

JUN 23 2016

FILED

CERTIFICATION

June 23, 2016

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the

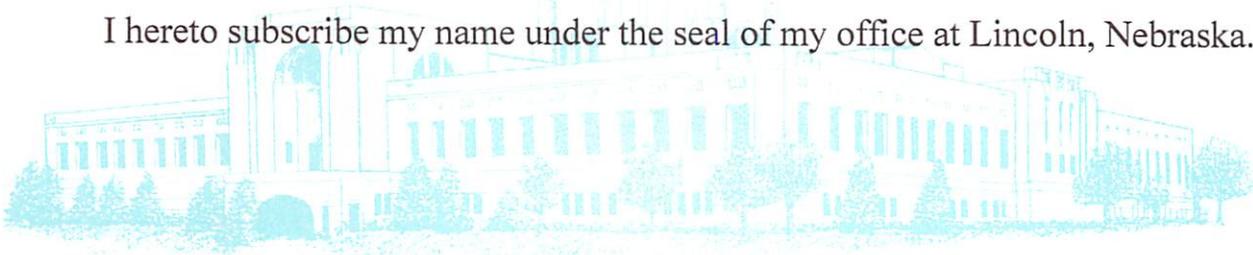
Financial Examination Report of
PLATTE RIVER INSURANCE COMPANY

as of

December 31, 2014

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Ramage

DIRECTOR OF INSURANCE

STATE OF NEBRASKA

DEPARTMENT OF INSURANCE

Bruce R. Ramge
Director



Pete Ricketts
Governor

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

PLATTE RIVER INSURANCE COMPANY

dated as of December 31, 2014, verified under oath by the examiner-in-charge on May 31, 2016, and received by the company on June 13, 2016, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 13th day of June, 2016.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A blue ink signature of Justin Schrader, written over a horizontal line.

Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

PLATTE RIVER INSURANCE COMPANY

as of

December 31, 2014



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Middleton, Wisconsin
June 2, 2016

Honorable Bruce R. Range
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

PLATTE RIVER INSURANCE COMPANY

which has its Statutory Home Office located at

**10306 Regency Parkway Drive
Omaha, NE 68114**

with its Principal Executive Office located at

**1600 Aspen Commons
Middleton, WI 53562**

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2009 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2014, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska and Wisconsin participated in this coordinated examination and assisted in the preparation of this report.

The same examination staff conducted a concurrent financial condition examination of the Company's affiliates, Capitol Indemnity Corporation (CIC) and Capitol Specialty Insurance Corporation (CSIC).

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the Wisconsin Office of the Commissioner of Insurance as the coordinating state and the Nebraska Department of Insurance as a participating state. The companies examined under this approach benefit to a large degree from common management, systems, processes, internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where

the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the shareholders, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and

procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Ernst & Young, LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2013 and 2014. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated under the laws of the State of North Carolina on January 6, 1972 as AMI Credit Insurance Company (later changed to AMIC Credit Insurance Company) and commenced business on January 14, 1972 to engage in the business of credit insurance.

Control of the former parent, AMIC Corporation (later changed to General Electric Mortgage Insurance Services, Inc.) was acquired by General Electric Mortgage Capital Corporation effective March 1, 1983. The name of the Company was subsequently changed from AMIC Credit Insurance Company to General Electric Equity Insurance Corporation. All of the stock of the Company was transferred to General Electric Mortgage Capital Corporation

effective December 31, 1989, due to the voluntary liquidation of General Electric Mortgage Insurance Services, Inc.

The Company amended its Articles of Incorporation on July 10, 1991 to change the Company name to Pinnacle Property and Casualty Insurance Corporation and to expand its authority to include other fire and casualty business. Effective November 23, 1994, the Company redomiciled to the State of Nebraska.

On December 9, 1994, the Company was sold to Underwriters Reinsurance Company. Effective December 16, 1994 the name of the Company was changed from Pinnacle Property and Casualty Insurance Corporation to Underwriters Insurance Company. On May 17, 2000, Swiss Reinsurance Company and Swiss Re America Holding Corporation acquired the Company.

The Director of Insurance approved Alleghany Corporation's Form A, filed December 28, 2001, with the Nebraska Department of Insurance, seeking to acquire the Company. On January 3, 2002 Alleghany Corporation's acquisition of the Company was finalized. In addition, on May 8, 2002, the Company changed its name to Platte River Insurance Company.

Alleghany Corporation engaged in a corporate reorganization, completed on February 3, 2014, in order to better align the companies within the CapSpecialty Group. The Company's stock was contributed by Alleghany Insurance Holdings LLC (AIHL) to CapSpecialty Inc, which subsequently contributed the stock to CIC.

Under the provisions of its charter and in conformity with Nebraska Statutes, the Company is presently authorized to write the kinds of insurance prescribed by Section 44-201, Subsections 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 16, 18 and 20 of the Nebraska Insurance Laws.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An abbreviated organizational listing flowing from the "Ultimate Controlling Person", as reported in the 2014 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Alleghany Corporation
 - Alleghany Insurance Holdings LLC
 - Transatlantic Reinsurance Company
 - CapSpecialty, Inc. (AIHL owns 75.1% / TransRe owns 24.9%)
 - Capitol Indemnity Corporation
 - Capital Specialty Insurance Corporation
 - Platte River Insurance Company
 - Professional Risk Mgmt. Services, Inc.
 - Capitol Facilities Corporation
 - CATA Services Co.

Shareholders

Article IV of the Company's Articles of Incorporation states that, "the authorized number of shares of the Corporation shall be 3,000,000, all of which shall be common shares with a par value of \$1.60 each. The aggregate par value of common shares is \$4,800,000". As of the date of examination all authorized shares issued and outstanding were owned by CIC. CIC is wholly owned by CapSpecialty, Inc., (formerly Capitol Transamerica Corporation), which in turn is owned jointly by AIHL (75.1%), Transatlantic Reinsurance Corporation (TransRe) (24.9%). AIHL and TransRe are both wholly owned subsidiaries of Alleghany Corporation, a publicly traded company. During the examination period, the Company distributed a cash dividend of \$5,000,000 to AIHL in 2011.

Board of Directors

The Company's By-Laws state that, “the Board of Directors shall consist of five (5) Directors; provided, however, that the Directors may be increased or decreased from time to time by amendment to this Section 3.1 adopted by: (a) the shareholders, (b) the Board of Directors, or (c) if the Directors remaining in office constitute fewer than a quorum of the Board of Directors, the Directors, by affirmative vote of the majority of all Directors remaining in office; provided, however, that no decrease shall have the effect of shortening the term of an incumbent Director”. Each Director shall be elected at the annual meeting of the shareholders and serve until the next annual meeting and until his or her successor is elected.

The following persons were serving as Directors of the Company at December 31, 2014:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Stela Burghart New York, New York	Associate General Counsel, Alleghany Corporation
Lawrence J. Harr Omaha, Nebraska	Attorney, Lamson, Dugan & Murray LLP
Daniel M. McGinnis New Hope, Pennsylvania	President, P&C and Professional Lines of the Company
John E. Rzepinski Verona, Wisconsin	Vice President, Treasurer /Chief Financial Officer of the Company
John L. Sennott Simsbury, Connecticut	Senior Vice President, Alleghany Corporation
Stephen J. Sills New York, New York	Chief Executive Officer/President of the Company

The Company's By-Laws indicate the Company should have five (5) members on the Board of Directors. As of the examination date, the Company had six (6) members on the Board of Directors. The Company was notified of the discrepancy and on February 24, 2016, the

Company's Board of Directors accepted John Rzepinski's resignation in order to bring the Company into compliance with the number of Directors stated in their By-Laws.

Officers

According to the By-Laws, "the Board of Directors shall appoint a President, a Secretary a Treasurer, and may also appoint one or more Vice Presidents, none of whom need be Directors. All Officers of the Corporation shall hold office at the pleasure of the Board of Directors. Any two or more offices may, at the direction of the Board of Directors, be held by the same person; provided, however, that the principal offices shall be held by at least three separate individuals."

The following is a listing of Officers elected and serving the Company at December 31, 2014:

<u>Name</u>	<u>Office</u>
Stephen Sills	Chief Executive Officer, President
Antonio Celi	General Counsel, Vice President and Secretary
John Rzepinski	Vice President, Treasurer, Chief Financial Officer
Richard Allen	President, Surety and Fidelity Operations

Committees

Provisions of the By-Laws establish that the Board of Directors may appoint an Executive Committee and other committees as they deem necessary and appropriate. The following persons were serving on the Executive Committee at December 31, 2014:

Stephen Sills
Dan McGinnis
John Sennott

In addition to the Executive Committee, an Investment Committee has been established. The following persons were serving on the Investment Committee at December 31, 2014:

Stephen Sills
John Sennott
John Rzepinski

TRANSACTIONS WITH AFFILIATES

Intercompany Federal Income Tax Allocation Agreement

Effective May 15, 2002 the Company entered into an Intercompany Federal Income Tax Allocation Agreement with Alleghany Corporation whereby the Company joined in the filing of the consolidated federal tax return as a member of the “affiliated group”.

Administrative Services Agreement

Effective January 4, 2002, the Company entered into an Administrative Services Agreement with CIC whereby CIC agrees to provide facilities, services of management and other personnel as may be requested from time to time. This includes all facilities and services necessary to conduct the business of insurance and facilitate the issuance of policies, including without limitation, product design, regulatory filing and compliance, and the making of any payments required in connection with: billing and collection, claims administration, payment and litigation, underwriting, customer service, policy and booklet printing and mailing, advertising, sales, marketing, and administration of sales commissions.

Investment Management Agreement

Effective January 1, 2008 the Company entered into an Investment Management Agreement with an affiliate, Roundwood Asset Management, LLC, (formerly Alleghany Capital Partners, LLC) to be responsible for making all investment decisions as directed by the Company. In August of 2014 the agreement was amended to reflect the name change and to enable Roundwood to receive client directions from certain officers of the Company.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states and the District of Columbia.

The Company is a nationwide writer of commercial and non-construction contract surety business, license and permit bond coverage, as well as providing pricing flexibility where its affiliated companies, CIC and CSIC, are also licensed.

The Company has appointed approximately 300 professional surety agents and brokers located in all fifty-one U.S. jurisdictions. The Company's bond business is made up of Non-Construction Contract, Fidelity, Court, License & Permit, Subdivision, and Miscellaneous.

REINSURANCE

Pooling Agreement

In 2002, CIC and the Company entered into a pooling arrangement whereby CIC retained 90% and the Company retained 10% of the aggregate insurance risk of the two companies for accident years 2002 and forward.

The Pooling Agreement was amended in 2007 to add CSIC to the pool. The pool participants cede 100% of their net premiums written, losses, loss adjustment expenses, underwriting expenses and related balance sheet categories (after non-affiliated external reinsurance) to CIC, excluding business written on behalf of Darwin National Assurance Company or RSUI Indemnity Company. CIC, as the lead company administers all aspects of the pooled business and retrocedes the pooled business back to CSIC and the Company. The new pooling percentages after the amendment were; 15% for the Company, 15% for CSIC and 70% for CIC.

During 2012, the Pooling Agreement was amended to establish timely settlement of third-party reinsurance balances and a due date for any necessary transfers between or among the Company, CIC and CSIC, effective December 31, 2012.

Multi-Cedant

CIC obtains ceded reinsurance agreements with unaffiliated reinsurers covering the pooled business of CIC, CSIC, and the Company prior to the pooling retrocession. Each affiliated entity is named on the reinsurance agreements, but participation is strictly between CIC and the unaffiliated reinsurer. These agreements are considered multi-cedant reinsurance agreements and therefore NAIC Accounting Practices and Procedures Manual SSAP No. 62R, paragraph 9 requires a written allocation agreement. On January 1, 2012 CIC and CSIC entered into a Reinsurance Allocation Agreement with the Company which clarified the intercompany allocation of reinsurance proceeds. The agreement was made to fulfill the requirements of SSAP No. 62R, paragraph 9 regarding multi-cedant reinsurance contracts.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Bonds	\$114,324,597	\$ 89,138,249	\$ 89,187,216	\$ 88,389,725	\$ 85,068,858
Admitted assets	152,718,678	122,299,176	122,254,095	126,206,410	124,541,152
Loss reserves	22,698,494	22,321,475	21,799,315	23,871,808	23,579,128
Total liabilities	112,022,141	84,241,986	84,509,136	84,904,167	83,001,429
Capital and surplus	152,718,678	122,299,176	122,254,095	126,206,410	124,541,152
Premiums earned	24,644,661	22,404,005	21,688,128	23,640,486	27,653,316
Losses incurred	10,506,346	9,114,048	8,908,010	12,039,972	11,340,814
Net income	3,803,528	3,117,762	1,747,924	(1,241,269)	258,283

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2014. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT **December 31, 2014**

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 85,068,858		\$ 85,068,858
Common stock	23,496,342		23,496,342
Cash, cash equivalents & short-term investments	8,673,559		8,673,559
Receivables for securities	<u>192,000</u>	<u> </u>	<u>192,000</u>
Subtotal, cash and invested assets	\$117,430,759		\$117,430,759
Investment income due and accrued	476,387		476,387
Uncollected premiums	2,452,850	\$1,143,415	1,309,435
Deferred premiums	2,752,637		2,752,637
Amount recoverable from reinsurers	9,771		9,771
Federal income tax recoverable	33,052		33,052
Net deferred tax asset	945,328		945,328
Receivables from parent, subs, affiliates	1,573,023		1,573,023
State income tax recoverable	<u>10,760</u>	<u> </u>	<u>10,760</u>
Totals	<u>\$125,684,567</u>	<u>\$1,143,415</u>	<u>\$124,541,152</u>

Liabilities, Surplus, and Other Funds

Losses	\$ 23,579,128
Reinsurance payable on paid losses and loss adjustment expenses	3,826,932
Loss adjustment expenses	4,110,943
Commissions payable, contingent commissions	801,963
Other expenses	166,769
Taxes, licenses and fees	246,891
Unearned premiums	14,251,245
Ceded reinsurance premiums payable	2,963,064
Amounts withheld or retained by the company for account of others	32,541,514
Funds held – unclaimed property	<u>512,980</u>
Total liabilities	<u>\$ 83,001,429</u>
Common capital stock	\$ 4,800,000
Gross paid in and contributed surplus	30,739,907
Unassigned funds (surplus)	<u>5,999,816</u>
Total capital and surplus	<u>\$ 41,539,723</u>
Totals	<u>\$124,541,152</u>

STATEMENT OF INCOME – 2014

Underwriting Income

Premiums earned	\$27,653,316
Losses incurred	\$11,340,814
Loss adjustment expenses incurred	4,125,696
Other underwriting expenses incurred	<u>14,741,146</u>
Total underwriting deductions	<u>\$30,207,656</u>
Net underwriting gain	<u>\$(2,554,340)</u>

Investment Income

Net investment income earned	\$ 1,675,403
Net realized capital gain	<u>716,230</u>
Net investment gain	<u>\$ 2,391,633</u>

Other Income

Net gain (loss) from agents or premium balances charged off	\$ (60,981)
Finance and service charges not included in premiums	25
Other income	<u>39,130</u>
Total other income	<u>\$ (21,826)</u>
Net income before dividends to policyholders and federal income taxes	\$ (184,533)
Dividends to policyholders	4,417
Federal income taxes incurred	<u>(447,233)</u>
Net income	<u>\$ 258,283</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Capital and surplus, beginning	\$36,666,611	\$40,696,537	\$38,057,190	\$37,744,959	\$41,302,243
Net income	\$ 3,803,528	\$ 3,117,762	\$ 1,747,924	\$(1,241,269)	\$ 258,283
Change in unrealized gains	478,227	(817,872)	(1,226,350)	3,183,491	(129,996)
Change in deferred income tax	(1,123,166)	(760,982)	(859)	(68,541)	267,587
Change in nonadmitted assets	871,337	821,745	(1,240,610)	1,683,603	(158,393)
Change in accounting principle			407,664		
Dividends to Stockholders		(5,000,000)			
Net change for the year	<u>\$ 4,029,926</u>	<u>\$ (2,639,347)</u>	<u>\$ (312,231)</u>	<u>\$ 3,557,284</u>	<u>\$ 237,481</u>
Capital and surplus, ending	<u>\$40,696,537</u>	<u>\$38,057,190</u>	<u>\$ 37,744,959</u>	<u>\$41,302,243</u>	<u>\$41,539,724</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$5,999,816, as reported in the Company's 2014 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

Reinsurance – Multi-Cedant Reinsurance Contracts - It is recommended that the Company establish an allocation agreement to formalize provisions for sharing amongst affiliates participating in Multi-cedant Reinsurance Contracts. It is also recommended that this allocation agreement be filed with the Director of the Nebraska Department of Insurance under the provisions of the Insurance Holding Company System Act, Neb. Rev. Stat. §44-2133(2).

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Investments – Custodial Agreements

During review of the custodial agreements, it was noted that the custodial agreement with The Bank of New York was not in compliance with all of the provisions of Title 210, Chapter 81 of the Nebraska Department of Insurance Rules and Regulations, in particular 003.02(h),

003.02(i) and 003.02(o). It is recommended that the Company revise its custodial agreements to include all provisions related to safeguards and controls of securities pursuant to Title 210, Chapter 81 of the Nebraska Department of Insurance Rules and Regulations.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

Articles of Incorporation and By-Laws Conflict – The Company’s By-Laws indicate the company should have five (5) members on the Board of Directors. As of the examination date, the Company had six (6) members on the Board of Directors. The Company was notified of the discrepancy and on February 24, 2016, the Company’s Board of Directors accepted John Rzepinski’s resignation in order to bring the Company into compliance with the number of Directors stated in their By-Laws.

Investments - Custodial Agreements - During review of the custodial agreements, it was noted that the custodial agreement with The Bank of New York was not in compliance with all of the provisions of Title 210, Chapter 81 of the Nebraska Department of Insurance Rules and Regulations, in particular 003.02(h), 003.02(i) and 003.02(o). It is recommended that the Company revise its custodial agreements to include all provisions related to safeguards and controls of securities pursuant to Title 210, Chapter 81 of the Nebraska Department of Insurance Rules and Regulations.

ACKNOWLEDGEMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Financial Examiner Skyler Lawyer, CFE with the Nebraska Department of Insurance and staff from the Wisconsin Office of the Commissioner of Insurance participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Joseph Hofmeister
Examiner-in-Charge
Department of Insurance
State of Nebraska



Richard Ramos, CFE
Assistant Chief Examiner
Department of Insurance
State of Nebraska