

REPORT ON EXAMINATION

OF THE

HERMITAGE INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT

MAY 19, 2011

EXAMINER

GLENDA GALLARDO

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

May 19, 2011

Honorable James J. Wrynn  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30444 dated December 10, 2009, attached hereto, I have made an examination into the condition and affairs of Hermitage of Insurance Company as of December 31, 2009, and submit the following report thereon.

Wherever the designations "the Company" or "Hermitage" or "HIC" appears herein without qualifications, they should be understood to indicate Hermitage of Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's 120 Broadway, 30<sup>th</sup> Floor, New York, NY 10271.

## **1. SCOPE OF EXAMINATION**

The Department has performed a multi-state examination of Hermitage Insurance Company. The previous examination was conducted as of December 31, 2007. This examination covered the two year period from January 1, 2008 through December 31, 2009. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which 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. This examination also includes assessing the principles used 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 financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment and an evaluation based upon the Company’s Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

Hermitage Insurance Company was incorporated under the laws of the State of New York in 1984 and commenced writing business in December 1985.

The Company was a wholly-owned subsidiary of Queensway Financial Holdings Ltd. from 1995 to March 18, 2005. On March 18, 2005, the Department gave regulatory approval for the acquisition of Hermitage Insurance Company by Brookfield Asset Management.

On February 27, 2009, Tower Group, Inc. acquired Hermitage Insurance Company and it became part of Tower Holding Company group.

At December 31, 2009, capital paid in was \$3,101,040 consisting of 1,095 shares of common stock at \$2,832 par value per share. Gross paid in and contributed surplus was \$20,453,959. Gross paid in and contributed surplus increased by \$3,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2007	Beginning gross paid in and contributed surplus	\$17,453,959
2008	Surplus contribution	<u>\$3,000,000</u>
	Total Surplus Contributions	<u>3,000,000</u>
2009	Ending gross paid in and contributed surplus	<u>\$20,453,959</u>

### A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The board meets five times during each calendar year. At December 31, 2009, the board of directors was comprised of the following thirteen members:

Name and ResidencePrincipal Business Affiliation

Salvatore V. Abano  
Milltown, NJ

Senior Vice President, Chief Information  
Officer,  
Tower Insurance Company of New York

Francis M. Colalucci  
New York, NY

Senior Vice President and Director,  
Tower Insurance Company of New York

Brian W. Finkelstein  
Rye Brook, NY

Managing Vice President , Controller,  
Tower Insurance Company of New York

Michael H. Lee  
New York, NY

President & Chief Executive Officer,  
Tower Insurance Company of New York

Gary S. Maier  
Tenafly, New Jersey

Senior Vice President, Chief Underwriting  
Officer,  
Tower Insurance Company of New York

Scott T. Melnik  
Kings Park, NY

Managing Vice President, Director,  
Tower Insurance Company of New York

Elliot S. Orol  
New York, NY

Senior Vice President, General Counsel  
and Secretary,  
Tower Insurance Company of New York

Christian K. Pechmann  
Mendham, NJ

Senior Vice President,  
Tower Insurance Company of New York

Laurie A. Ranegar  
New Hope, PA

Senior Vice President, Operations,  
Tower Insurance Company of New York

Bruce W. Sanderson  
North Caldwell, NJ

Managing Vice President , Field  
Management,  
Tower Insurance Company of New York

Thomas H. Song  
South Orange, NJ

Managing Vice President, Director,  
Tower Insurance Company of New York

Joel S. Weiner  
New Hope, PA

Senior Vice President, Strategic Planning  
and Actuarial,  
Tower Insurance Company of New York

Catherine M. Wragg  
Jersey City, NJ

Managing Vice President, Human  
Resources and Administration,  
Tower Insurance Company of New York

When reviewing the minutes, the examiner noted that the Company did not hold regular board meetings during the period covered by this examination. In lieu of formal board meetings, the Company's business was conducted through "Action by Unanimous Consent of Directors without a Meeting."

It is the Department's position that there should be at least one annual meeting of the Company's board of directors and any "Action by Unanimous Consent of Directors without a Meeting" should be limited to emergency situations only. Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members have regular meetings in which they set forth their views on relevant matters so that they may reach appropriate decisions. It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its by-laws and maintain complete minutes of such proceedings.

As of December 31, 2009, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Michael H. Lee	President
Francis M. Colalucci *	Treasurer
Joel S. Weiner	Senior Vice President, Strategic Planning and Actuarial
Elliot S. Orol	Senior Vice President, General Counsel and Secretary
Gary S. Maier	Chief Underwriting Officer

\*Mr. Colalucci resigned in early 2010 and was replaced by William Hitselberger.

#### B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in New York, New Jersey, Georgia, Pennsylvania and Rhode Island. The Company also operates as an excess and surplus lines insurer in twenty-nine additional states and the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident and Health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
22	Residual Value

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41, and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$6,000,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	<u>Premiums Written in New York State as a Percentage of Total Premium</u>
2008	\$44,947,809	\$76,530,468	58.73%
2009	\$48,125,418	\$75,000,160	64.17%

The Company is a New York domiciled commercial lines insurer that specializes in providing coverage for habitational, premises, products and contracting accounts that present a low exposure to frequency and moderate exposure to severity. The Company is licensed on an admitted basis in five states and writes business in those jurisdictions where applicable state regulations allow sufficient flexibility to set policy rates and coverage terms based on the company's analysis of the risks involved, enabling the company to insure more difficult risks profitably. Where applicable state regulations do not permit such flexibility, the Company operates as an excess and surplus lines insurer. The Company is eligible to operate on a non-admitted basis in twenty-nine states and the District of Columbia. At December 31, 2009, the company's admitted writings comprised

approximately 77% of its direct premium, mostly in its domiciled state of New York where approximately 64% of its business is generated.

The Company markets its policies through contracted wholesale brokers who, in turn, obtain business from retail brokers. The Company has developed long-term relationships with its wholesale brokers and does not impose premium volume or class restrictions on them. Limited binding authority is granted to certain producers for small, more innocuous classes, all of which are subsequently subject to company review and approval.

Effective April 1, 2009, the Company was added to Tower Insurance Company of New York inter-company pooling agreement, retroactive to January 1, 2009.

### C. Reinsurance

Hermitage reported a nominal amount of assumed reinsurance in relation to its gross premiums written at December 31, 2009, excluding business assumed via the inter-company pooling agreement. The Company's assumed business relates in part to the participation in a mandated pool. The Company utilizes reinsurance accounting as defined in the NAIC Accounting Practices and Procedures Manual Statement of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

#### Inter-Company Pooling Agreement

Effective January 1, 2008, Tower Insurance Company of New York ("TICNY"), functioning as the pool manager, entered into an inter-company pooling agreement with several of its insurance affiliates, Tower National Insurance Company ("TNIC"), Preserver Insurance Company ("PIC"), North East Insurance Company ("NEIC"), and Mountain Valley Insurance Company ("MVIC"), collectively the "participating companies." On February 5, 2009, the pooling agreement was amended to include CastlePoint Insurance Company ("CPIC"), as a result of the acquisition of CPIC by Tower Group, Inc. ("TGI"), the Company's ultimate parent. On April 1, 2009, the pooling agreement was again amended to include Hermitage Insurance Company ("HIC"), as a result of the acquisition of HIC by TGI. On December 31, 2009, the pooling agreement was amended to include CastlePoint National Insurance Company (formerly known as SUA Insurance Company) ("CPNIC"), as a result of the acquisition of CPNIC by TGI.

According to the terms of the agreement, the participating companies will cede 100% of all their direct and assumed business written to TICNY; which in turn will accept as assumed reinsurance 100% of the net liabilities with respect to policies issued by the participants. At the same time, TICNY will retrocede the participating companies a percentage of the pooled business (net of internal and external reinsurance) as set forth in the pooling agreement.

Tower Insurance Company of New York will negotiate, obtain and maintain reinsurance on behalf of itself and the pool members with respect to the insurance liability under all policies written by the pool members and by the pool manager. All ceded balances related to internal and external reinsurance contracts are recorded in the statutory financial statements of TICNY and all reinsurers which are parties to the contracts are included in TICNY's Schedule F. It is noted that TICNY is the only pool participant that establishes a provision for reinsurance.

The agreement and all of its amendments were reviewed and approved by the Department pursuant to Section 1505 of the New York Insurance Law.

The participating percentages of each pool member as of December 31, 2009 were as follows:

<u>Company</u>	<u>State of Domicile</u>	<u>Abbreviation</u>	<u>NAIC#</u>	<u>Pooling Percentage</u>
Tower Insurance Company of New York	NY	TICNY	44300	37%
CastlePoint National Insurance Company	IL	CNIC	40134	18%
CastlePoint Insurance Company	NY	CPIC	17205	16%
Hermitage Insurance Company	NY	HIC	18376	13%
Preserver Insurance Company	NJ	PIC	15586	7%
North East Insurance Company	ME	NEIC	24007	4%
Mountain Valley Indemnity Company	NH	MVIC	10205	3%
Tower National Insurance Company	MA	TNIC	43702	<u>2%</u>
				<u>100%</u>

It is noted that the Company, along with Tower Insurance Company of New York, the pool manager, was not fully in compliance with the provisions of Article IX Section B of the pooling agreement, which requires that account statements be prepared within thirty days of the end of each quarter and that balances should be settled within fifteen days after preparation and receipt of the account statements. The account statements and settlement were not timely prepared and made. It is recommended that the Company comply with Article IX, Section B of its pooling agreement that was filed with Department in accordance with Section 1505(d)(2) of the New York Insurance Law.

The Company participates in the same reinsurance program as its affiliate Tower Insurance Company of New York. As of December 31, 2009, the ceded reinsurance program restructured to limit its maximum exposure on any one risk was follows:

Net Quota Share Reinsurance Agreement with CPRE

- Effective July 1, 2009, TICNY and its pool members entered into a 50% quota share reinsurance agreement with an affiliated unauthorized reinsurer, CastlePoint Reinsurance Company LTD. (“CPRe”). A provision of the contract indicates that the parties may agree in writing to adjust the quota share number to any percentage between 25% and 50%. Business covered under this agreement relates to all new and renewed policies written during the term the contract. Cessions under this agreement should be made only after the application of all inuring reinsurance the Company may have in place.

TICNY and its pool members did not reinsure any new and renewal premium in the first six months of 2009.

In addition to the quota share with CPRe, the Company maintains the following reinsurance program both on a proportional and non-proportional basis:

<u>Type of treaty</u>	<u>Cession</u>
<u>Proportional</u>	
95% Umbrella Quota Share 100% Authorized	Covers commercial and personal umbrella 95% any one risk, any one occurrence up to maximum of \$5 million.
80% Umbrella Quota Share (Agency Reinsurance) 100% Authorized	Covers umbrella liability and excess liability produced and underwritten by W. H. Greene and Associates. 80% quota share subject to a maximum of \$5 million; losses from sexual assault subject to an aggregate of 80% of \$5 million. Also covers extra contractual obligations not to exceed \$5 million.
<u>Excess Agreement (Agency Reinsurance)</u> 100% Authorized	Covers umbrella liability and excess liability produced and underwritten by W. H. Greene and Associates.  \$5 million excess of \$5 million; losses from sexual assault subject to an aggregate of 80% of \$5 million. Also covers extra contractual obligations not to exceed \$5 million.

Type of treaty

50% Liability Quota Share Reinsurance  
75% Authorized

Equipment Breakdown Reinsurance  
100% Authorized

Non-Proportional  
Excess of Loss

Multi-Line Excess of Loss  
100% Authorized

Casualty Clash Excess of Loss ( 2 Layers)  
1<sup>st</sup> Clash 100% Authorized  
2<sup>nd</sup> Clash 85% Authorized

Property Excess of Loss (3 Layers)

Covers all policies assumed from State National Insurance that is underwritten by Tower Risk Management  
1<sup>st</sup> Layer 95% Authorized  
2<sup>nd</sup> Layer 91.28% Authorized  
3<sup>rd</sup> Layer 81.5% Authorized

Workers' Compensation Excess of Loss

(4 layers)  
1<sup>st</sup> Layer 80% Authorized  
2<sup>nd</sup> layer 85% Authorized  
3<sup>rd</sup> Layer 90% Authorized  
4<sup>th</sup> Layer 90% Authorized

Three Layers Workers' Compensation Excess of Loss (Agency Reinsurance)

1<sup>st</sup> and 2<sup>nd</sup> Layers 100% Authorized  
3<sup>rd</sup> Layer 90% Authorized

Specialty Workers' Compensation Excess of Loss (4 layers)

1<sup>st</sup> Layer 60% Authorized  
2<sup>nd</sup> Layer 75% Authorized  
1<sup>st</sup> Cat Layer 55% Authorized

Cession

50% quota share of brokerage business classified by the Company as commercial multiple peril liability and other liability to a maximum of \$1 million.

100% quota share for equipment breakdown insurance.

\$1 million per risk/\$3 million each occurrence excess of \$1 million. (50% participation).

\$8 million excess of \$2 million (100% participation).

\$28 million each risk/\$31 million aggregate, \$31 million for terrorism, \$6 million for e-commerce/cyber risk, excess of \$2 million.

\$38 million excess of \$2 million each occurrence. Reinsurers are liable for the limit of liability plus their proportional share of loss expenses subject to a maximum contribution to the loss of \$10 million any one employee, any one occurrence. The reinsurer's limit of liability for terrorism losses would not exceed \$30 million.

Covers business underwritten on behalf of the Company by Midwest General Agency.

\$13 million in excess of \$1 million any one loss occurrence.

1<sup>st</sup> Layer 50% Placed Covers business classified by the Company as specialty workers' compensation.

<u>Type of treaty</u>	<u>Cession</u>
2 <sup>nd</sup> Cat layer 72.5% Authorized	\$24 million in excess of \$1 million any one loss occurrence. All Layers 100% placed in 2009.
Inland Marine Excess of Loss (100% Authorized)	Covers business written in conjunction with NBIS Construction and Transportation Underwriters, Inc \$9.5 million each loss occurrence excess of \$500 thousand, not to exceed \$19 million any one occurrence.
<u>Catastrophe Excess of Loss</u>	
Property Catastrophic Excess of Loss* (4 Layers)	
1 <sup>st</sup> Layer 20.1% Authorized	\$575 million in excess of \$75 million 100% placed in 2009, all layers are 100% placed.
2 <sup>nd</sup> Layer 20.8% Authorized	
3 <sup>rd</sup> layer 17.79% Authorized	
4 <sup>th</sup> Layer 22.13% Authorized	
Florida Property Catastrophic Excess of Loss 3 Layers	
1 <sup>st</sup> Layer 75% Authorized	Covers business written through Tower Risk Management. \$30 million excess of \$5 million each and every loss occurrence.
2 <sup>nd</sup> layer 75.83% Authorized	
3 <sup>rd</sup> layer 70.87% Authorized	

\* Includes a 40% participation in layer 1 and 5% in layer 4 by CastlePoint Reinsurance Company Ltd.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively. No exceptions were noted.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

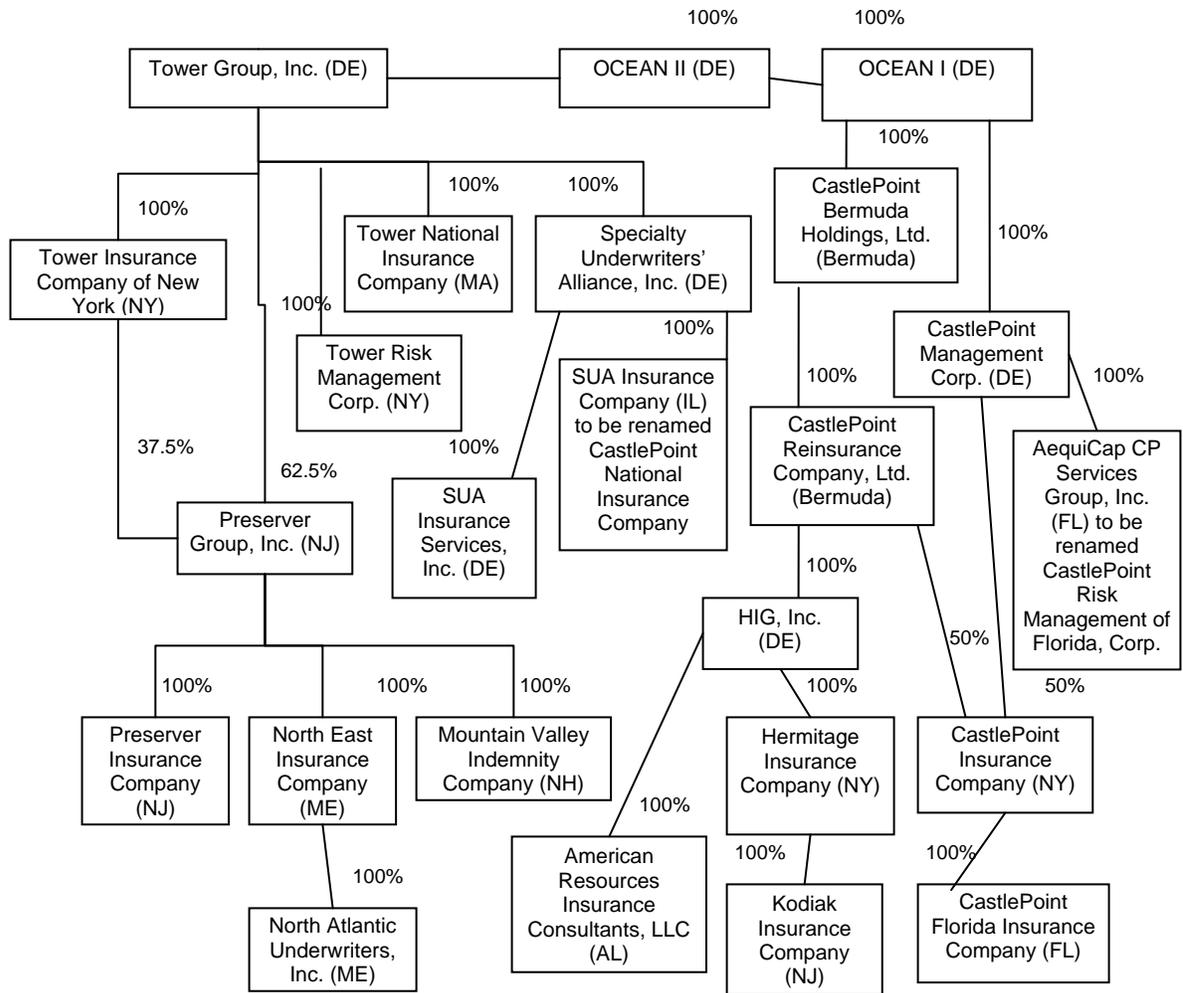
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraph 8 of SSAP No. 62.

D. Holding Company System

The Company is a wholly-owned subsidiary of the Hermitage Insurance Group, Inc. ("HIG"), a Delaware holding company, which is a wholly-owned subsidiary of CastlePoint Reinsurance Company, Ltd., a reinsurer domiciled in Bermuda and ultimately owned by Tower Group, Inc.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2009:



At December 31, 2009, the Company was party to the following agreements with members of its holding company system:

#### Service and Expense Sharing Agreements

Effective October 1, 2009, the Company and Tower Insurance Company of New York, along with several of its affiliated insurance companies entered into service and expense sharing agreements.

Under the terms of these agreements TICNY perform all of the Company's functions related to the property and casualty business including: underwriting and marketing; policy issuance; billing and collection; state filing; loss prevention/premium audit; claims; legal; and corporate services including accounting, human resources and Management Information Systems.

Tax Allocation Agreement

Effective February 27, 2009, the Company was added to a tax allocation agreement between Tower Insurance Company of New York and several of its affiliates, which had been in effect since September 12, 2008. The agreement had the purpose to jointly file consolidated federal income tax return in accordance with the relevant Internal Revenue Service regulations.

The agreement was amended on November 13, 2009 to include Specialty Underwriters' Alliance, Inc. ("SUA"). The original agreement and amendments were approved by the Department on May 26, 2009 and October 28, 2009, respectively.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	119%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	86%
Premiums in course of collection to surplus as regards policyholders	20%

All of the above ratios fell within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the two years under examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$97,820,818	59.74%
Other underwriting expenses incurred	64,474,994	39.37
Net underwriting gain	<u>1,453,168</u>	<u>0.89</u>
Premiums earned	<u>\$163,748,980</u>	<u>100.00%</u>

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$178,569,552	\$ 0	\$178,569,552
Preferred stocks	6,314,380	0	6,314,380
Common stocks	19,813,020	0	19,813,020
Cash, cash equivalents and short-term investments	2,972,136	0	2,972,136
Receivable for securities	76,989	0	76,989
Investment income due and accrued	2,050,335	0	2,050,335
Uncollected premiums and agents' balances in the course of collection	20,134,758	1,080,046	19,054,712
Deferred premiums, agents' balances and installments booked but deferred and not yet due	17,354,090	0	17,354,090
Accrued retrospective premiums	405,417	0	405,417
Amounts recoverable from reinsurers	11,127,078	0	11,127,078
Other amounts receivable under reinsurance contracts	4,881,480	0	4,881,480
Current federal and foreign income tax recoverable and interest thereon	4,304,986	0	4,304,986
Net deferred tax asset	15,645,145	7,704,287	7,940,858
Electronic data processing equipment and software	942,076	742,816	199,260
Furniture and equipment, including health care delivery assets	22,935	22,935	0
Miscellaneous receivables	638,651	466,655	171,996
Advances to TPAS	610,167	0	610,167
Receivable from residuals markets	432,751	2,520	430,231
Prepaid expense	107,665	107,665	0
Retroactive reinsurance loss recoverable	<u>4,104</u>	<u>0</u>	<u>4,104</u>
Total assets	<u>\$286,407,715</u>	<u>\$10,126,924</u>	<u>\$276,280,791</u>

Liabilities, Surplus and Other FundsLiabilities

Losses	\$ 73,107,301
Reinsurance payable on paid losses and loss adjustment expenses	12,337,412
Loss adjustment expenses	17,024,931
Commissions payable, contingent commissions and other similar charges	935,872
Other expenses (excluding taxes, licenses and fees)	2,118,746
Taxes, licenses and fees (excluding federal and foreign income taxes)	186,160
Unearned premiums	44,002,673
Advance premium	1,102,600
Ceded reinsurance premiums payable (net of ceding commissions)	(21,236,306)
Funds held by company under reinsurance treaties	1,785,829
Amounts withheld or retained by company for account of others	282,345
Payable to parent, subsidiaries and affiliates	44,694,234
Premium collateral & loss fund deposit	1,712,245
Workers' comp assessment payable	1,640,688
State income tax recoverable	386,882
Miscellaneous liabilities	<u>123,085</u>
Total liabilities	\$180,204,697

Surplus and Other Funds

Effect of adoption of SSAP No. 10R	\$ 2,712,147
Common capital stock	3,101,040
Gross paid in and contributed surplus	20,453,959
Unassigned funds (surplus)	<u>69,808,948</u>
Surplus as regards policyholders	<u>96,076,094</u>
Total liabilities, surplus and other funds	\$ <u>276,280,791</u>

NOTE: The Company has not been subject to a Federal Tax audit by the Internal Revenue Service for the period under examination. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Surplus as regards policyholders increased \$19,205,484 during the two-year examination period January 1, 2008 through December 31, 2009, detailed as follows:

Underwriting Income

Premiums earned		\$163,748,980
Deductions:		
Losses incurred	\$77,290,459	
Loss adjustment expenses incurred	20,530,359	
Other underwriting expenses incurred	<u>64,474,994</u>	
Total underwriting deductions		<u>162,295,812</u>
Net underwriting gain or (loss)		\$ 1,453,168

Investment Income

Net investment income earned	\$13,699,505	
Net realized capital gain	<u>(3,181,125)</u>	
Net investment gain or (loss)		10,518,380

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (430,396)	
Finance and service charges not included in premiums	374,843	
Retroactive reinsurance	(24,420)	
Miscellaneous income (expense)	(46,769)	
Interest on funds-held by Company	<u>(94,158)</u>	
Total other income		<u>(220,900)</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$11,750,648
Federal and foreign income taxes incurred		<u>1,891,972</u>
Net income		\$ <u>9,858,676</u>

C. Capital and Surplus Accounts

Surplus as regards policyholders per report on examination as of December 31, 2007			\$76,870,610
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 9,858,676		
Net unrealized capital gains or (losses)	4,770,197		
Change in net deferred income tax	9,724,553		
Change in nonadmitted assets		\$ 3,489,065	
Capital changes transferred to surplus		3,000,000	
Surplus adjustments transferred from capital	3,000,000		
Effect of adoption of SSAP No. 10R	2,712,147		
Tax benefit write-off		873,937	
Net effects of correction of prior period adjustments	<u>0</u>	<u>3,497,087</u>	
Total gains and losses	<u>\$30,065,573</u>	<u>\$10,860,089</u>	
Net increase (decrease) in surplus			<u>19,205,484</u>
Surplus as regards policyholders per report on examination as of December 31, 2009			<u>\$96,076,094</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$90,132,232 is the same as reported by the Company as of December 31, 2009. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

**5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on the examination conducted as of December 31, 2007 contained five recommendations; however, since the Company was bought in 2009 and is under new management, the recommendations are no longer applicable.

**6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management,</u>	
	It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its by-laws and maintain complete minutes of such proceedings.	5
B.	<u>Reinsurance</u>	
	It is recommended that the Company comply with Article IX , Section B of its pooling agreement that was filed with the Department in accordance with Section 1505(d)(2) of the New York Insurance Law.	8

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Glenda Gallardo, CFE  
Principal Insurance Examiner

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

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

\_\_\_\_\_/s/\_\_\_\_\_  
Glenda Gallardo

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, James J. Wrynn Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Glenda Gallardo**

*as proper person to examine into the affairs of the*

**HERMITAGE INSURANCE COMPANY**

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

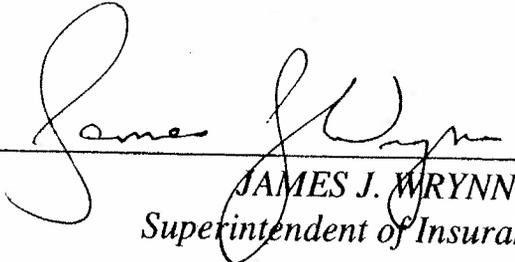
**Company**

*with such other information as she shall deem requisite.*

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

*this 10th day of December, 2009*



  
\_\_\_\_\_  
JAMES J. WRYNN  
Superintendent of Insurance