

REPORT ON EXAMINATION

OF THE

BELMONT INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT

SEPTEMBER 11, 2013

EXAMINER

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

September 11, 2013

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30908 dated December 27, 2012, attached hereto, I have made an examination into the condition and affairs of Belmont Insurance Company as of December 31, 2011, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Belmont Insurance Company. Wherever the designation “Parent” appears herein without qualification, it should be understood to refer to SL Green Realty Corp. Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

1. SCOPE OF EXAMINATION

The examination covers the period from September 15, 2006 through December 31, 2011, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including invested assets, and losses and loss adjustment expense reserves. The examination included a review of income, disbursements and Company records deemed necessary to accomplish such analysis or verification. Additionally, a review was performed to determine whether the captive insurer was operating within its by-laws, conforming with its plan of operation, as submitted to the New York State Department of Financial Services, and was in compliance with Article 70 of the New York Insurance Law.

Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the New York Insurance Law.

The report utilized work performed by the Company's independent certified public accountants and its opining actuary to the extent considered appropriate.

2. DESCRIPTION OF COMPANY

Belmont Insurance Company was incorporated as a stock insurance company under the laws of the State of New York on September 15, 2006. The Company is directly owned by SL Green Operating Partnership, L.P., a Delaware Limited Partnership. The Company's ultimate parent is SL Green Realty Corp., a Maryland domiciled Real Estate Investment Trust, which focuses primarily on owning and operating office buildings in Manhattan.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 1113(a) and Section 1114 of the New York Insurance Law, subject at all times to the limitation on the business of a pure captive insurance company set forth in Article 70 of the New York Insurance Law.

B. By-Laws

The examination revealed that the Company is in compliance with its by-laws in all material respects.

C. Capital Structure

As a pure captive insurance company incorporated as a stock insurer, the Company is required to maintain surplus as regards policyholders of not less than \$250,000, of which \$100,000 shall represent paid in capital pursuant to the provisions of Section 7004(a)(1) of the New York Insurance Law.

As of December 31, 2011, the Company's paid in capital was \$100,000 consisting of 1000 shares of \$100 par value per share common stock and its surplus as regards policyholders was \$42,870,682.

D. Corporate Records

The corporate records reviewed appear to be substantially accurate and complete in all material respects.

E. Reinsurance

The Company provides property coverage to SL Green Realty Corp. and its affiliates related to exposures under the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") and related Nuclear, Biological, Chemical and Radiological Acts of Terrorism ("NBCR"). Under TRIPRA, the Company is eligible for 85% reinsurance provided by the U.S. Treasury in excess of a statutorily mandated deductible equal to 20% of the prior year's direct earned premiums. The following chart shows the terrorism risks insured, reinsured and retained by the Company at December 31, 2011:

Risks insured

TRIPRA: \$650,000,000 in excess of \$100,000,000 per occurrence.

Risks Reinsured

85% reinsured by the U.S. Treasury above a statutory deductible equal to 20% of direct earned premium

Risks Retained

Statutory deductible

<u>Risks insured</u>	<u>Risks Reinsured</u>	<u>Risks Retained</u>
	15% reinsured by Lexington Insurance Company.	
NBCR: \$750,000,000 per occurrence.	85% reinsured by the U.S. Treasury above a statutory deductible equal to 20% of direct earned premium	Statutory deductible + 15% not reinsured by the U.S. Treasury.

F. Management and Control

(i) Captive Manager

Section 7003(b)(4) of the New York Insurance Law provides that no captive insurer shall do any captive insurance business in this state unless it utilizes a captive manager resident in the State of New York that is licensed as an agent or broker under the provisions of the Article 21 of the New York Insurance Law, or any other person approved by the Superintendent.

Pursuant to the Management Agreement between the Company and Willis, Willis shall provide the following services:

- Initiate and maintain books of account in accordance with established accounting principles applicable to the business of insurance;
- Compile, prepare and maintain adequate underwriting policies and files;
- Arrange for investment of the Company's funds in accordance with Company guidelines;
- Maintain such books of account and records necessary to conform with the laws of the State of New York and ensure that such books and records are audited annually;
- Carry out on the Company's behalf all reporting obligations imposed on captive insurance companies by the laws of the State of New York.

(ii) Board of Directors

Pursuant to the Company's by-laws, management of the Company is vested in a board of directors consisting of not less than three nor more than ten members, of which, at least two shall at all times be residents of New York State. At December 31, 2011, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Marc Holliday Scarsdale, NY	CEO, SL Green Realty Corp.
Andrew S. Levine Mamaroneck, NY	EVP, General Counsel, SL Green Realty Corp.
James Mead Wilmette, IL	CFO, SL Green Realty Corp.

During the period covered by this examination, the board met once each year. A review of the meeting minutes during the examination period indicated that the Company is in compliance with its by-laws, and all the board meetings were generally well attended except for Marc Holliday, who only attended one third board of directors' meetings for which he was eligible during the examination period.

It is recommended that board members who are unable to or unwilling to attend board meetings should resign or be replaced.

(iii) Officers

As of December 31, 2011, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Marc Holliday	President
Andrew Mathias	Vice President
Andrew S. Levine	Secretary
James Mead	Treasurer

G. Certified Public Accountant ("CPA") and Actuarial Services

The Company was audited by the independent CPA firm Saslow Lufkin & Buggy, LLP, 10 Tower Lane, Avon, CT 06001 for the years 2007 to 2011, and by Ernst & Young in 2006. The Company's opining actuary as of December 31, 2011 was Milliman Inc., 289 Edgewater Drive, Wakefield, MA 01880.

H. Growth of Company

The following schedule sets forth a summary of the Company's significant financial information for the period covered by this examination:

<u>Year</u>	<u>New Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholder's Equity</u>
2006	\$ 150,000	\$ 385,053	\$ 52,702,114	\$ 49,585,053
2007	2,073,718	3,620,733	59,097,111	53,226,086
2008	3,644,324	1,951,609	62,453,045	54,608,981
2009	5,753,953	2,962,031	49,743,840	37,857,681
2010	6,324,872	3,794,729	55,755,176	41,914,155
2011	6,518,735	5,956,527	56,122,683	42,870,682

3. FINANCIAL STATEMENTS

With the Department's permission, the financial statements of the Company have been prepared in conformity with generally accepted accounting principles, which differ from statutory accounting practices prescribed or permitted by the Department for insurance companies. The Company's independent accounting firm concluded that the following financial statements present fairly, in all material respects, the Company's financial position as of December 31, 2011.

A. Balance Sheet

Assets

Cash	\$ 11,953,304	
Bond	11,927,097	
Other invested assets-equities	100,000	
Accrued interest	103,025	
Accounts and premiums receivable	5,800,681	
Investments in and advances to affiliates	26,000,000	
Prepaid reinsurance premiums	175,518	
Deferred policy acquisition costs	23,975	
Claims prepaid	24,418	
Loss escrow fund	844	
Deferred tax asset	<u>13,821</u>	
Total Assets		\$ <u>56,122,683</u>

Liabilities

Losses and loss adjustment expenses	\$ 6,440,908	
Unearned premiums	5,994,091	
Deposit liability	132,715	
Reinsurance balances payable	176,000	
Taxes payable	373,568	
Amounts due to affiliates	45,000	
Accounts payable and accrued expenses	<u>89,720</u>	
Total liabilities		\$ 13,252,002

Capital and Surplus

Paid in capital (par value)	\$ 100,000	
Contributed surplus	24,100,000	
Surplus (accumulated earnings)	<u>18,670,681</u>	
Total capital and surplus		\$ <u>42,870,681</u>
Total liabilities and capital surplus		\$ <u>56,122,683</u>

B. Statement of Income

The Company's Capital and surplus increased \$67,870,682 during the period from September 15, 2006 to December 31, 2011, detailed as follows:

<u>Underwriting Income</u>		
Net premiums earned		\$24,465,602
Deductions:		
Net losses and loss adjustment expense incurred	\$7,635,121	
Premium tax expenses	\$370,960	
General and administrative	<u>2,270,336</u>	
Total operating deductions		<u>\$10,276,417</u>
Net operating gain or (loss)		\$14,189,185
<u>Investment Income</u>		
Net investment income earned	\$6,960,801	
Realized gains (losses) on investments	<u>(828,619)</u>	
Total investment income		<u>\$ 6,132,182</u>
Net income before tax		\$20,321,367
Federal income tax expenses	<u>\$1,650,685</u>	
Net income		<u>\$18,670,682</u>

C. Capital and Surplus Account

Capital and surplus as of September 15, 2006			\$ 0
	<u>Gains in surplus</u>	<u>Losses in surplus</u>	
Net income	\$18,670,682		
Issuance of common stock	100,000		
Additional capital contribution	49,100,000		
Dividend to the parent		\$20,000,000	
Return of capital	<u>0</u>	<u>5,000,000</u>	
Net increase in surplus	<u>\$67,870,682</u>	<u>\$25,000,000</u>	<u>\$67,870,682</u>
Capital and surplus per report on examination as of December 31, 2011			<u>\$42,870,682</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2011 the Company recorded unpaid loss and loss adjustment expenses of \$6,440,907. The Company's opining actuary states the following in its "Statement of Actuarial Opinion":

"In my opinion, the amounts carried...:

- Meet the requirements of the captive insurance laws of the State of New York;
- Are consistent with reserves computed in accordance with Standards of Practice issued by the Actuarial Standards Board (including the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves); and
- Make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements."

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York State Insurance Law is the governing section of the law for the formation and continued operation of captive insurers in New York State. A review was performed to test the Company's compliance with all applicable parts of Article 70 of the New York Insurance Law. No significant areas of non-compliance were found.

6. ORGANIZATIONAL STRUCTURE

Belmont Insurance Company is 100% owned by SL Green Operating Partnership, L.P., a Delaware Limited Partnership. The ultimate parent is SL Green Realty Corp., a Maryland Corporation, which is a 95.116% general partner of SL Green Operating Partnership, L.P. SL Green Realty Corp. is a fully integrated Real Estate Investment Trust that is focused primarily on acquiring, managing and maximizing value of Manhattan commercial properties and a selection of residential units in Brooklyn, Long Island, Westchester County, Connecticut and New Jersey.

7. INSURANCE PROGRAM

As of December 31, 2011, the Company has provided the following insurance coverage to SL Green Realty Corp. and its subsidiaries:

<u>Coverage</u>	<u>Limit of liability</u>
Commercial General Liability	\$150,000 per occurrence with a \$2,100,000 annual aggregate.
Commercial pollution legal liability	\$975,000 in excess of a \$25,000 self-insured retention per occurrence.
Property Terrorism Risks (TRIPRA) excluding NBCR	\$650 million in excess of \$100 million per occurrence.
Property Terrorism Risks (NBCR)	\$750,000,000 per occurrence.

8. SUMMARY OF COMMENTS OR RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
1. It is recommended that board members who are unable to or unwilling to attend board meetings should resign or be replaced.	5

Respectfully submitted,

_____/s/_____
Wei Cao
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

WEI CAO, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____/s/_____
Wei Cao

Subscribed and sworn to before me
this _____ day of _____, 2013.

APPOINTMENT NO. 30908

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Wei Cao

as a proper person to examine the affairs of the

BELMONT INSURANCE COMPANY

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York*

this 27th day of December, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By: _____

Jean Marie Cho
Deputy Superintendent