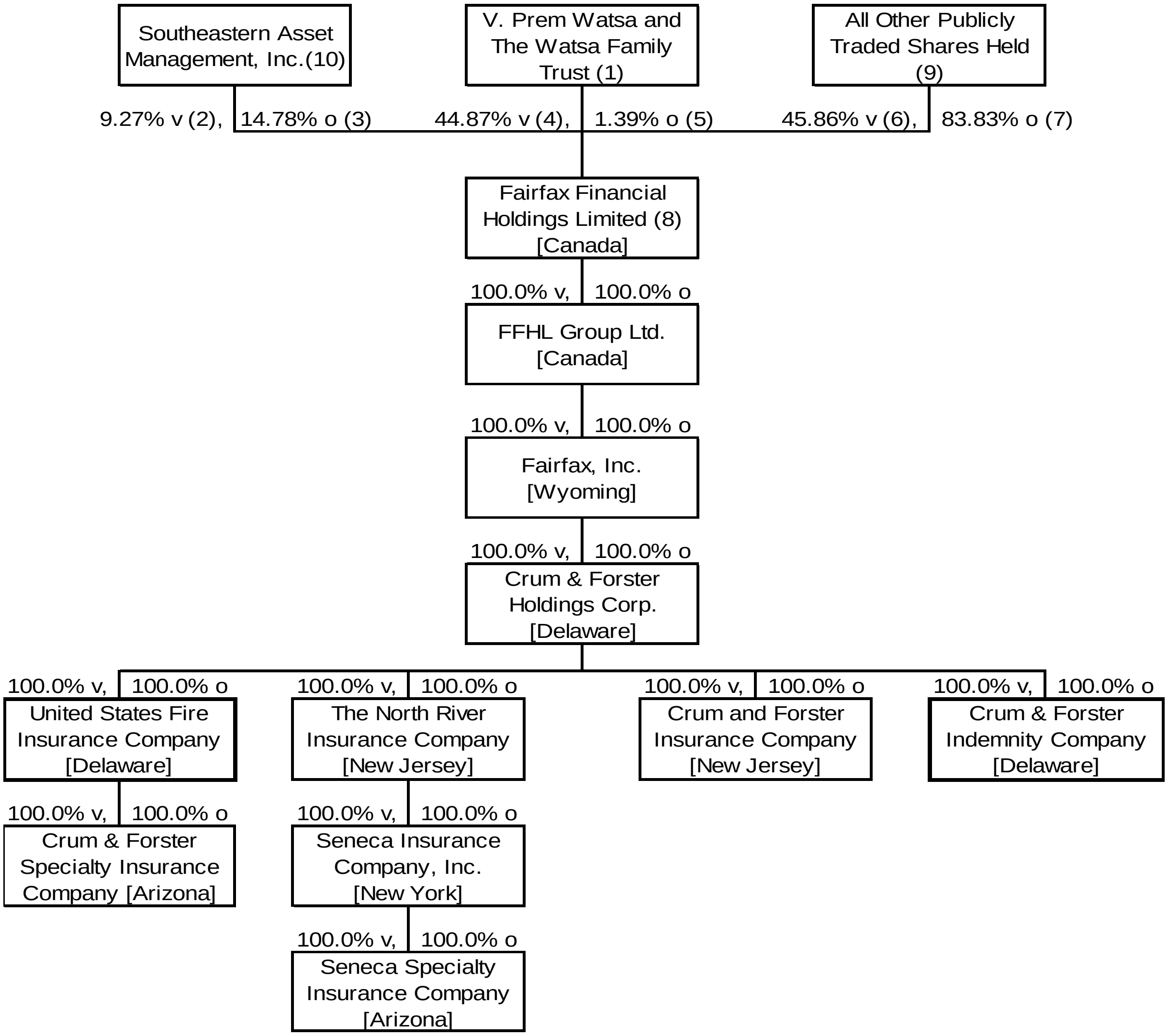
An amendment dated January 1, 2005 was added to this agreement to amend the Schedule A attachment to the agreement.

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, 2010, all of the outstanding shares of the Company are owned by Crum and 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.

A partial holding company system organizational chart of the Company and its subsidiaries as of December 31, 2010 is as follows:


Southeastern Asset Management, Inc.(10)
V. Prem Watsa and The Watsa Family Trust (1)
All Other Publicly Traded Shares Held (9)
9.27% v (2),
14.78% o (3)
44.87% v (4),
1.39% o (5)
45.86% v (6),
83.83% o (7)
Fairfax Financial Holdings Limited (8) [Canada]
100.0% v,
100.0% o
FFHL Group Ltd. [Canada]
100.0% v,
100.0% o
Fairfax, Inc. [Wyoming]
100.0% v,
100.0% o
Crum & Forster Holdings Corp. [Delaware]
100.0% v,
100.0% o
United States Fire Insurance Company [Delaware]
100.0% v,
100.0% o
The North River Insurance Company [New Jersey]
100.0% v,
100.0% o
Crum and Forster Insurance Company [New Jersey]
100.0% v,
100.0% o
Crum & Forster Indemnity Company [Delaware]
100.0% v,
100.0% o
Crum & Forster Specialty Insurance Company [Arizona]
100.0% v,
100.0% o
Seneca Insurance Company, Inc. [New York]
100.0% v,
100.0% o
Seneca Specialty Insurance Company [Arizona]

v = voting control
o = ownership control
(1) through voting and 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) calculated as 3,015,922 votes (3,015,922+C11 subordinate common shares held) divided by 32,398,020 votes [See (8)]
(3) calculated as 3,015,922 subordinate common shares held / 16,918,020 total subordinate common shares times $4,121,400,000 / $4,258,000,000 [See (8)]
(4) calculated as 0.79% through V. Prem Watsa and 47.94% through The Watsa Family Trust and the four entities described in (1). The 0.8% is calculated as 169,835 subordinate voting common shares (169,835 votes) through 810679 Ontario Limited, 83,199 subordinate voting common shares (83,199 votes) held personally by Mr. V. Prem Watsa and 3,500 subordinate voting common shares (3,500 votes) held through "Prestin" plus, which equals 256,534 votes divided by 32,398,020 total votes. The 47.9% is calculated as 50,620 subordinate voting common shares (50,620 votes) plus 1,548,000 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 divided by 32,398,020 total votes. [See (8)]
(5) calculated as 307,154 subordinate common shares held (256,534 plus 50,620 [See (4)]) / 16,918,020 total subordinate voting common shares times $4,121,400,000 / $4,258,000,000 [See (8)]
(6) 100.00% minus 9.31% (2) minus 48.73% (4)
(7) 100.00% minus 17.27% (3) minus 1.76% (5)
(8) common shares are publicly traded on the Toronto Stock Exchange in Canada and the New York Stock Exchange in the U.S. under the symbol "FFH". The Company has issued at 12/31/07 1,548,000 multiple voting common shares (which carry ten votes per share), 16,918,020 subordinate voting common shares (which carry one vote per share), 3,000,000 non-voting preferred Series A shares and 5,000,000 non-voting. Series B shares. Total votes then consist of 32,398,020: the 15,480,000 votes attributable to the multiple voting common shares and 16,918,020 votes attributable to the subordinate voting common shares. Fairfax's capital account at 12/31/07 totals $4,258,000,000 (U.S.) which consists of common shares totaling $4,121,400,000 (96.8% of the total) and preferred shares totaling $136,600,000 (3.2% of the total).
(9) No entity or individual owns or controls greater than 10% as of 12/31/07, but as of 3/31/08, MacKenzie Financial Corporation owned 2,190,554 subordinate voting common shares, which represented 6.76% voting control (2,190,554 divided by 32,398,020 total votes) and 12.53% ownership control (2,190,554 divided by 16,918,020 times $4,121,400,000 divided by $4,258,000,000). At 3/31/08, Southeastern Asset Management beneficially owned 2,756,675 subordinate voting common shares [a decrease of 259,247 shares from 12/31/07], which represented 8.51% voting control and 15.77% ownership control.
(10) Disclaimer of affiliation with the Delaware Department of Insurance dated November 22, 2004

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.

The following directors were elected and serving at December 31, 2010:

Name and Address	Principal Occupation
Dennis James Hammer 305 Madison Avenue Morristown, NJ 07962	Senior Vice President and Controller United States Fire Insurance Company
Douglas Mendel Libby 305 Madison Avenue Morristown, NJ 07962	President & Chief Executive Officer Crum & Forster Holdings Corp.
Mary Jane Robertson 305 Madison Avenue Morristown, NJ 07962	Executive Vice President, Chief Financial Officer and Treasurer Crum & Forster Holdings Corp.

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

The principal officers of the Company elected and serving at December 31, 2010 were:

Name	Title
Douglas Mendel Libby	Chairman of the Board, President and Chief Executive Officer
Mary Jane Robertson	Executive Vice President, Chief Financial Officer and Treasurer
James Vincent Kraus	Senior Vice-President, General Counsel and Secretary
Marc James Adee	Senior Vice President
Stephen Arthur Eisenmann	Senior Vice President
Donald Ross Fisher	Senior Vice President
David John Ghezzi	Senior Vice President
Dennis James Hammer	Senior Vice President & Controller
Robert George Himmer	Senior Vice President
Mary Jeanne Hughes	Senior Vice President
Matthew William Kunish	Senior Vice President
Stephen Micheal Mulready	Executive Vice President
Ellen Caramore O'Conner	Senior Vice President
Mark Lloyd Owens	Senior Vice President
Chris Ivan Stormo	Senior Vice President

N.J.S.A. 17:27A-4d (3) states as follows:

"Not less than one-third of the directors of a domestic insurer, and not less than one-third of the members of each committee of the board of directors of any domestic insurer, shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with, that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity. At least one such person shall be included in any quorum for the transaction of business at any meeting of the board of directors or any committee thereof."

N.J.S.A. 17:27A-4d (4) states as follows:

"The board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or any entity controlling, controlled by or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer or any such entity. The committee shall be responsible for recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be the principal officers of the insurer and recommending to the board of directors the selections and compensation, including bonuses or other special payments, of the principal officer."

N.J.S.A. 17:27A-4d (5) states as follows:

"The provisions of paragraphs (3) and (4) of this subsection shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors and committees thereof that substantially meet the requirements of those paragraphs."

Crum and Forster Holdings Corp. has a board of directors and committees that substantially meet the requirements of N.J.S.A 17:27A paragraphs (3) and (4), therefore, these sections do not apply to the Company.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

As of December 31, 2010, 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.

It should be noted that the above coverages are in effect for FFH and its subsidiaries. A review of the fidelity bond coverage of FFH and its subsidiaries, which includes North River was completed and it was determined that the coverages were adequate based on the guidelines of National Association of Insurance Commissioners.

EMPLOYEE WELFARE AND PENSION PLAN

As of December 31, 2010, the Company has no employees. However, through an administrative services agreement, discussed in this report under the heading "Intercompany Agreements," it is serviced by the employees of USF, which does not offer a pension plan. USF does offer a 401K plan to all of its qualified employees.

ACCOUNTS AND RECORDS

General Ledger

The Company's books and accounts are maintained through a client server based general ledger system developed by Sungard. A variety of systems feed the Sungard EAS General Ledger for the purpose of financial reporting. All of the systems feed into the G/L automatically via an interface called LIS (Ledger Interface System). The system is maintained by information technology personnel that are part of an affiliate of the Company responsible for systems throughout the Fairfax organization.

Each account in the General Ledger is verified by the Vice President with the ultimate responsibility for the account. Accounts are reconciled monthly, quarterly and annually. The account reconciliation process is controlled and monitored by the Vice President of Financial Reporting.

An Internal Audit Director manages the company's internal audits and an independent certified public accounting firm conducts external audits annually.

Investment System

Investment transactions and reports are generated through the use of Princeton Asset Management Software System. HW manages the Company's investments under an Investment Agreement dated January 8, 2004. The agreement includes specific investment guidelines as designated by the Board of Directors.

Claims

Claims transactions and reports are generated through the Claims Assure System (CA System). Authority levels for the reserving and paying of claims are assigned by the Regional Claims Manager and are authorized by the Chief Claims Officer in the home office. The system will automatically reject any person's attempt to authorize a claim beyond their assigned authority.

A quality assurance team completes an underwriting and claims examination and report for each regional office at least bi-annually.

Premiums

Premium receipts are predominately received through live checks or lockbox checks received through lockbox facilities throughout the United States. Policies are issued through the Company's issuing systems and are interfaced to the premium front-end (PFE) system. On a daily basis, the batch job is run to provide a daily feed from the Premium Front End System to the Cash and accounts (C&A) System.

TREATMENT OF POLICYHOLDERS

N.J.S.A.17: 29B-4 requires all companies to maintain a complete record of all complaints that it has received since the date of its last examination. A review of Company records indicates that as of December 31, 2010, the Company does maintain a complaint register and is in compliance with N.J.S.A.17: 29B-4.

STATUTORY DEPOSITS

As of December 31, 2010, the Company had total deposits with various jurisdictions for the benefit of policyholders, with a book value of $5,586,700 and a fair value of $6,346,571. Each statutory deposit was verified by direct confirmation. No exceptions were noted.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A	Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2010
Exhibit B	Underwriting and Investment Exhibit for the Three Year Examination Period Ended December 31, 2010
Exhibit C	Capital and Surplus Account for the Three Year Examination Period Ended December 31, 2010

Exhibit A

Statement of Assets, Liabilities, Surplus and Other Funds at
December 31, 2010

	Balance Per Examination 12/31/2010	Balance Per Company 12/31/2010	Examination Change	Note Number
ASSETS				
Bonds	$ 315,813,450	$ 315,813,450	-	
Preferred Stocks	32,857,600	32,857,600	-	
Common Stocks	269,534,204	269,534,204	-	
Cash and Short Term Investments	148,153,556	148,153,556	-	
Derivatives	26,015,858	26,015,858	-	1
Other Invested Assets	32,584	32,584	-	
Receivable for Securities	230,795	230,795	-	
Investment Income Due and Accrued	7,342,200	7,342,200	-	
Premiums and Considerations:				
In Course of Collection	4,274,334	4,274,334	-	
Deferred and Not Yet Due	13,114,587	13,114,587	-	
Accrued Retrospective Premiums	9,900,000	9,900,000	-	
Amounts Recoverable from Reinsurers	3,409,315	3,409,315	-	
Funds Held By or Deposited With Reinsurance Companies	389,742	389,742	-	
Net Deferred Tax Asset	37,733,566	37,733,566	-	
Guarantee Funds Receivable or on Deposit	1,303,822	1,303,822	-	
Electronic Data Processing Equipment	250,037	250,037	-	
Aggregate Write-Ins for Other Than Invested Assets	10,139,851	10,139,851	-	
Total Admitted Assets	$ 880,495,501	$ 880,495,501	-	

Exhibit A

Statement of Assets, Liabilities, Surplus and Other Funds at
December 31, 2010

	Balance Per Examination 12/31/2010	Balance Per Company 12/31/2010	Examination Change	Note Number
Losses	$ 284,149,798	$ 284,149,798	-	2
Reinisurance Payable on Paid Losses	536,254	536,254	-	
Loss Adjustment Expenses	117,594,448	117,594,448	-	2
Commissions Payable, Contingent Commissions and Other Charges	1,124,322	1,124,322	-	
Other Expenses	11,443,429	11,443,429	-	
Taxes, Licenses and Fees	6,199,114	6,199,114	-	
Current Federal and Foreign Income Tax	4,683,745	4,683,745	-	
Unearned Premiums	44,427,750	44,427,750	-	
Ceded Reinsurance Premiums Payable	1,469,412	1,469,412	-	
Funds Held by Company Under Reinsurance Treaties	58,209,386	58,209,386	-	
Amounts Withheld or Retained by Company for Account Of Others	5,309,085	5,309,085	-	
Provision for Reinsurance	2,307,639	2,307,639	-	
Payable to Parent, Subsidiaries and Affiliates	1,957,821	1,957,821	-	
Payable for Securities	1,050,813	1,050,813	-	
Aggregate Write-Ins for Liabilities	(59,825,674)	(59,825,674)	-	
Total Liabilities	$ 480,637,342	$ 480,637,342	-	

SURPLUS AND OTHER FUNDS

Aggregate Write-Ins for Special Surplus Funds	$ 45,134,049	$ 45,134,049	-	
Common Capital Stock	4,200,000	4,200,000	-	
Gross Paid in and Contributed Surplus	122,599,823	122,599,823	-	
Unassigned Funds	227,924,287	227,924,287	-	
Surplus as Regards Policyholders	$ 399,858,159	$ 399,858,159	-	3
Total Liabilities and Surplus	$ 880,495,501	$ 880,495,501	-	

Exhibit B

Underwriting and Investment Exhibit
for the Three Year Examination Period Ended December 31, 2010

	2008	2009	2010
UNDERWRITING INCOME			
Premiums Earned	$ 193,694,051	$ 146,725,592	$ 133,452,900
Deductions:			
Losses Incurred	$ 106,120,151	$ 70,809,334	$ 76,951,920
Loss Expenses Incurred	45,284,956	37,337,191	29,123,987
Other Underwriting Expenses Incurred	56,760,551	48,885,415	45,606,823
Total Underwriting Deductions	$ 208,165,658	$ 157,031,940	$ 151,682,730
Net Underwriting Gain or (-) Loss	$ (14,471,607)	$ (10,306,348)	$ (18,229,830)
INVESTMENT INCOME			
Net Investment Income Earned	40,334,028	46,124,501	37,563,977
Net Realized Capital Gain or (Loss)	(2,547,514)	86,695,532	97,655,858
Net Investment Gain or (Loss)	$ 37,786,514	$ 132,820,033	$ 135,219,835
OTHER INCOME			
Miscellaneous Income	(27,728,565)	(3,619,258)	(2,769,990)
Total Other Income	$ (27,728,565)	$ (3,619,258)	$ (2,769,990)
Net Income Before Federal Income Incurred	(4,413,658)	118,894,427	114,220,015
Federal Income Taxes Incurred	(5,458,324)	12,762,323	74,286
Net Income	$ 1,044,666	$ 106,132,104	$ 114,145,729

Exhibit C
Capital and Surplus Account for the Three Year Examination Period Ended
December 31, 2010

	2008	2009	2010
Surplus As Regards Policyholders December 31, Prior Year	$ 453,759,094	$ 441,269,050	$ 554,886,055
Net Income	1,044,666	106,132,104	114,145,729
Change in Net Unrealized Capital Gains or (Losses)	2,670,736	33,662,519	(8,014,027)
Change in Net Unrealized Foreign Exchange Capital Gains or (Losses)	(582,708)	281,980	(279,500)
Change in Net Deferred Income Tax	33,158,368	3,897,619	(23,847,507)
Change in Non-admitted Assets	(5,142,121)	14,066,538	(7,370,367)
Change in Provision for Reinsurance	1,661,015	(323,755)	337,776
Dividends to Stockholders	(45,300,000)	(44,100,000)	(230,000,000)
Change In Surplus as Regards Policyholders For The Year	$ (12,490,044)	$ 113,617,005	$ (155,027,896)
Surplus As Regards Policyholders December 31, Current Year	$ 441,269,050	$ 554,886,055	$ 399,858,159

NOTES TO FINANCIAL STATEMENTS

(Note 1) – Derivatives

As of December 31, 2010, the Company reported investments in derivatives with a current book value of $26,015,858. The Company uses derivative transactions to mitigate financial risks principally from its investment holdings and receivables, all of which are designated as ineffective hedges. Included in this amount are credit default swaps with a total fair value of $9,887,527 at December 31, 2010. The Company acquired these contracts to hedge the exposure of a potential adverse decline in the fair value of financial assets owned by the Company.

The abovementioned derivative investments were admitted as of December 31, 2010 under the "basket provision" of N.J.S.A 17:24-1(g).

(Note 2) - Losses and Loss Adjustment Expenses

As of December 31, 2010, the Company's reported amounts for Losses and LAE reserves of $284,149,798 and $117,594,448, respectively. Loss and loss adjustment expense reserves represent 83.6% of the Company's liabilities as of December 31, 2010. Incurred but not reported reserves (IBNR) constituted 45.3% of loss reserves at year-end 2010.

In conjunction with this examination and that of the other Pool Participants, INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the reserve methodologies and adequacy for each of the "Pool Participants". The INS analysis was performed using a risk-focused approach according to the guidelines contained in the NAIC Handbook. The review does not address the collectability of reinsurance recoverables.

The conclusions set forth in INS's report are based on information provided by the Company, including the 2010 Annual Statements, the related 2010 Statement of Actuarial Opinion with underlying actuarial work papers. INS performed an analysis on the Company's book of business by segment of business on both a gross and a net basis for loss, defense and cost containment (DCC) expense and adjusting and other (A&O) expense. INS also reviewed the Company's work papers which reconcile the year-end 2010 data to Schedule P.

Based on work performed, INS concluded the Company's carried December 31, 2010, gross and net loss and LAE reserves to be reasonably stated, and as such, no financial adjustment was required for examination purposes. . The New Jersey Department of Banking and Insurance Office of Solvency Regulation, Property and Casualty Actuarial Unit, reviewed the analysis performed by INS and accepted their conclusion.

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(Note 3) - <u>Surplus as Regards Policyholders</u>

This examination determined total surplus as regards policyholders as of December 31, 2010 to be $399,858,159, 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	45,134,049
Unassigned Funds	227,924,287
Total	$ 399,858,159

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 Holdings 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 $45,134,049 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.

SUBSEQUENT EVENTS

Effective December 31, 2011, the C&F companies' entered into a reinsurance agreement with Clearwater Insurance Company (Clearwater) in which the C&F companies' ceded and Clearwater assumed certain liabilities under insurance and reinsurance contracts entered into by the C&F companies on or prior to December 31, 1998, exclusive of workers' compensation and surety.

The aforementioned contracts covered substantially all of the C&F companies' liabilities for asbestos, environmental and other latent claims. The gross latent liabilities had a value of $368.9 million at December 31, 2011, which included $30 million of ULAE reserves. Existing reinsurance associated with the gross reserves was $34.4 million, which included $9 million of uncollectible reserves. This reinsurance was concurrently assigned to Clearwater. The transaction effectively reinsured 100% of the C&Fs' net latent exposures of $334.5 million. Reserves in the amount of $334.5 million were ceded as of the effective date in exchange for cash and securities with a market value of $334.5 million, resulting in no impact to surplus. Consideration paid was recorded as an increase to paid losses. As a result of the Reinsurance Agreement, the C&Fs' net asbestos and environmental reserves were substantially reduced at year-end 2011 to $91 thousand and $5.8 million, respectively, from $236.5 million and $66.4 million, respectively, at year-end 2010.

In the third quarter of 2011, Holdings rebalanced its capital among the insurance companies in order to better align each company's surplus as a percentage of total pool surplus. This included a $60.0 million dividend from Seneca Insurance Company, Inc. (SIC) to its parent, North River, and then a $75.0 million dividend payment from North River to Holdings, which in turn contributed the full $75.0 million to USF. In addition, FMIC paid an extraordinary dividend of $180.0 million to Holdings, which in turn contributed the full $180.0 million to USF.

EXAMINATION RECOMMENDATIONS

No significant findings were found that would warrant inclusion into this examination report.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES-STATEMENT BY NJDOBI ACTUARY

The North River Insurance Company

I, Boris Privman, FCAS, MAAA, Managing Actuary, Property and Casualty Actuarial Unit, Office of Solvency Regulation for the New Jersey Department of Banking and Insurance, have reviewed the actuarial analysis performed by INS Consultants, Inc. of the reported December 31, 2010 loss and loss adjustment expense reserves for The North River Insurance Company. Based upon this review the Company's gross and net loss reserves were reasonably stated and will be accepted without adjustment.

Actuarial findings as stated above and in this examination report are the sole responsibility of the New Jersey Department of Banking and Insurance's Property and Casualty Actuarial Unit of the Office of Solvency Regulation.

/S/

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Boris Privman, FCAS, MAAA

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/

Daniel J. Fialkowski, CFE, AIE, FLMI
Examiner-in-Charge
Department of Banking & Insurance
State of New Jersey

THE NORTH RIVER INSURANCE COMPANY

I, Daniel J. Fialkowski, 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, 2010 to the best of my information, knowledge, and belief.

Respectfully submitted,

/S/

Daniel J. Fialkowski, CFE, AIE, FLMI
Examiner-In-Charge
Department of Banking & Insurance
State of New Jersey

State of New Jersey
County of Mercer

Subscribed and sworn to before me, _______Linda L. Boone___________, on

this ____15th___ day of ______June___________, 2012.

/S/

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Linda L. Boone
Notary Public of New Jersey

My commission expires: ___March 26, 2014____