

REPORT ON EXAMINATION

OF THE

GUILDERLAND REINSURANCE COMPANY

AS OF

DECEMBER 31, 2001

DATE OF REPORT

NOVEMBER 8, 2002

EXAMINER

GREGG S. BEALUK, CFE

TABLE OF CONTENTS

| <u>ITEM NO.</u> | <u>PAGE NO.</u> |
|--|-----------------|
| 1. Scope of examination | 2 |
| 2. Description of Company | 3 |
| A. Management | 6 |
| B. Territory and plan of operation | 7 |
| C. Reinsurance | 9 |
| D. Holding company system | 13 |
| E. Accounts and records | 16 |
| F. Significant operating ratios | 18 |
| G. Abandoned Property Law | 19 |
| 3. Financial statements | 20 |
| A. Balance sheet | 20 |
| B. Underwriting and investment exhibit | 22 |
| C. Capital and surplus account | 23 |
| 4. Losses and loss adjustment expenses | 24 |
| 5. Market conduct activities | 24 |
| 6. Compliance with prior report on examination | 25 |
| 7. Summary of comments and recommendations | 27 |



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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

November 8, 2002

Honorable Gregory V. Serio
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 21939 dated September 19, 2001 attached hereto, I have made an examination into the condition and affairs of Guilderland Reinsurance Company as of December 31, 2001, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 2 Logan Square, 9th Floor, Philadelphia, PA 19103-2772.

Wherever the designations "the Company", "GRC" or "Guilderland Re" appear herein without qualification, they should be understood to indicate Guilderland Reinsurance Company.

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

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1998. This examination covered the three-year period from January 1, 1999 through December 31, 2001. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Guilderland Mutual Insurance Association (“Association”) was organized in 1854 as an assessment cooperative fire insurance association. In 1940, it was reorganized to write fire reinsurance only. On April 1, 1969, the Association was converted to mutual reinsurance company status as the Guilderland Mutual Reinsurance Company.

In 1941, the Cooperative Windstorm Insurance Company of New York was organized and authorized to write insurance in all New York State counties, except the five counties comprising New York City. In 1956, the Company was reorganized to write reinsurance exclusively, and on April 1, 1969, converted to the Mutual Windstorm Reinsurance Company in accordance with provisions of the then in effect Section 389 of the New York Insurance Law.

On September 22, 1969, the Department approved a merger between the Guilderland Mutual Reinsurance Company and the Mutual Windstorm Reinsurance Company. This merger was effective September 30, 1969, with Guilderland Mutual Reinsurance Company being the surviving corporation.

On December 18, 1990, the Department approved the amended and restated certificate of incorporation (charter) of Guilderland Mutual Reinsurance Company, whereby the name of the corporation was changed from Guilderland Mutual Reinsurance Company to Guilderland Reinsurance Company and whereby Guilderland Mutual Reinsurance Company was converted from a mutual property/casualty insurance company to a stock property/casualty insurance company pursuant to Section 7307 of the New York Insurance Law.

The Guilderland Reinsurance Company is authorized to issue 4,000,000 shares of common stock at \$1 par value per share, of which 2,051,960 have been issued and outstanding as of December 31, 2001. Prior to November 17, 1999, the Company's sole shareholder was Main Street America Holdings, Inc. a New Hampshire company. Effective March 30, 1998, Fund America Enterprises Holdings, Inc. ("Fund America") purchased 119,654 shares of Main Street America Holdings, Inc. common stock. These shares were transferred by Fund America to White Mountains Holdings, which owned 50% of the 222,093 shares of Main Street America Holdings, Inc. common stock.

Main Street America Holdings, Inc. was 50% owned by Main Street America Financial Corporation, a subsidiary of National Grange Mutual Insurance Company ("National Grange"). Thus, until November 17, 1999, National Grange Mutual Insurance Company was the ultimate parent of Guilderland Reinsurance Company.

Effective on November 17, 1999, 100% of the Company's issued common stock was sold to Excess Reinsurance Company (a Delaware insurer). The sale of the Company's issued

common stock and the plan of acquisition was approved by both the New York and Delaware Insurance Departments prior to the November 17, 1999 effective date. Excess Reinsurance Company (“Excess Re” or “ERC”) remained the 100% owner of GRC’s issued shares of common stock as of the December 31, 2001 examination and subsequent thereto.

The issued common stock of Excess Re is owned by several small insurance companies primarily located in the State of Pennsylvania. In addition, Guy Carpenter and Company of Pennsylvania (“Guy Carpenter”) owns 200 voting shares or approximately 4.3% of the total voting shares of Excess Re’s common stock.

As of the December 31, 2001 examination date, gross paid in and contributed surplus amounted to \$9,260,267. Gross paid in and contributed surplus and/or capital paid in increased by \$3,104,387 during the examination period, as follows:

| <u>Year</u> | <u>Description</u> | | |
|-------------|---|---------------|--------------------|
| 1998 | Beginning gross paid in and contributed surplus | | \$6,155,880 |
| 1999 | Surplus contribution | \$5,098,277 | |
| 1999 | Dividend Paid (to previous parent)** | (2,007,840) | |
| 2000 | Capital paid in | <u>13,950</u> | |
| | Total Surplus Contributions | | <u>3,104,387</u> |
| 2001 | Ending gross paid in and contributed surplus | | <u>\$9,260,267</u> |

** = Total Dividends paid to the Company’s previous parent were \$7,262,062. Of that amount, \$5,254,222 was paid from unassigned funds as of September 30, 1999. The remaining \$2,007,840 was paid from gross paid-in and contributed surplus as shown above. The sale of the Company was structured as follows:

“Excess Re (“Buyer”) and National Grange (“Seller”) have agreed to make an election as permitted under Internal Revenue Code Section 338(h)(10). Under the election, Guilderland will, prior to the closing of the transactions contemplated by the Asset Sale Election and Stock Purchase Agreement (the “Agreement”), transfer securities unwanted by Buyer to seller (sic.) After transfer, these securities (which shall be publicly traded) and cash remaining with Guilderland as capital and surplus will equal, as of the closing date, \$6,200,000 at fair market value after such securities are marked to market.”

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of fourteen members. The board met four times during each calendar year. At December 31, 2001, the board of directors was comprised of the following fourteen members:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|---|--|
| Scott J. Bishop Schenectady, NY | President, Guilderland Reinsurance Company |
| Timothy D. Burbach, CPCU Waterville, NY | President & Chief Executive Officer, Madison Mutual Insurance Company |
| Charles J. Hinman Pulaski, NY | Secretary, Oswego County Mutual Insurance Company |
| Lyle L. Hughes New Hampton, NY | President, Mid-Hudson Co-Operative Insurance Company |
| Scott T. Jeffers, AAI Oriskany Falls, NY | President, Sauquoit Valley Insurance Company |
| Marc E. Ladouceur Watertown, NY | Chief Operating Officer, North Country Insurance Company |
| Mark T. Prechtl Bemus Point, NY | General Manager, Chautauqua Patrons' Insurance Association |
| Jeffrey W. Rice, CPCU, ARe Clyde, NY | Treasurer, Wayne Cooperative Insurance Company |
| Thomas R. Ruane, CPCU Ithaca, NY | President, Security Mutual Insurance Company |
| James M. Russell Andover, NY | President, Allegany Co-Op Insurance Company |

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|--|--|
| William R. Scrafford Greenville, NY | President, Eastern Mutual Insurance Company |
| Francis M. Spiotta Batavia, NY | Chief Executive Officer & Executive Vice President, Genesee Patrons Co-Operative Insurance Co. |
| Thomas S. Wronski Lockport, NY | President, United Frontier Mutual Insurance Company |
| David A. Thomas Shamong, NJ | Senior Vice President, Guy Carpenter & Company of Pennsylvania |

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, 2001, the principal officers of the Company were as follows:

| <u>Name</u> | <u>Title</u> |
|-----------------------|--------------|
| Scott J. Bishop | President |
| Daniel P. Dorrian | Secretary |
| Andrew J. Benish, Jr. | Treasurer |

B. Territory and Plan of Operation

As of December 31, 2001, the Company was licensed to write business in New York as well as the following six states: Indiana, Iowa, Ohio, Pennsylvania, Virginia and Wisconsin.

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> |
|------------------|--|
| 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 | Workers' compensation and employers' liability |
| 19 | Motor vehicle and aircraft physical damage |
| 20 | Marine and inland marine |

As a professional reinsurer the Company does not write a significant amount of direct premiums. In 2001, the Company reported \$136,654 in direct premiums written (all within New York State). All of this business was classified as "Other Liability- Occurrence" on the Company's Underwriting & Investment Exhibit.

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 \$6,200,000.

C. Reinsurance

Assumed

The Company is a professional reinsurer that derived 99.3% of its gross premiums written in 2001 from assuming the risks of other insurers. The majority of the Company's business is assumed from assessment and advance premium co-operative property/casualty insurance companies domiciled in New York.

Ceded

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2001. The contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Company following is a description of the Company's ceded reinsurance program in force as of at December 31, 2001:

| <u>Type of Contract</u> | <u>Cession</u> |
|---|---|
| Regional Accounts Program- Retrocession 100% Authorized | 100% of the Company's net liability classified by the Company as regional reinsurance subject to aggregate limits in excess of third party coverage. Company retention is 0%. |
| Unlimited Excess Catastrophe- Retrocession 100% Authorized | 100% of property catastrophe per risk excess of loss business assumed from North Country Insurance Company . |
| Balis Treaty Reinsurance Program 100% Authorized | 100% of specific property excess of loss and 100% of specific property net line quota share business assumed from North Country Insurance Company . |

| <u>Type of Contract</u> | <u>Cession</u> |
|---|--|
| Specific P&C Combination Excess of Loss- Retrocession 100% Authorized | 100% of business assumed from North Country Insurance Company under the underlying reinsurance agreement. The agreement is in two layers and mirrors original contract of reinsurance. |
| Special Surplus Treaty- Retrocession 100% Authorized | 100% of the Company's surplus liability classified as assumed regional facultative reinsurance subject to a maximum limit of three times the net and treaty dollar retention of the direct writers or \$1,500,000, whichever is the lesser. |
| Casualty Facultative Excess of Loss 100% Authorized | 100% of \$1,000,000 of business classified as casualty facultative excess of loss- pertains to the Company's direct premiums written. |
| Facultative Bind Authority 100% Authorized | 95% of the Company's net liability for the first \$1,000,000 & 100% in excess of \$1,000,000 up to \$4,000,000 for personal, farm and commercial umbrella liability policies (including endorsements with Homeowners' policies. <u>NOTE</u> : This agreement leaves the Company with approximately a 5% retention on its direct business written, which is what is ceded to Excess Re under the pooling agreement (discussed below). |
| Specific Casualty Excess of Loss- Retrocession 100% Authorized | 100% of the net excess liability in force on binders issued to North Country Insurance Company on specific casualty business noted in the underlying reinsurance agreement. |
| Excess of Loss Catastrophe- Retrocession 92% Authorized 8% Unauthorized | 100% of original reinsurance assumed from North Country Insurance Company under the aggregate excess of loss agreement, which includes the following layers: First Layer- 95% of \$200,000 excess of \$300,000. Second Layer- 95% of \$1,500,000 excess of \$500,000. |

Type of ContractCession

Third Layer- 95% of \$3,000,000 excess of \$2,000,000

Fourth Layer- 95% of \$10,000,000 excess of \$5,000,000

Aggregate Layer- 100% of excess of \$15,000,000

NOTE: Per the 2001 Interests & Liabilities Placement slips, Guilderland Re has signed on for 9.25% of the first layer.

Intercompany Quota Share Agreement-
100% Authorized

100% of Guilderland Re's net liability under retrocession to Excess Re (Company's Parent) contracts classified as working property per risk excess of loss assumed regional reinsurance. Limits & retentions mirror original contracts of reinsurance as ceded to the Company.

Intercompany Pooling Agreement-
100% Authorized

100% of the Company's net retained line (after all retrocession to Excess Re Company's Parent other reinsurance) is ceded to Excess Re, who in turn retrocedes a certain percentage of the combined net retained line of both companies back to Guilderland Re. The retrocession percentage is based on Guilderland Re's share of the combined surplus of the two-(2) companies from the previous year ended. The percentages were 21% and 26% in 2000 and 2001 respectively and will be 33% in 2002.

NOTE: The retrocessional agreements are essentially mirror images of the original contracts of reinsurance as assumed by Guilderland Re from the direct writing insurance companies.

The Company's reinsurance has not changed significantly with the exception of the addition of the intercompany pooling agreement discussed above. However, given that the

intercompany pooling agreement is effective net of all other reinsurance, it does not materially effect the Company's ceded reinsurance program. The Company's net retention (pre-pooling) remained close to \$0 during the entire examination period. The pooling agreement caused the Company to retain 17.8% of its gross premiums written during 2001 as compared to 0.0% in 1998.

The review of the Company's intercompany reinsurance program noted several problem areas. The Company has never filed the intercompany quota share reinsurance agreement with Excess Reinsurance Company, as well as the intercompany pooling agreement with Excess Reinsurance Company, with this Department prior to implementation. The filing of these agreements is required by the New York Insurance Code, Section 1505(d)(2), which provides as follows:

“d) The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:

(2) reinsurance treaties or agreements...”

It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and immediately file its existing intercompany pooling agreement and intercompany quota share reinsurance agreement for review. It is further recommended that the Company file all future intercompany reinsurance agreements as/when required by the New York Insurance Law.

It was also noted that the settlement of balances due under for intercompany pooling agreement for the 2001 Accident Year occurred in July 2002. This appears to be a violation of the terms of the agreement, which requires the settlement to occur by the end of January following the end of the preceding accident year.

It is recommended that the Company comply with the terms of its intercompany pooling agreement with Excess Reinsurance Company by settling its accounts on an annual basis no later than 30 days subsequent to the end of the calendar year.

Unauthorized Reinsurance

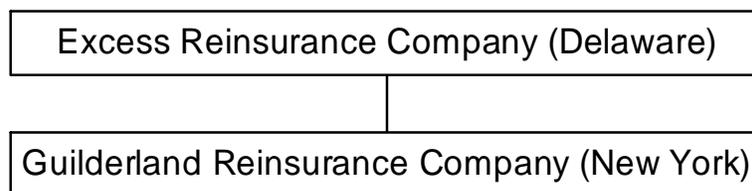
The letters of credit obtained by the Company in order to take credit for cessions made to unauthorized reinsurers were reviewed for compliance with Department Regulations 114 and 133, respectively. No exceptions were noted with regards to the letters of credit. However, it was noted that the Company was not in compliance with NAIC Annual Statement Instructions in reporting its reported authorized and unauthorized reinsurers on Schedule F- Parts 3 & 5. It is recommended that the Company comply with the NAIC's Annual Statement Instructions with regards to Schedule F- Parts 3 & 5.

D. Holding Company System

The sole stockholder of the Company is Excess Reinsurance Company, a Delaware domiciled insurer. The examiners attempted to review the holding company registration statements filed with this Department, however the Company has not filed any holding company registration statements since Excess Re acquired them in November 1999. This is in violation of New York Insurance Regulation 52.

It is recommended that the Company comply with the Department Regulation 52, Subpart 80-1.2 and file Form HC-1 on an annual basis no later than 120 days subsequent to the Company's fiscal year-end.

The following is a chart of the holding company system at December 31, 2001:



As part of the Holding Company review, the examiners reviewed Schedule Y- Parts 1 & 2. The review of Schedule Y- Part 2 indicates that the Company reported no intercompany transactions during 2001. Given the fact that the intercompany pooling agreement was operational, the Company should have disclosed the activity relating to this agreement in Schedule Y Part 2.

It is recommended that the Company comply with the NAIC's Annual Statement Instructions and include all material intercompany transactions on Schedule Y- Part 2 on all future annual statements.

At December 31, 2001, the Company was party to a tax allocation agreement with Excess Reinsurance Company. Examination review noted that the Company had not filed the

Agreement with the New York Insurance Department as required pursuant to Department Circular Letter No. 33 (1979).

The Agreement, which became effective on January 1, 2000, provides for the calculation of Guilderland Reinsurance Company's tax liability on a separate company basis. In addition, the Agreement provides that carryback net operating losses are to be handled on a separate company basis.

It is recommended that the Company file its existing intercompany Tax Allocation Agreement with the Department for its review pursuant to the requirements of Department Circular Letter No. 33 (1979).

The Company maintains an arrangement with its parent Company, Excess Reinsurance Company whereby Excess Re reimburses Guilderland Re for certain operating costs initially paid by Guilderland Re on behalf of both companies. To date, the details of this arrangement have not been reduced to writing.

It is recommended that the Company immediately reduce to writing, the cost sharing arrangement that exists between itself and its parent company, Excess Reinsurance Company.

E. Accounts and Records

i. Accounting Software

During the review of the Company's trial balance in relation to the annual statement along with the review of the supporting schedules of the annual statement the examiners found certain inconsistencies. Initially, the trial balance could not be reconciled to the annual statement due to the fact that the Company neglected to record both sides (debit & credit) of certain adjusting entries. Currently, the Company maintains its general ledger and trial balance on an excel spreadsheet and does not maintain any accounting software for use in the preparation of its financial statements.

It is recommended that the Company obtain accounting software for the preparation and maintenance of the Company's financial statements.

ii. Short-Term Investments

As of December 31, 2001, the Company reported an investment in the Victory US Government Obligation. Per the Securities Valuation Office of the National Association of Insurance Commissioners, this security is reported as a Class 1 government security and is not a United States direct obligation. Therefore, the security is subject to the investment limitation included in the New York Insurance Law, Section 1409, which limits a domestic insurer's investment in any one entity to ten percent of Admitted Assets. The Victory United States Government obligation exceeded this investment limitation. As of the examination date, the Company investment exceeded the 10% limitation of admitted assets as set forth in Section 1409 of the New York Insurance Law.

It is recommended that the Company comply with the New York Insurance Law, Section 1409 by maintaining no securities in any one institution that exceed ten percent of the Company's admitted assets. As of December 31, 2002, the Company had divested itself of the excess investment.

iii. Other Accounts and Records

Examination review indicated that the Company failed to maintain proper supporting documentation for several asset and liability accounts reported in its December 31, 2001 filed annual statement. While the examination changes for some individual asset and liability accounts were material, relative to the account balances, the aggregate of all proposed examination changes did not exceed the planning materiality established for this examination. Nonetheless, it is recommended that the Company obtain, maintain and reconcile supporting documentation that substantiates all asset and liability items reported in its financial statements, including the following accounts:

- Premiums and agents' balances in course of collection;
- Reinsurance recoverables on paid and unpaid losses and loss adjustment expenses;
- Reinsurance payable on paid losses and loss adjustment expenses;
- Ceded reinsurance balances payable
- Provision for reinsurance

iv. Custody Agreement

The Company maintains a custody agreement with Fleet Bank. Per the agreement, Fleet Bank is responsible for the safekeeping of the Company's securities while they are in its possession. Fleet Bank maintains the custody of all of the Company's securities except for those on deposit with New York and other states. However, Fleet Bank in no way directs the purchase

or sale of the Company's securities. The examination's review of the custody agreement noted that the appropriate NAIC Indemnification Clause has not been included in the agreement. It is recommended that the custody agreement with Fleet Bank be amended to include the NAIC's Indemnification Clause.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001, based upon the results of this examination:

| | |
|--|----------|
| Net premiums written in 2001 to surplus as regards policyholders | 0.3 to 1 |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 66% |
| Premiums in course of collection to surplus as regards policyholders | 38% |

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:

| | <u>Amounts</u> | <u>Ratios</u> |
|--|--------------------|---------------|
| Losses and loss adjustment expenses incurred | \$7,059,803 | 105.6% |
| Other underwriting expenses incurred | 672,952 | 10.1 |
| Net underwriting loss | (1,049,266) | (15.7) |
| Premiums earned | <u>\$6,683,489</u> | <u>100.0%</u> |

G. Abandoned Property Law

Section 1316 of the New York State Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company's did not have any abandoned property for the years under examination; however, the examiner noted that the Company did not file any abandoned property reports pursuant to the provisions of Section 1316 of the New York State Abandoned Property Law. It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York State Abandoned Property Law.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2001 and as reported by the Company:

| <u>Assets</u> | <u>Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> |
|--|---------------------|--------------------------------|--------------------------------|
| Bonds | \$ 8,891,309 | \$ 0 | \$ 8,891,309 |
| Common stocks (stocks) | 1,107,803 | 0 | 1,107,803 |
| Cash and short-term investments | 3,339,212 | 0 | 3,339,212 |
| Premiums and agents' balances in course of collection | 4,659,168 | 0 | 4,659,168 |
| Reinsurance recoverables on loss and loss adjustment expense payments | 2,213,716 | 0 | 2,213,716 |
| Federal and foreign income tax recoverable | 55,592 | 0 | 55,592 |
| Interest, dividends and real estate income due and accrued | 116,172 | 0 | 116,172 |
| Recoverable from manager | <u>(8,972)</u> | <u>0</u> | <u>(8,972)</u> |
| Total Assets | <u>\$20,374,000</u> | <u>\$0</u> | <u>\$20,374,000</u> |

Liabilities, Surplus and Other Funds

| | |
|---|----------------|
| Losses | \$ 2,734,660 |
| Reinsurance payable on paid losses and loss adjustment expenses | 649,154 |
| Loss adjustment expenses | 106,471 |
| Other expenses (excluding taxes, licenses and fees) | 17,220 |
| Federal and foreign income taxes | 37,960 |
| Unearned premiums | 100,327 |
| Ceded reinsurance premiums payable | 5,329,332 |
| Amounts withheld or retained by company for account of others | 163,917 |
| Payable to parent, subsidiaries and affiliates | <u>546,948</u> |
| Total liabilities | \$ 9,685,989 |

Surplus and Other Funds

| | |
|--|---------------------|
| Common capital stock | \$ 2,051,960 |
| Gross paid in and contributed surplus | 9,260,267 |
| Unassigned funds (surplus) | <u>(624,213)</u> |
| Surplus as regards policyholders | <u>10,688,014</u> |
| Total liabilities, surplus and other funds | <u>\$20,374,003</u> |

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$2,544,380 during the three-year examination period January 1, 1999 through December 31, 2001, detailed as follows:

Underwriting Income

| | | |
|--------------------------------------|----------------|------------------|
| Premiums earned | | \$ 6,683,489 |
| Deductions: | | |
| Losses incurred | \$6,900,639 | |
| Loss adjustment expenses incurred | 159,164 | |
| Other underwriting expenses incurred | <u>672,952</u> | |
| Total underwriting deductions | | <u>7,732,755</u> |
| Net underwriting gain or (loss) | | \$(1,049,266) |

Investment Income

| | | |
|-------------------------------|----------------|-----------|
| Net investment income earned | \$1,628,672 | |
| Net realized capital gain | <u>700,498</u> | |
| Net investment gain or (loss) | | 2,329,170 |

Other Income

| | | |
|---|------------------|---------------------|
| Miscellaneous income | <u>\$ 62,760</u> | |
| Total other income | | <u>62,760</u> |
| Net income before federal and foreign income taxes | | \$ 1,342,664 |
| Federal and foreign income taxes incurred | | <u>310,930</u> |
| Net Income | | \$ <u>1,031,734</u> |

C. Capital and Surplus Account

| | | | |
|--|-----------------------------|--------------------------|---------------------|
| Surplus as regards policyholders per report on examination as of December 31, 1998 | | | \$13,232,394 |
| | <u>Gains in Surplus</u> | <u>Losses in Surplus</u> | |
| Net income | \$1,031,734 | | |
| Net unrealized capital gains or (losses) | | \$1,419,254 | |
| Change in net deferred income tax | | 106,286 | |
| Change in non-admitted assets | 99,261 | | |
| Capital changes paid in | 5,112,227 | | |
| Dividends paid to former parent | <u> </u> | <u>7,262,062</u> | |
| Net increase (decrease) in surplus | <u>\$6,243,222</u> | <u>\$8,787,602</u> | <u>(2,544,380)</u> |
| Surplus as regards policyholders per report on examination as of December 31, 2001 | | | <u>\$10,688,014</u> |

4. LOSSES & LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$2,841,131 is the same as reported by the Company as of December 31, 2001. 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. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims and complaint handling

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained eleven recommendations as follows (page numbers refer to the prior report). It should be noted that several of the prior examination recommendations are not applicable to the current examination due to the change in control that occurred during the current examination period. In the event a specific prior examination recommendation is not applicable to the current examination it is deemed that the Company has complied with the specific recommendation for examination purposes.

| <u>ITEM</u> | | <u>PAGE NO.</u> |
|-------------|--|-----------------|
| | <u>Management</u> | |
| A | | |
| i | Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. | 6 |
| | The Company has complied with this recommendation. | |
| ii | It is recommended that Guilderland maintain the minimum number of Directors stipulated in its charter and by-laws. | 6 |
| | The Company has complied with this recommendation. | |
| B | <u>Reinsurance</u> | |
| i | It is recommended that the Company comply with the terms of its reinsurance agreements regarding the time for paying ceded premiums. | 12 |
| | The Company has complied with this recommendation. | |
| ii | It is recommended that the Company maintain evidence of the date loss reports were sent to the reinsurer and confirmation of the date the reinsurer received the loss reports sent by the Company. | 12 |
| | The Company has complied with this recommendation. | |
| iii | It is recommended that the Company revise its reinsurance agreements to reflect the Company's practice of waiting to pay ceded premiums until all bills are received. | 12 |
| | The Company has complied with this recommendation. | |

| <u>ITEM</u> | | <u>PAGE NO.</u> |
|-------------|--|-----------------|
| iv | It is recommended that the Company ensure that its premium reports include accurate data including the account month. The Company has complied with this recommendation. | 12 |
| v | It is recommended that the Company maintain evidence of the date loss reports are sent to its reinsurers so that the Company can verify that reimbursement for loss and loss adjustment expenses is pursuant to the terms of the respective reinsurance agreement. The Company has complied with this recommendation. | 12 |
| C | <u>Holding Company System</u> It is recommended that the Company disclose the identity of and interrelationships among the parent, all affiliated insurers and other affiliates. The Company has complied with this specific recommendation, however the current examination has made a recommendation pertaining to the disclosure of intercompany transactions in Schedule Y-Part 2 (see Summary of Recommendations). | 12-13 |
| D | <u>Accounts and Records</u> | |
| i | It is recommended that the Company revise its bank resolutions to require that orders or checks are signed by any two of its authorized officers pursuant to board resolutions. The Company has complied with this recommendation. | 15 |
| ii | It is recommended that the Company provide accurate information to personnel assigned by the Department to examine its books and records. The Company has complied with this specific recommendation given that it applies to Investment Confirmations, however the current examination has made three-(3) recommendations pertaining to concerns regarding supporting detail provided by the Company (see Summary of Recommendations). | 15-16 |

| <u>ITEM</u> | | <u>PAGE NO.</u> |
|-------------|---|-----------------|
| iii | It is recommended that the Company report the proper amounts relating to each reinsurer reported in Schedule F of the annual statement blank. | 16 |
| | The Company has not complied with this recommendation. A related recommendation has been made in this report on examination (see Summary of Recommendations). | |

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| <u>ITEM</u> | | <u>PAGE NO.</u> |
|-------------|--|-----------------|
| A | <u>Reinsurance</u> | |
| i | It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and immediately file its existing intercompany pooling agreement and intercompany quota share reinsurance agreement for review. | 12 |
| ii | It is further recommended that the Company file all future intercompany reinsurance agreements as/when required by the New York Insurance Law. | 12 |
| iii | It is recommended that the Company comply with the terms of its Intercompany pooling agreement with Excess Reinsurance Company by settling its accounts on an annual basis no later than 30 days subsequent to the end of the calendar year. | 13 |
| iv | It is recommended that the Company comply with the NAIC Annual Statement Instructions with regards to Schedule F- Parts 3 & 5. | 13 |
| B | <u>Holding Company System</u> | |
| i | It is recommended that the Company comply with the Department Regulation 52, Subpart 80-1.2 and file Form HC-1 on an annual basis no later than 120 days subsequent to the Company's fiscal year-end. | 14 |
| ii | It is recommended that the Company comply with the NAIC's Annual Statement Instructions and include all material intercompany transactions in Schedule Y- Part 2 on all future annual statements. | 14 |

| <u>ITEM</u> | | <u>PAGE NO.</u> |
|-------------|--|-----------------|
| iii | It is recommended that the Company file its existing intercompany tax allocation agreement with the Department for its review pursuant to the requirements of Department Circular Letter No. 33 (1979). | 15 |
| iv | It is recommended that the Company immediately reduce to writing, the cost sharing arrangement that exists between itself and its parent company, Excess Reinsurance Company. | 15 |
| C | <u>Accounts and Records</u> | |
| i | It is recommended that the Company obtain accounting software for the preparation and maintenance of the Company's financial statements. | 16 |
| ii | It is recommended that the Company comply with the New York Insurance Law, Section 1409 by maintaining no securities in any one institution that exceed ten percent of the Company's admitted assets. As of December 31, 2002, the Company had divested itself of the excess investment. | 17 |
| iii | It is recommended that the Company obtain, maintain and reconcile supporting documentation that substantiates all assets and liability items reported in its financial statements. | 17 |
| iv | It is recommended that the custody agreement with Fleet Bank be amended to include the NAIC's Indemnification Clause. | 18 |
| D | <u>Abandoned Property Law</u> | |
| | It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York State Abandoned Property Law. | 19 |

Respectfully submitted,

_____/S/
Gregg S. Bealuk, CFE
Examiner-In-Charge

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

GREGG S. BEALUK, being duly sworn, deposes and says that the foregoing report, subscribed to by him, is true to the best of his knowledge and belief.

_____/S/
Gregg S. Bealuk, CFE

Subscribed and sworn to before me
this _____ day of _____, 2004

Appointment No 21939

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Gregg S. Bealuk

as proper person to examine into the affairs of the

GUILDERLAND REINSURANCE COMPANY

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

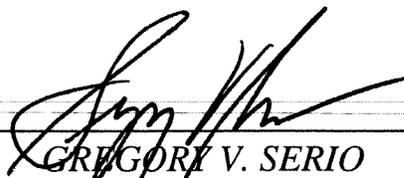
Company

with such other information as he 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 19th day of September, 2002





GREGORY V. SERIO
Superintendent of Insurance