CASTLEPOINT NATIONAL INSURANCE COMPANY

Selected Financial Information and Analysis

As of and for the quarter ended June 30, 2017

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Overview

Castlepoint National Insurance Company (CNIC or the Company) is the surviving entity from a merger with Tower Insurance Company of New York, CastlePoint Insurance Company, Hermitage Insurance Company, Massachusetts Homeland Insurance Company, North East Insurance Company, Preserver Insurance Company, Tower National Insurance Company, York Insurance Company of Maine and Castlepoint Florida Insurance Company (pre-merger affiliates). All intercompany assets and liabilities arising between the pre-merger affiliates were eliminated. The Company and its pre-merger affiliates were members of Tower Group International Ltd. (Tower) and were ultimately owned by ACP Re, Ltd. (ACPRe). The merger agreement was structured so that CNIC will have responsibility for all of Tower's direct insurance business. CNIC and the pre-merger affiliates (except for Castlepoint Florida Insurance Company) were members of the Tower's US Pool. Subsequent to the completion of the merger, on July 28, 2016, CNIC was placed into conservation by the California Insurance Commissioner, and subject to the oversight of the California Insurance Commissioner.

Pursuant to the July 28, 2016 Order Appointing Insurance Commissioner as Conservator and Restraining Orders (the Conservation Order), the California Insurance Commissioner was appointed as the statutory Conservator of the Company. The Commissioner has also filed a Conservation and Liquidation Plan for the Company which was approved September 13, 2016. As part of the Conservation and Liquidation Plan, ACP Re commuted its aggregate stop loss reinsurance retrocession agreement with two affiliated companies who in turn provided aggregate stop loss reinsurance protection to Castlepoint Reinsurance Company (CPRe), (a Bermuda reinsurance company that was an affiliate of CNIC) and those companies' aggregate stop loss to CPRe were also cancelled, terminated and commuted. Concurrent with the execution of these agreements, CPRe commuted all of its reinsurance agreements with CNIC and the pre-merged companies, with consideration to CNIC being all of net tangible assets of CPRe, such that after the commutation CPRe has no further obligation to CNIC. Finally, CNIC received a cash payment of $200 million from the owners of ACPRe in exchange for their agreement to the commutation agreements. CNIC used these funds to pay losses and other expense of the estate while in conservation.

In accordance with the Conservation and Liquidation Plan, two Administrative Services Agreements were executed with AmTrust Financial Services Inc. and with National General Holdings Company for the continuity of claims servicing and payment processing for a period of 24 months. Such Administrative Service Agreements have been significantly reduced in scope as a result of the liquidation, as all states other than New York have taken direct control of the claims in their jurisdiction, while New York is continuing to utilize the AmTrust Administrative Service Agreement for the runoff of the commercial claims in its jurisdiction.

Pursuant to the Conservation and Liquidation Plan, ACP Re has no control over CNIC or ownership of any other of the Tower Group Companies as it transferred its ownership interest in the stock of all of the remaining Tower Group Companies to a trust.

On March 30, 2017, the Superior Court of the State of California issued a Liquidation Order (effective April 1, 2017) for Castlepoint National Insurance Company. The Order directs the Liquidator to liquidate and wind up the business of Castlepoint and to act in all ways and exercise all powers necessary for the purpose of carrying out this Order and the Liquidation provision of the California Insurance Co, Insurance Sections 1010 *et seq*. On April 1, 2017 all direct claims of Castlepoint (and the merged entities) that arose under policies of insurance that are protected by State Guaranty Funds were transferred to the State Guaranty Funds that have jurisdiction over the claims. All claims issued under policies of insurance that are not protected by State Guaranty Funds were transferred back to the insureds under the policies, and such insureds are eligible to file a proof of claim with the Liquidator. Such proofs of claim forms were mailed to insureds and all other potential creditors in the second quarter of 2017, with a final claims bar date of December 31, 2017. Claims filed by these insureds without Guaranty Fund protection and approved by the Liquidator will receive the same creditor classification as those claims filed by the State Guaranty Funds.

Other creditors, including claims that arose from policies of reinsurance issued by the Company will be subordinated to the claims of the Guaranty Funds and the direct claims of insureds not protected by Guaranty Funds.

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Statutory Balance Sheets
(Unaudited)

($ in thousands)	30-Jun-17	31-Mar-17	Increase (Decrease)
Admitted Assets			
Cash and invested assets			
Unrestricted assets	$ 97,861	$ 75,878	$ 21,983
Restricted assets			
Pledged to states	94,455	320,689	(226,234)
Pledged for reinsurance	75,926	80,625	(4,699)
Funds at Lloyds and other invested assests	42,072	42,072	-
Total restricted assets	212,453	443,386	(230,933)
Total cash and invested assets	**310,314**	**519,264**	**(208,950)**
Investment income due and accrued	2,370	3,589	(1,219)
Uncollected premiums and agents' balances	-	834	(834)
Amounts recoverable from reinsurers	10,631	26,503	(15,872)
Funds held by or deposited with reinsured companies	772	772	-
Advances to CA Insurance Guarantee Association	226,234	-	226,234
Miscellaneous assets	44,897	52,533	(7,636)
Total admitted assets	**$ 595,218**	**$ 603,495**	**$ (8,277)**
Liabilities, capital and surplus			
Liabilities			
Reserve for losses and loss adjustment expenses	$ 822,809	$ 829,659	$ (6,850)
Reinsurance payable on paid losses and LAE	10,769	10,561	208
Ceded reinsurance premiums payable	1,302	1,490	(188)
Funds held by company under reinsurance treaties	19,203	21,832	(2,629)
Miscellaneous liabilities	22,523	21,313	1,210
Total liabilities	876,606	884,855	(8,249)
Capital and surplus			
Common capital stock	4,200	4,200	-
Surplus notes	3,000	3,000	-
Gross paid in and contributed surplus	521,742	521,742	-
Unassigned deficit	(810,641)	(810,613)	(28)
Special surplus funds from retroactive reinsurance	311	311	-
Total capital and surplus	(281,388)	(281,360)	(28)
Total liabilities, capital and surplus	**$ 595,218**	**$ 603,495**	**$ (8,277)**

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Notes to Statutory Balance Sheets

Assets

Total cash and invested assets were $310.3 million at June 30, 2017 compared to $519.3 million at March 31, 2017. The decrease is primarily due to transfer of securities and cash to California Insurance Guarantee Association ("CIGA") for future claim payments during the second quarter of 2017.

Investment income due and accrued decreased by $1.2 million, or 33%, to $2.4 million at June 30, 2017 compared to $3.6 million at March 31, 2017, primarily due to transfer of securities to CIGA.

Reinsurance recoverable was $10.6 million at June 30, 2017 compared to $26.5 million at March 31, 2017. Balances collected during the second quarter 2017 were $17.4 million, compared to collections of $18.3 million in the first quarter 2017. None of these balances are currently in dispute. Reinsurance contracts do not relieve CNIC from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to CNIC.

Funds held by or deposited with reinsured companies were $0.8 million at June 30, 2017 and March 31, 2017.

Miscellaneous assets were $44.9 million at June 30, 2017 compared to $52.5 million at March 31, 2017, as shown below. The amounts receivable from CPRe represent CPRe's net tangible assets which are due to CNIC under the terms of the commutation agreement with CPRe. The receivable from CPRe increased by $0.4 million in the second quarter of 2017 due to underwriting and investment income and unrealized gain. As of March 31, 2017, TPA's are no longer handling Tower's losses. The decrease of $8.9 million is the return of advance funds that were received from CNIC to pay claims.

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Selected Financial Information and Analysis

Notes to Statutory Balance Sheets, continued

Assets, continued

Miscellaneous Assets
(unaudited)

($ in thousands)	30-Jun-17	31-Mar-17	Increase (Decrease)
Tangible value of CPRe due to Estate	$ 11,243	$ 10,888	$ 355
Loss payment suspense	10,184	6,719	3,465
Involuntary fair plan assumed	9,719	9,719	-
Workers' compensation fund assessment	6,589	6,589	-
Receivable from residual market pools	3,209	3,209	-
Advances to TPA's	587	9,472	(8,885)
Receivable from AmTrust	-	(222)	222
Other	3,366	6,159	(2,793)
Total	**$ 44,897**	**$ 52,533**	**$ (7,636)**

Liabilities

The Company's net loss and LAE reserves were $822.8 million at June 30, 2017 compared to $829.7 million at March 31, 2017. The balance as of June 30, 2017 represents the net reserves transferred to the State Guaranty funds for all claims valued as of March 31, 2017 the date the Company went into liquidation, reduced by payments made by the Liquidator, primarily for LAE and for certain workers' comp indemnity benefits. The Company expects to receive second quarter data from the guarantee funds in August and September, and will update its reserve position upon receipt of such data.

Reinsurance payable on paid losses and LAE were $10.8 million at June 30, 2017 compared to $10.6 million at March 31, 2017. Under the Conservation and Liquidation Plan, the Company is no longer making payments on assumed business and is only permitting its cedants to draw down any available collateral against their balances.

Ceded reinsurance premiums payable were $1.3 million at June 30, 2017 compared to $1.5 million at March 31, 2017. The balance decreased by $0.2 million between March 2017 and June 2017.

Funds held by the Company were $19.2 million at June 30, 2017 compared to $21.8 million at March 31, 2017. The decrease of $2.6 million is primarily due to losses paid on a quota share treaty.

The Company had no balances payable to parent and affiliates at June 30, 2017 and March 31, 2017.

Miscellaneous liabilities were $22.5 million at June 30, 2017 compared to $21.3 million at March 31, 2017. Included in this balance are outstanding checks of $17.0 million and $16.9 million at June 30, 2017 and March 31, 2017, respectively.

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Selected Financial Information and Analysis

Notes to Statutory Balance Sheets, continued

Capital and Surplus Accounts

The following table sets forth the changes in policyholders' surplus for the six months ended June 30, 2017 and three months ended March 31, 2017:

Changes in Policyholders' Surplus
(unaudited)

($ in thousands)	Six months ended June 30, 2017	Three months ended March 31, 2017	Increase (Decrease)
Policyholders' surplus, beginning period	$ (281,909)	$ (281,909)	$ -
Net income (loss)	13	(532)	545
Change in net unrealized capital gains	625	553	72
Change in non-admitted assets	(527)	458	(985)
Aggregate write-ins for gains and losses in surplus	410	70	340
Policyholders' surplus, ending period	**$ (281,388)**	**$ (281,360)**	**$ (28)**

Surplus decreased by $0.1 million in the second quarter of 2017 primarily from investment income earned, partially offset by other underwriting expenses and change in non-admitted assets noted below.

Changes in Non-Admitted Assets
(unaudited)

($ in thousands)	Six months ended June 30, 2017	Three months ended March 31, 2017	Increase (Decrease)
Other invested assets	$ -	$ -	$ -
Premium receivable	(985)	-	(985)
Other assets	458	458	-
Receivables from parents and affiliates	-	-	-
Total change in non-admitted assets	**$ (527)**	**$ 458**	**$ (985)**

The changes in non-admitted assets during the first quarter of 2017, were primarily due to the advances to TPA's that are no longer non-admitted and during the second quarter of 2017 due to non-admitting the remaining balance of agents' balances.

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Statements of Operations
(Unaudited)

($ in thousands)	Three months ended June 30, 2017	Three months ended March 31, 2017	Increase (Decrease)
Premium earned	$ (82)	$ (78)	$ (4)
Losses incurred and loss adjustment expenses incurred	-	(430)	430
Other underwriting expenses incurred	(1,273)	(3,284)	2,011
Commutation gain	-	-	-
Affiliated balance (previously non-admitted)	-	-	-
Net underwriting (loss)	(1,355)	(3,792)	2,437
			-
Net investment income earned	1,792	2,569	(777)
Net realized capital (loss)	83	311	(228)
Net investment gain (loss)	1,875	2,880	(1,005)
Other expenses	25	380	(355)
Net (loss)	**$ 545**	**$ (532)**	**$ 1,077**

Notes to Statements of Operations

Loss and loss adjustment expenses incurred

The Company reported loss and loss adjustment expenses incurred of $0 for the three months ended June 30, 2017 compared to $0.4 million for the three months ended March 31, 2017.

Other underwriting expenses

Other underwriting expenses for the three months ended June 30, 2017 were $1.3 million compared to $3.3 million for the three months ended March 31, 2017.

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Selected Financial Information and Analysis

Other Underwriting expenses

($ in thousands)	Three months ended June 30, 2017	Three months ended March 31, 2017	Increase (Decrease)
Commission and BB&A	$ (183)	$ 1,730	$ (1,913)
Salaries and employee benefits	510	1,146	(636)
Rent & depreciation	(20)	35	(55)
Professional services	1,201	1,334	(133)
Other	(235)	(961)	726
Total	**$ 1,273**	**$ 3,284**	**$ (2,011)**

The decrease in Commission and BB&A is due to $2.0 of sliding scale ceded commission for the Company's reinsurance covers recorded during the three months ended March 31, 2017. The decrease in Salaries and employee benefits is due to the reduction in the employee head count.

Net investment income and net realized capital gains (losses)

Net investment income earned was $1.8 million for the three months ended June 30, 2017 compared to $2.6 million for the three months ended March 31, 2017.

Net realized capital gains were $0.1 million for the three months ended June 30, 2017 compared to net capital gains of $0.3 million for the three months ended March 31, 2017.

Other expenses

The decrease in other expenses is primarily due to a larger amount of agents' balances recoveries collected during the three months ended March 31, 2017 as compared to the second quarter.

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Statutory Statements of Cash Flows (Unaudited)

($ in thousands)	Six months ended June 30, 2017	Three months ended March 31, 2017	Increase (Decrease)
Cash from Operations			
Benefit and loss related payments	$ (85,603)	$ (90,545)	$ 4,942
Commission and other expenses paid	(16,898)	(15,777)	(1,121)
Premiums collected net of reinsurance	(1,308)	(2,039)	731
Net investment income	6,737	3,801	2,936
Miscellaneous income	(38)	(38)	-
Federal income taxes recovered	-	-	-
Net cash provided by (used in) operations	**(97,110)**	**(104,598)**	**7,488**
Net cash provided by investments	**28,668**	**22,380**	**6,288**
Net cash provided by (used in) misc.sources	**23,115**	**13,552**	**9,563**
Net change in cash and cash equivalents	(45,327)	(68,666)	23,339
			-
Cash and cash equivalents Beginning of year	179,444	179,444	-
Cash and cash equivalents, end of period	**$ 134,117**	**$ 110,778**	**$ 23,339**

Notes to Statutory Statements of Cash Flows

CNIC had a net cash outflow of $45.3 million for the six months ended June 30, 2017 compared to $68.7 million outflow for the three months ended March 31, 2017. For the six months ended June 30, 2017, the Company had a net cash outflow of $85.6 million from benefits and loss related payments and outflow of $16.9 million from commission and other expenses partially offset by inflows of $23.1 million from the miscellaneous sources and net proceeds from investments of $28.7 million. The Company is in run-off, and expects continued outflow of operating cash. The net cash outflow was primarily due to transfer of cash to CIGA.

The Cash and cash equivalents of $310.3 million at June 30, 2017 ties to the amount that would be included in the Company's statutory presentation of assets. A reconciliation to the accompanying balance sheet is presented below ($000):

Bonds	$134,125
Cash	134,117
Other Invested assets	42,072
Investment receivable	0
Total	**$310,314**