REPORT ON EXAMINATION

OF THE

GOTHAM INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT	MARCH 20, 2015
EXAMINER	SHEIK H. MOHAMED

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March 20, 2015

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 31127 dated March 5, 2014, attached hereto, I have made an examination into the condition and affairs of Gotham Insurance Company as of December 31, 2013, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Gotham Insurance Company.

Wherever the designation "NY Marine" appears herein without qualification, it should be understood to indicate New York Marine and General Insurance Company.

Wherever the designation "SWM" appears herein without qualification, it should be understood to indicate Southwest Marine and General Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's administrative office located at 412 Mt. Kemble Avenue, Suite 300C, Morristown, NJ 07960.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2010. This examination covered the three-year period from January 1, 2011 through December 31, 2013. 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. 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 Handbook:

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
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.

The Company was examined concurrently with its immediate parent, NY Marine. A separate report thereon has been rendered.

2. DESCRIPTION OF COMPANY

Gotham Insurance Company was incorporated on October 17, 1986, under the laws of the State of New York and commenced business on February 26, 1987.

Capital paid in is $5,000,000 consisting of 50,000 shares of $100 par value per share common stock. Gross paid in and contributed surplus is $20,131,019. Gross paid in and contributed surplus increased by $2,631,019 during the examination period, as follows:

Year	Description	Amount
2010	Beginning gross paid in and contributed surplus	$17,500,000
2010	Add: Surplus adjustment paid in	2,631,019
2013	Ending gross paid in and contributed surplus	$20,131,019

The Company's current tax provision as reported within the 2010 Annual Statement reflected an intercompany benefit received from the immediate holding company, ProSight Specialty Insurance Group, Inc. ("the Group"). The tax benefit received was the result of the Group waiving its right to receive $2,631,019 in tax payments from the Company for its allocable share of income taxes that it was entitled to receive as a result of losses the Group sustained in the 2010 tax year.

It was determined that the accounting convention used to record the waiver of the Group's tax benefit to the Company should have been recorded as capital contribution instead of a reduction in current income taxes.

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 nineteen members. The board meets at least quarterly during each calendar year. At December 31, 2013, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Anthony Arnold New York, NY	Vice President, Goldman Sachs
Robert Bailey Santa Rosa, CA	Vice President and Chief Underwriting Officer, Gotham Insurance Company ProSight Specialty Insurance Group, Inc.
Joseph Beneducci Morristown, NJ	President and Chief Executive Officer, Gotham Insurance Company ProSight Specialty Insurance Group, Inc.
Steven Carlsen Larchmont, NY	President, Shadowbrook Advising, Inc.
Clement Dwyer Portsmouth, NH	President, URSA Advisors, Inc.
Lawrence Hannon Morristown, NJ	Vice President and Chief Sales and Marketing Officer, Gotham Insurance Company ProSight Specialty Insurance Group, Inc.
Eric Leathers New York, NY	Managing Director, TPG Capital, L.P.
Frank Papalia Morristown, NJ	Chief Legal Officer and Secretary, Gotham Insurance Company ProSight Specialty Insurance Group, Inc.
Anthony Piszel Morristown, NJ	Vice President, Chief Financial Officer and Treasurer, Gotham Insurance Company ProSight Specialty Insurance Group, Inc.
Sumit Rajpal New York, NY	Managing Director, Goldman Sachs
Richard Schifter New York, NY	Managing Partner. TPG Capital, L.P.

Name and Residence	Principal Business Affiliation
Bruce Schnitzer New York, NY	Chairman and Managing Director, Wand Partners, Inc.
Mark Wetzel New York, NY	Vice President, Goldman Sachs

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2013, the principal officers of the Company were as follows:

Name	Title
Joseph Beneducci	President and Chief Executive Officer
Frank Papalia	Secretary and General Counsel
Anthony Piszel	Treasurer and Chief Financial Officer
Robert Bailey	Vice President and Chief Underwriting Officer
Frank Bosse	Vice President and Chief Human Resources Officer
Lawrence Hannon	Vice President and Chief Sales and Marketing Officer
Paul Kush	Vice President and Chief Claims Officer
Mark Popolano	Vice President and Chief Information Technology Officer

B. Territory and Plan of Operation

The Company is primarily an excess and surplus lines writer. The Company is licensed to write business in New York only and is eligible or approved to write surplus lines in the other forty-nine states, the District of Columbia, and Puerto Rico. The Company was also licensed to write Special Risks pursuant to Article 63 of the New York Law.

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:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property damage
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	Worker’s compensation and employer’s liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is empowered to transact such workers’ compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance, including insurances described in the Longshoremen’s and Harbor Workers’ Compensation Act (Public Law No. 803, 69 Congress as amended; 33 USC Section 901 et seq. as amended).

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

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a percentage of Total Premium
2011	$40,917	$38,104,828	0.11%
2012	$287,690	$53,903,580	0.53%
2013	$418,460	$57,437,023	0.73%

It is noted that the amount of premiums written in New York is a relatively small percentage of total premiums. This reflects that this Company primarily operates as a surplus and excess lines writer in the other forty-nine states, the District of Columbia, and Puerto Rico.

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 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $4,200,000.

The Company's business is managed by ProSight Specialty Management Company, Inc. "PSMC". PSMC has a distribution model under which they partner exclusively with a select number of agents. The Company's major lines of business are Fire (13.61%), Ocean Marine (21.72%), and Other Liability (52.13%). These are written through approximately 45 programs. Each program is tailored to a specific market, such as intermodal trucking or film producers and may incorporate multiple lines of business. They do business with approximately 40 distributors in their non-Ocean Marine programs. The Company does business with approximately 100 agencies with respect to its Ocean Marine program.

C. <u>Reinsurance</u>

<u>I. Affiliated Reinsurance Agreement</u>

The Company entered into a reinsurance agreement, effective January 1, 1987, with NY Marine. Under the terms of the agreement, the Company cedes 100% of its writings to NY Marine and then assumes 15% of NY Marine's "net pooled business" (direct business, plus assumed business, minus cessions to non-affiliated insurers) and related expenses, except for federal and foreign income taxes and investment expenses.

The agreement has been submitted to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law and was non-disapproved. No changes were made to the agreement during the period covered by this examination.

A review of the Company's expense allocation indicates that it is not complying with the terms of its affiliated reinsurance agreements. According to the agreements, expenses should be allocated 80% to NY Marine, 15% to the Company and 5% to SWM. The Company's expenses have not been allocated according to these percentages. It is noted that expenses have been allocated among the companies but not precisely in accordance with these percentages.

It is recommended that the Company comply with the terms of these affiliated reinsurance agreements and have joint expenses allocated to it in accordance with the terms of the affiliated reinsurance agreement.

II. External Reinsurance Program

The Company is a named participant in the external reinsurance program of its parent and pool leader NY Marine. The external reinsurance program, at December 31, 2013, is structured as follows:

Type of treaty	Cession
Property:	
Excess of loss (3 layers)	
1st layer – 100% authorized, 90% placed	$4 million excess of $1 million each loss, each risk, subject to reinsurer's maximum liability of $12 million as respects all losses arising out of any one loss occurrence; with Acts of Terrorism sublimits of $8 million.
2nd layer – 100% authorized, 90% placed	$5 million excess of $5 million each loss, each risk, subject to reinsurer's maximum liability of $15 million as respects all losses arising out of any one loss occurrence; with Acts of Terrorism sublimits of $10 million.
3rd layer – 100% authorized, 90% placed	$15 million excess of $10 million each loss, each risk, subject to reinsurer's maximum liability of $30 million as respects all losses arising out of any one loss occurrence; with Acts of Terrorism sub-limits of $15 million.
Property Catastrophe (4 layers)	
1st layer – 95% authorized, 100% placed	$5 million excess of $5 million, ultimate net loss, any one loss occurrence, subject to maximum liability of $10 million for all loss occurrences during the term of the contract;

2nd layer – 95% authorized, 100% placed	$10 million excess of $10 million, ultimate net loss, any one loss occurrence, subject to maximum liability of $20 million for all loss occurrences during the term of the contract;
3rd layer – 88% authorized, 100% placed	$30 million excess of $20 million, ultimate net loss, any one loss occurrence, subject to maximum liability of $60 million for all loss occurrences during the term of the contract;
4th layer – 100% authorized, 100% placed	$40 million excess of $50 million, ultimate net loss, any one loss occurrence, subject to maximum liability of $80 million for all loss occurrences during the term of the contract.

Terrorism

Quota Excess of loss

1 layer – 100% authorized, 100% placed	$35 million excess of $5 million, ultimate net loss, each loss occurrence, subject to maximum liability of $70 million for all loss occurrences.

Casualty:

Quota Share

Primary – 60% authorized, 65% placed	100% quota share of up to $4 million excess of $1 million.
Supported Umbrella – 60% authorized, 65% placed	100% quota share of up to $10 million total umbrella policy limit.
Unsupported Umbrella – 60% authorized, 65% placed	100% quota share of a $9 million excess of $1 million umbrella policy limit.

Excess of Loss

100% authorized, 100% placed	$4 million excess of $1 million ultimate net loss each and every loss occurrence.

Film and Entertainment

Excess of loss (3 layers)

Section A – Film Production Policies

1st layer – 100% authorized, 100% placed	$5 million excess of $5 million ultimate net loss for each production.
2nd layer – 100% authorized, 100% placed	$10 million excess of $10 million ultimate net loss for each production.
3rd layer – 100% authorized, 100% placed	$30 million excess of $20 million ultimate net loss for each production.

Section B – Film Completion Bonds

1st layer – 100% authorized, 100% placed	$5 million excess of $5 million ultimate net loss for each production.
2nd layer – 100% authorized, 100% placed	$10 million excess of $10 million ultimate net loss for each production.
3rd layer – 100% authorized, 100% placed	$30 million excess of $20 million ultimate net loss for each production.

Automatic Facultative - Film

100% authorized, 100% placed	$50 million excess of $50 million ultimate net loss for each production.

Professional Liability

Excess of loss (2 layers)

1st layer – 47% authorized, 55% placed	$4 million excess of $1 million ultimate net loss in respect of each claim made, each policy;
2nd layer – 93% authorized, 100% placed	$5 million excess of $5 million ultimate net loss in respect of each claim made, each policy.

Miscellaneous Professional Liability

Excess of loss (2 layers)

1st layer – 100% authorized, 50% placed	$1 million excess of $1 million ultimate net loss each occurrence;
2nd layer – 100% authorized, 67% placed	$3 million excess of $2 million ultimate net loss each occurrence.

Workers' Compensation and Employers' Liability

Excess of loss (2 layers)

1st layer – 70% authorized, 75% placed	$4 million excess of $1 million ultimate net loss each occurrence;
2nd layer – 90% authorized, 100% placed	$5 million excess of $5 million ultimate net loss each occurrence.

Workers' Compensation and Employers' Liability Catastrophe

Excess of loss (2 layers)

1st layer – 90% authorized, 100% placed	$10 million excess of $10 million ultimate net loss each occurrence;
2nd layer – 80% authorized, 100% placed	$10 million excess of $20 million ultimate net loss each occurrence.

Excess Workers' Compensation and Employers' Liability

Excess of loss (4 layers)

1st layer – 80% authorized, 100% placed	$5 million excess of $5 million ultimate net loss each occurrence;
2nd layer – 77.19% authorized, 100% placed	$20 million excess of $10 million ultimate net loss each occurrence;
3rd layer – 100% authorized	$20 million excess of $30 million ultimate net loss each occurrence;
4th layer – 94.26% authorized, 100% placed	$50 million excess of $50 million ultimate net loss each occurrence.

Marine

Excess of loss
Cargo Reporting

1 layer – 100% authorized	$27.5 million excess of $2.5 million each loss, each risk subject to the following California Earthquake occurrence aggregate limit: Zone A1, A2, and A3 - $25 million; and Zone B2, B2, and B3 - $50 million.

Reporting Cargo War

1 layer – 100% authorized	$25 million excess of $5 million ultimate net loss each vessel, each loss.

Marine Whole Account Risk and Occurrence (6 layers)

1st layer – 79% authorized, 100% placed	$2.5 million excess of $2.5 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;
2nd layer – 79% authorized, 100% placed	$5 million excess of $5 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;
3rd layer – 79% authorized, 100% placed	$10 million excess of $10 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;
4th layer – 79% authorized, 100% placed	$20 million excess of $20 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;

5th layer – 79% authorized, 100% placed	$30 million excess of $40 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;
6th layer – 100% authorized, 100% placed	$20 million excess of $70 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event.

Quota Share

Obligatory Energy

52.5% authorized, 80% placed	80% quota share of net loss on any one risk, unit, interest, or assured subject to limitation in the Gulf of Mexico and World Wide.

Surplus

Marine War

100% authorized	$20 million surplus $2 million each vessel, each interest, each risk or policy.

Fidelity Bond

Quota Share

100% authorized, 45% placed	100% quota share each loss, each bond subject to a $10 million limit.

Elder Care Professional and General Liability

Quota Share

100% authorized, 50% placed	100% quota share each coverage, each policy, each loss occurrence, each claim made subject to a limit of liability of $1 million.

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.

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.

D. Holding Company System

The Company is a member of the ProSight Specialty Group. The Company is 75% owned by New York Marine and General Insurance Company ("NY Marine") and the remaining 25% is owned by NY Marine's parent ProSight Specialty Insurance Group, Inc. ("ProSight Insurance Group"), a New York corporation, which is in turn owned by ProSight Specialty Insurance Holdings Inc., which is in turn owned by ProSight Global, Inc. ProSight Specialty Insurance Holdings, Inc. and ProSight Global, Inc., are both Delaware based holding companies. ProSight Global, Inc., is 100% owned by ProSight Global Holdings Limited ("ProSight Global"), a Bermuda corporation. The key owners of ProSight Global are:

1. ProSight Investment LLC ("ProSight Investment"), A Delaware Limited Liability Company held a 43.70% interest in PS Global Holdings.
2. ProSight Parallel Investment LLC ("ProSight Parallel Investment), a Delaware Corporation held a 6.4% interest.
3. ProSight TPG, L.P. (ProSight TPG), a Delaware Limited Partnership held a 37.05% interest.
4. Four TPG investment vehicles, organized as Limited Partnerships in the Cayman Islands, held an approximate 11% interest.

The legal owners of ProSight Investment and ProSight Parallel Investment are various investment vehicles associated with Goldman Sachs. ProSight TPG and the four TPG investment vehicles are ultimately controlled by two individuals, David Bonderman and James Coulter. The investment vehicles entered into contractual relationships with ProSight Equity Management under which ProSight Equity Management would manage the business affairs of ProSight Global. The Department has determined that the investment vehicles are passive investors which do not take an active role in the management of ProSight Global therefore the investment vehicles are not subject to Section 1505 of the New York Insurance Law.

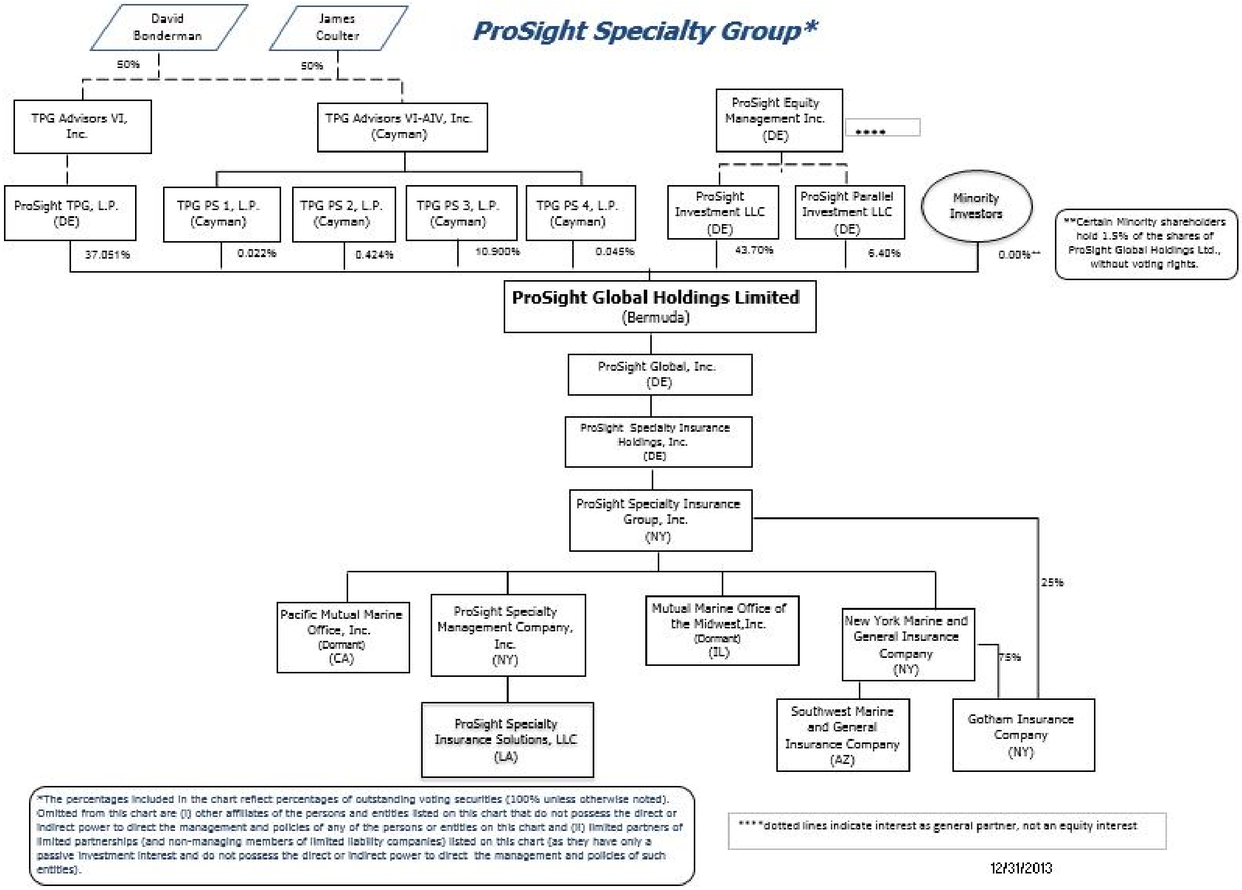
ProSight Equity Management is owned by various individuals, none of which has more than a 10 percent stake. The Department has deemed the ultimate controlling persons of the Company to be ProSight Equity Management, David Bonderman and James Coulter. This is based on ProSight Equity's control via the management contract with the investment vehicles and Mr. Bonderman's and

Mr. Coulter's approximate 48% ownership in ProSight Global through their control/ownership of the TPG Investment Vehicles.

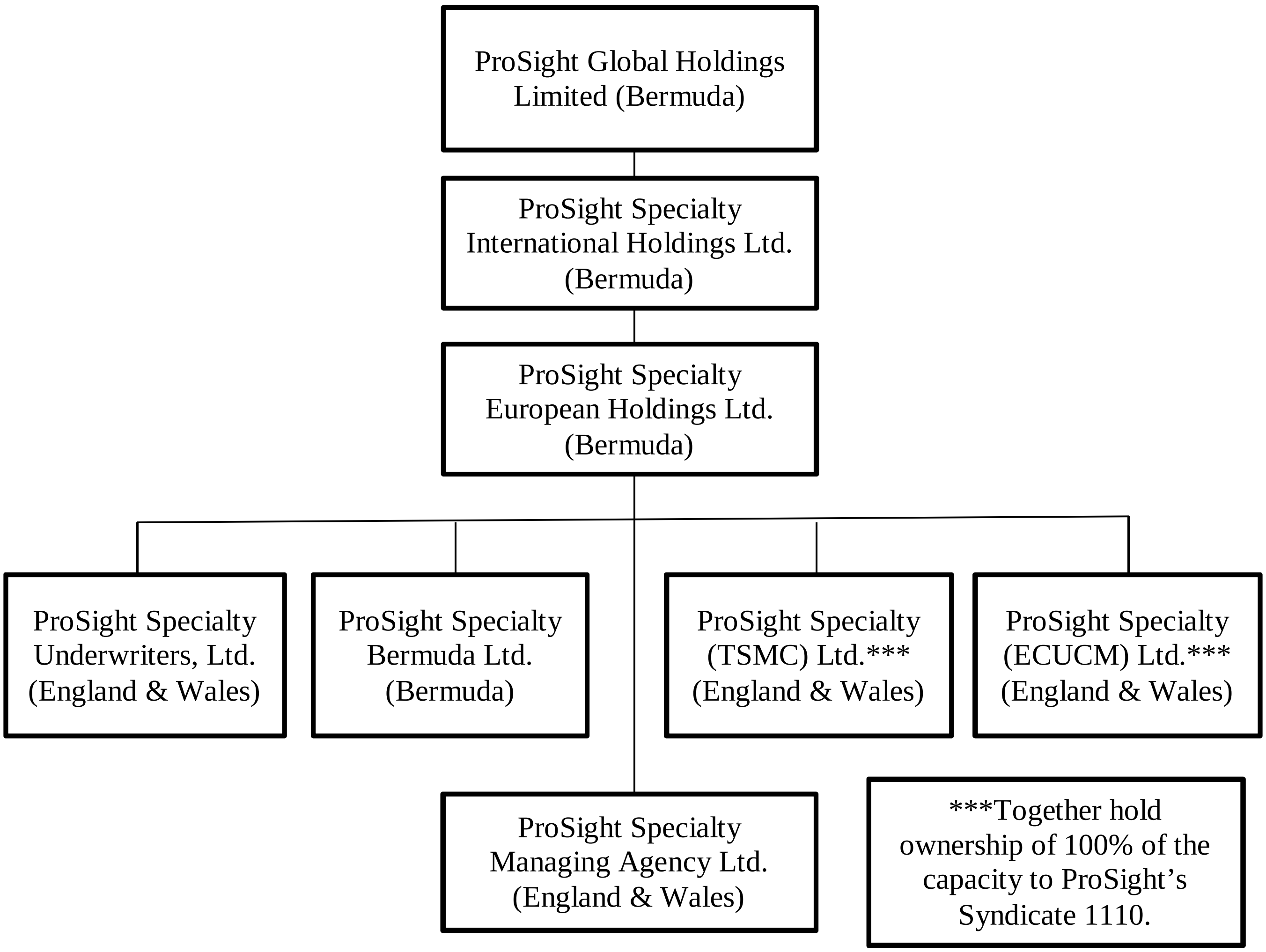
Subsequent to the examination date ProSight Insurance Group contributed its 25% stake in Gotham to NY Marine, who now owns 100% of Gotham's $100 par value common stock. NY Marine also received a contribution from ProSight Specialty Insurance Group in the form of its limited partnership investment in Tiptree Financial Inc., worth approximately $25.3 million in June 2014. Subsequently, NY Marine transferred approximately $12.8 million and $8.5 million of its Tiptree limited partnership investment to Gotham Insurance Company and Southwest Marine Insurance Company, respectively. Gotham and Southwest Marine in turn transferred corporate bonds in consideration of the transferred Tiptree investments. Gotham and SWM are primarily excess and surplus lines writers.

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 an abbreviated chart of the holding company system, reflecting its holdings in the United States, at December 31, 2013:


ProSight Specialty Group*
David Bonderman
50%
James Coulter
50%
TPG Advisors VI, Inc.
TPG Advisors VI-AIV, Inc. (Cayman)
ProSight Equity Management Inc. (DE)
****
ProSight TPG, L.P. (DE)
TPG PS 1, L.P. (Cayman)
TPG PS 2, L.P. (Cayman)
TPG PS 3, L.P. (Cayman)
TPG PS 4, L.P. (Cayman)
ProSight Investment LLC (DE)
ProSight Parallel Investment LLC (DE)
Minority Investors
**Certain Minority shareholders hold 1.5% of the shares of ProSight Global Holdings Ltd., without voting rights.
37.051%
0.022%
0.424%
10.900%
0.045%
43.70%
6.40%
0.00%**
ProSight Global Holdings Limited (Bermuda)
ProSight Global, Inc. (DE)
ProSight Specialty Insurance Holdings, Inc. (DE)
ProSight Specialty Insurance Group, Inc. (NY)
25%
Pacific Mutual Marine Office, Inc. (Dormant) (CA)
ProSight Specialty Management Company, Inc. (NY)
Mutual Marine Office of the Midwest,Inc. (Dormant) (IL)
New York Marine and General Insurance Company (NY)
75%
ProSight Specialty Insurance Solutions, LLC (LA)
Southwest Marine and General Insurance Company (AZ)
Gotham Insurance Company (NY)
*The percentages included in the chart reflect percentages of outstanding voting securities (100% unless otherwise noted). Omitted from this chart are (i) other affiliates of the persons and entities listed on this chart that do not possess the direct or indirect power to direct the management and policies of any of the persons or entities on this chart and (ii) limited partners of limited partnerships (and non-managing members of limited liability companies) listed on this chart (as they have only a passive investment interest and do not possess the direct or indirect power to direct the management and policies of such entities).
****dotted lines indicate interest as general partner, not an equity interest
12/31/2013

The following is a chart of the holding company system, reflecting its holdings outside of the United States, at December 31, 2013:



At December 31, 2013, the Company was party to the following agreements with other members of its holding company system:

1. Service Agreement

Effective January 15, 2011, the Company and ProSight Specialty Management Company, Inc. ("PSMC") became partners to a Service Agreement under which PSMC supplies all services and facilities necessary for the conduct of the Company's business. The Company pays PSMC fees equal to the actual costs and expenses incurred by or on behalf of PSMC in connection with rendering such services to the Company, including, without limitation, all reasonable employee benefits and overhead costs and expenses incurred by or on behalf of PSMC. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved.

Subsequent to the period covered by this examination, the aforementioned service agreement was amended and restated effective November 20, 2014 to correct the timing of the payments due to PSMC. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved.

A review of the agreement indicates that the Company is not complying with all of the terms stated. The agreement states in part: “Any commercial bank suitable to the Company, ProSight Management and New York State Superintendent of Insurance, shall act as depository of the Company funds received by ProSight Management in a fiduciary capacity for the benefit of the Company. All such accounts shall be established and maintained in the Company’s name. ProSight Management shall prepare monthly reconciliations of deposits to and withdrawals from such accounts and shall within one month of the last day of each month during the term of this Service Agreement, remit to the Company all balances due. In the event such reconciliations reveal that the amount in any such account is insufficient to meet the Company’s obligations hereunder, the Company shall, promptly upon written notice from ProSight Management of such deficiency, provide ProSight Management with funds in an amount sufficient to allow ProSight Management to meet its obligations under this Service Agreement.”

Examination review revealed that all bank accounts were not maintained in the Company’s name. Also, the Company was not able to show monthly or quarterly settlements during the examination period.

It is recommended that the Company comply with all terms of the Amended and Restated Service Agreement.

Subsequent to the examination date, the Company began to implement the terms stated in the agreement.

2. <u>Tax Allocation Agreement</u>

Effective April 1, 2013, the Company entered into a tax allocation agreement with members of the ProSight Specialty Group. Under this agreement, commencing with tax year ending December 31, 2010, the Company and its affiliates file a consolidated federal income tax return. The tax allocation agreement was reviewed for compliance with Department Circular Letter 1979-33. No exceptions were noted.

The agreement was approved by the Company's board of directors and a copy of the agreement was filed with this Department in accordance with Department Circular Letter 1979-33.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

Net premiums written to policyholders' surplus	70%
Adjusted liabilities to liquid assets	68%
Gross agents' balances (in collection) to policyholders' surplus	21%

All of the above ratios fall 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 three year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$62,115,046	60.44%
Other underwriting expenses incurred	40,179,627	39.10
Net underwriting gain	478,442	0.47
Premiums earned	$102,773,115	100.00%

F. Accounts and Records

Preparation of 2013 Annual Statement

During the examination, the following reporting issue was noted: The Company failed to properly allocate its premiums receivable balance. It reported all balances as "uncollected premiums and agents' balances in the course of collection" whereas some should be reported as "deferred premiums, agents' balances and installments booked but deferred and not yet due".

It is recommended that the Company properly classify its premiums receivable balances in its statutory statement filings.

It is further noted that control deficiencies were noted during this examination. There were risks identified by the examination with either no mitigating controls in place or no documentation available to confirm the existence of the mitigating control. The Company has indicated that it has implemented or is in the process of implementing measures to address the deficiencies.

The Company's external auditors reported, in reference to their 2013 audit of the Company, that material weaknesses existed in the Company's internal control over reinsurance accounting. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

It is recommended that the Company put stronger control procedures in place in reference to the reinsurance accounting function.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$147,014,393	$ 0	$147,014,393
Cash, cash equivalents and short-term investments	9,987,179	0	9,987,179
Other invested assets	4,409,055	0	4,409,055
Investment income due and accrued	761,353	0	761,353
Uncollected premiums and agents' balances in the course of collection	15,514,863	0	15,514,863
Net deferred tax asset	4,372,794	1,634,910	2,737,884
Total assets	$182,059,637	$1,634,910	$180,424,727

Liabilities, surplus and other funds		
Liabilities		
Losses and Loss Adjustment Expenses		$ 65,867,964
Commissions payable, contingent commissions and other similar charges		887,877
Other expenses (excluding taxes, licenses and fees)		228,379
Taxes, licenses and fees (excluding federal and foreign income taxes)		301,486
Current federal and foreign income taxes		3,980,193
Unearned premiums		19,677,283
Ceded reinsurance premiums payable (net of ceding commissions)		16,791,925
Total liabilities		$107,735,107
Surplus and other funds		
Common capital stock	$ 5,000,000	
Gross paid in and contributed surplus	20,131,019	
Unassigned funds (surplus)	47,558,601	
Surplus as regards policyholders		72,689,620
Total liabilities, surplus and other funds		$180,424,727

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2008. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. 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

Underwriting Income

Premiums earned		$102,773,115
Deductions:		
Losses and loss adjustment expenses incurred	$62,115,046	
Other underwriting expenses incurred	40,179,627	
Total underwriting deductions		102,294,673
Net underwriting gain		$ 478,442
Investment Income		
Net investment income earned	$9,085,063	
Net realized capital gain	(1,836,105)	
Net investment gain		7,248,958
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (51,399)	
Bad debt write-off/other expenses	(504,394)	
Total other income		(555,793)
Net income before federal and foreign income taxes		$7,171,607
Federal and foreign income taxes incurred		3,341,478
Net Income		$3,830,129

C. Capital and Surplus Statement

Surplus as regards policyholders increased $10,223,095 during the three-year examination period January 1, 2011 through December 31, 2013, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2010			$62,466,525
Net income	$3,830,129		
Net unrealized capital gains or (losses)	3,976,326		
Change in net deferred income tax	2,205,956		
Change in nonadmitted assets	672,016		
Increase in DTAs due to paragraph 10.e of SSAP No. 10R	0	$461,332	
Gains & Losses in surplus	$10,684,427	$461,332	
Net increase (decrease) in surplus			10,223,095
Surplus as regards policyholders per report on examination as of December 31, 2013			$72,689,620

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $65,867,964 is the same as reported by the Company as of December 31, 2013. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

Further, the actuarial review conducted by the Department revealed that that the actuarial reports underlying the Statements of Actuarial Opinion did not contain both narrative and technical components in sufficient detail to clearly explain how all the exhibits and calculations tie together, as well as including an exhibit that reconciles and maps the data used to derive the loss development factors or pool data triangles to the Annual Statement Schedule P lines of business.

It is recommended that in accordance with the NAIC Instructions to the Annual Statement, future actuarial reports underlying the Statements of Actuarial Opinion contain both narrative and technical components in sufficient detail and include an exhibit that reconciles and maps the data used to derive the loss development factors or pool data triangles to the Annual Statement Schedule P lines of business. The Company has indicated that it has incorporated this recommendation into its procedures and in its preparation of the 2014 actuarial report.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three recommendations as follows (page numbers refer to the prior report):

ITEM			PAGE NO.
A		Management	
		It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
		The Company has complied with this recommendation.	
B		Holding Company	
	i.	It is recommended that the Company comply with Part 80-1.2 of Regulation 52 and file the amendments to its holding company filings by April 30 annually.	9
		The Company has complied with this recommendation.	
	ii.	It is recommended that the Company amend its service agreement to clearly disclose service fees and require quarterly statements to support the fees charged, and file the amendment with the Department pursuant to Section 1505(b) of the New York Insurance Law.	10
		The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Reinsurance It is recommended that the Company comply with the terms of these affiliated reinsurance agreements and have joint expenses allocated to it in accordance with the terms of the affiliated reinsurance agreement. It is noted that expenses have been allocated among the companies but not precisely in accordance with these percentages.	8
B.	Holding Company System It is recommended that the Company comply with all terms of the Amended and Restated Service Agreement.	17
C.	Accounts and records It is recommended that the Company properly classify its premiums receivable balances in its statutory statement filings.	19
	It is recommended that the Company put stronger control procedures in place in reference to the reinsurance accounting function.	19
	The Company has indicated that it has implemented or is in the process of implementing measures to address the deficiencies.	
D.	Loss and loss adjustment expenses It is recommended that in accordance with the NAIC Instructions to the Annual Statement, future actuarial reports underlying the Statements of Actuarial Opinion contain both narrative and technical components in sufficient detail and include an exhibit that reconciles and maps the data used to derive the loss development factors or pool data triangles to the Annual Statement Schedule P lines of business. The Company has indicated that it has incorporated this recommendation into its procedures and in its preparation of the 2014 actuarial report.	23

Respectfully submitted,

____
Sheik H. Mohamed, CPCU
Senior Insurance Examiner

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

Sheik H. Mohamed, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

____
Sheik H. Mohamed

Subscribed and sworn to before me

this_________ day of __________________, 2015.