

REPORT ON ORGANIZATION
OF THE
ADIRONDACK INSURANCE EXCHANGE
AS OF
MAY 17, 2006

DATE OF REPORT

MAY 19, 2006

EXAMINER

JOSEPH REVERS

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

May 19, 2006

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the instructions contained in Appointment Number 22504 dated May 18, 2006 attached hereto, I have made an examination on organization of Adirondack Insurance Exchange and respectfully submit the following report thereon.

Whenever the terms "Reciprocal" or "AIE" appears herein without qualification, they should be understood to indicate the Adirondack Insurance Exchange.

1. SCOPE OF EXAMINATION

The examination comprised a verification of the Reciprocal's initial surplus to policyholders and the determination of the assets and liabilities. The records examined included the Declaration of Initial Subscribers and Attorney-in-Fact, the Subscriber's Agreement, the Insurance Management Service Agreement, the Investment Management Agreement and custodial agreements entered into by the Reciprocal as of the examination date. Additionally, an affidavit, appended hereto, was obtained from two officers of the Attorney-in-Fact indicating that the transactions noted in this report were lawful and bona fide.

2. ORGANIZATION OF THE RECIPROCAL

Adirondack Insurance Exchange was organized by twenty-six subscribers on June 30, 2003. The Declaration of Initial Subscribers and Attorney-in-Fact was filed and approved by this Department on July 3, 2003. The location of the offices of the Attorney-in-Fact and AIE is 100 Corporate Parkway, Suite 200, Buffalo, New York 14226.

Management of the Reciprocal is vested in an advisory committee and Adirondack AIF, LLC ("Attorney-in-Fact"). The members of the advisory committee and the principal officers of the Attorney-in-Fact as of May 17, 2006 were as follows:

Advisory Committee

<u>Name</u>	<u>Principal Affiliation</u>
James Paul Amaden III East Hampton, NY	President and Chief Executive Officer, Amaden Gay Agency
Louis Atti Angola, NY	Office Manager, M & W Agency Inc.
David R. Bauer Schenectady, NY	President, Capital Bauer Insurance Agency

Advisory Committee

<u>Name</u>	<u>Principal Affiliation</u>
Beth Marie Gardner Watermill, New York	Operations Manager, Maran Corporate Risk Associates
Thomas S. McDaniel Williamsville, NY	Vice President, Personal Lines, OneBeacon Insurance Company
John F. Scherrer Williamsville, NY	President, Northwoods Corporation
John V. Stype Cutchogue, NY	President, Neefus Stype Agency
Joseph Anthony Tedesco Rye, NY	Vice President, DeRosa, Rockefeller, Sohigian, Werdal Agency
Michael Kelly Zimmerman Williamsville, NY	Vice President, Claims, OneBeacon Insurance Company

Officers

<u>Name</u>	<u>Title</u>
John C. Heller	President, Chief Executive Office
Alex Archimedes	Vice President
Thomas L. Forsyth	Vice President
Maurice H. Chew	Chief Financial Officer
Dennis R. Smith	Secretary
Frederick J. Turcotte	Treasurer
M. Fran O'Laughlin	Assistant Treasurer
David Staples	Assistant Treasurer

3. CAPITALIZATION AND SUBSCRIPTION

Adirondack Insurance Exchange was organized by the White Mountains Insurance Group, Ltd., Bermuda with an initial surplus to policyholders of \$70,700,000. The initial surplus was provided by Homeland Insurance Company of New York pursuant to a loan agreement conforming to Section 1307 of the New York Insurance Law, which provides that such loan may only be repaid out of free and divisible surplus of such insurer with the approval of the superintendent.

In order to fulfill the deposit requirements of Section 4104 of the New York Insurance Law, the Reciprocal has placed securities with a par and market value totaling \$500,000 in an account in the name of the "Superintendent of Insurance of the State of New York in Trust for the security of all policyholders of Adirondack Insurance Exchange within the United States, its territories and possessions." The custodian is Mellon Trust of New York, LLC, located at 200 Park Avenue, New York, NY 10166, and the securities are held pursuant to a custodian agreement that conforms to the provisions of Section 1314 of the New York Insurance Law.

A review of the Reciprocal's investments revealed that the Reciprocal did not maintain investments of the types specified in Section 1402(b) of the New York Insurance Law in an amount equal to or greater than its minimum required surplus to policyholders. It is recommended that the Reciprocal maintain the minimum required capital or surplus to policyholder investments in accordance with Section 1402(b) of the New York Insurance Law.

4. **BALANCE SHEET**

The following balance sheet sets forth the Reciprocal's financial condition as of May 17, 2006, as determined by this examination:

Assets

Cash and short-term investments	\$75,063
Investments	
Long-term investments	<u>70,631,304</u>
Total assets	<u>\$70,706,367</u>

Liabilities

Accounts Payable	<u>\$6,367</u>
Total liabilities	<u>\$6,367</u>

Policyholders' Surplus

Subordinated Surplus Note	<u>\$70,700,000</u>
Total liabilities and surplus	<u>\$70,706,367</u>

5. AUTHORIZED POWERS AND MINIMUM CAPITAL REQUIRED

The Reciprocal is authorized by its Declaration of Initial Subscribers and Attorney-in-Fact to transact the kinds of insurance described in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

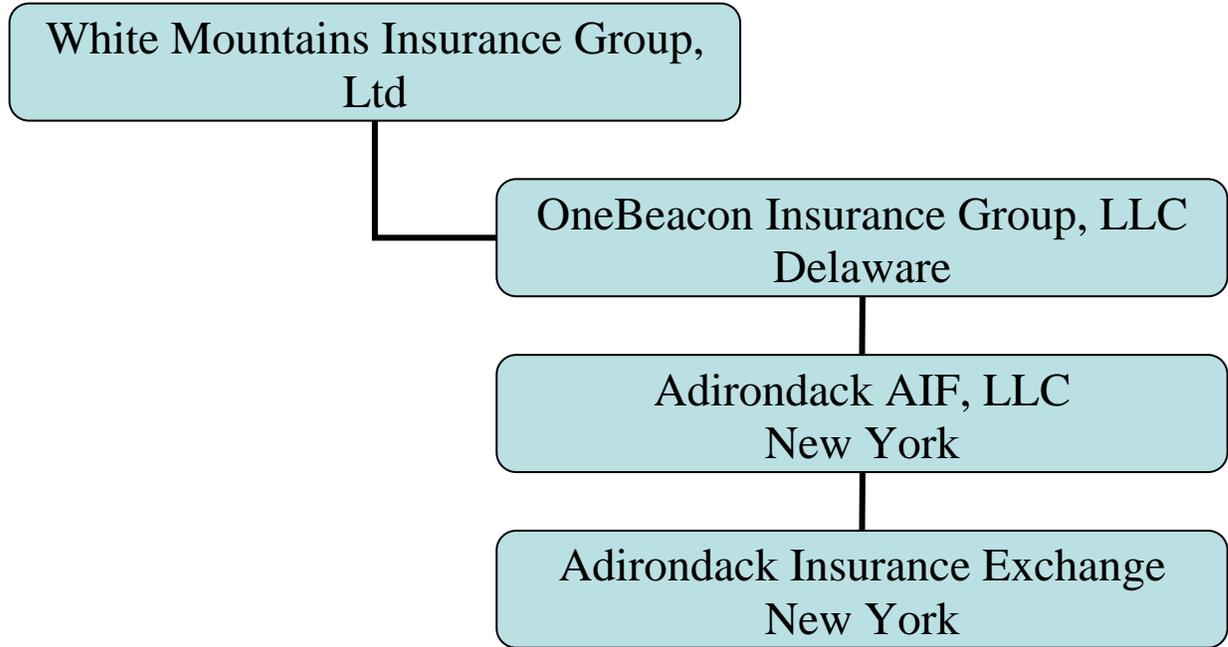
<u>Paragraph</u>	<u>Lines of Business</u>
04	Fire Insurance
05	Miscellaneous Property Insurance
06	Water Damage Insurance
07	Burglary and Theft Insurance
08	Glass Insurance
11	Animal Insurance
12	Collision Insurance
13	Personal Injury Liability Insurance
14	Property Damage Liability Insurance
17	Credit Insurance
19	Motor Vehicle and Aircraft Physical Damage Insurance
20	Marine and Inland Marine Insurance
21	Marine Protection and Indemnity Insurance
22	Residual Value Insurance
26	Gap Insurance
30	Substantially Similar Kind of Insurance

Sections 4103, 4104, 6102(e) and 6108(d)(1) of the New York Insurance Law provide that in order to be licensed to write non-assessable policies for the foregoing kinds of insurance, the Reciprocal shall have an initial surplus to policyholders of \$10,400,000 and shall thereafter maintain a minimum surplus to policyholders of \$9,900,000. The Reciprocal has met these requirements.

6. HOLDING COMPANY SYSTEM

Adirondack Insurance Exchange is controlled by Adirondack AIF, LLC, the Attorney-in-Fact of AIE. Adirondack AIF, LLC is wholly owned by OneBeacon Insurance Group, LLC.

The Reciprocal's ultimate controlling person is White Mountains Insurance Group, Ltd. of Bermuda. Their holding company chart is as follows:



The Reciprocal is a party to an Insurance Management Service Agreement with Adirondack AIF, LLC. Said agreement was submitted to the Department for approval. The agreement states that Adirondack AIF, LLC will provide claims payment and adjustment, settle losses and claims, establish loss and LAE reserves, provide underwriting inspection services, pay reinsurance premiums, costs and expenses, and maintain required surplus levels for the Reciprocal. The agreement also stipulates that Adirondack AIF, LLC is authorized in its discretion to enter into contracts with other corporations, individuals or partnerships to perform any activities set forth in the agreement.

In addition, the agreement provides that the Reciprocal authorizes payment to the Adirondack AIF, LLC of an amount equal on an annual basis to 14% of gross written premiums as compensation for insurance business and management services rendered.

The Reciprocal is also a party to an Investment Management Agreement with White Mountains Advisors LLC (WMA). Said agreement was also submitted to the Department for approval. The agreement states that WMA will act as a discretionary adviser with respect to the assets of the Reciprocal, supervise and direct the investments as described in the investment guidelines. WMA agrees to provide the Reciprocal with a quarterly report containing a detailed listing of the invested assets and transactions in the account.

7. CONCLUSION

Based on the foregoing examination, it is concluded that the Reciprocal has in place the initial surplus to policyholders.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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A. Minimum Capital or Surplus Investments

It is recommended that the Reciprocal maintain the minimum required capital or surplus to policyholder investments in accordance with Section 1402(b) of the New York Insurance Law.

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Respectfully submitted,

_____/s/_____
Joseph Revers
Senior Insurance Examiner

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

JOSEPH REVERS, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/s/_____
Joseph Revers

Subscribed and sworn to before me

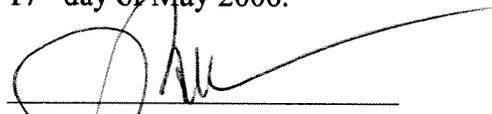
this _____ day of _____ 2006

AFFIDAVIT

The undersigned, John C. Heller and Maurice H. Chew are the duly appointed President and Chief Financial Officer of Adirondack AIF, LLC, the attorney in fact for Adirondack Insurance Exchange, a New York reciprocal insurer (the "Company"). In such capacity, each of the undersigned hereby declares under penalty of perjury as follows:

1. The paid in surplus of the Company in the amount of Seventy Million Seven Hundred Thousands Dollars (\$70,700,000) has not been withdrawn, pledged or in any way impaired.
2. The paid in surplus of the Company is not to be invested or otherwise legitimately used or appropriated except for the sole and exclusive use and benefit of the Company
3. There is no agreement or understanding express or implied, made or existing between the Company and its officers, or any of them, or any person or persons, to the effect or import that the money paid in by any subscriber shall be loaned or returned to him
4. Neither the Company nor any of its officers is in any way, manner or form pledged or committed to make any investment, loan, or disposition of said paid in surplus, or any part thereof, which is not in strict conformity in all respects with the provisions of the New York Insurance Law of the State of New York.
5. That said paid in surplus is the property of Adirondack Insurance Exchange and possessed by it in its corporate name and capacity for the benefit of its policyholders.

IN WITNESS THEREOF, the undersigned have executed this Affidavit as of the 17th day of May 2006.



John C. Heller
President



Maurice H. Chew
Chief Financial Officer

ACKNOWLEDGEMENT

State of New York)
)
County of Essex)

In witness whereof, the forgoing Affidavit was executed in my presence by John C. Heller, who is personally known to me, and whom I acknowledge to be the persons who executed the foregoing instrument. I have hereunto subscribed my name and affixed my official seal this 15 day of May, 2006.

Colette M. Decarlo
Notary Public

My commission expires:
01-20-2007

COLETTE W. DECARLO
NOTARY PUBLIC, STATE OF NEW YORK
QUALIFIED IN NIAGARA COUNTY
NO. 4882737
MY COMMISSION EXPIRES JAN. 20 2007

ACKNOWLEDGEMENT

State of New Jersey)
County of Essex)

In witness whereof, the forgoing Affidavit was executed in my presence by Maurice J. Chew, who is personally known to me, and whom I acknowledge to be the persons who executed the foregoing instrument. I have hereunto subscribed my name and affixed my official seal this 16th day of May, 2006.

Rosalie Metta
Notary Public
ROSALIE METTA
NOTARY PUBLIC OF NEW JERSEY
MY COMMISSION EXPIRES SEPT. 3, 2006
My commission expires:

Appointment No 22504

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

I, Howard Mills, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Joseph Revers

as proper person to examine into the affairs of the

ADIRONDACK INSURANCE EXCHANGE

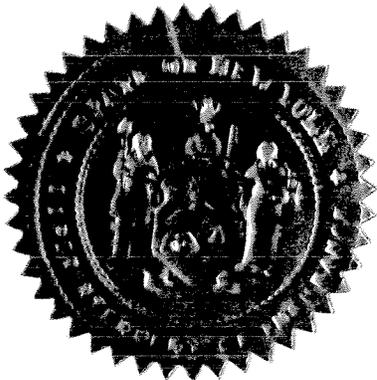
and to make a report to me in writing of the condition of the said

Reciprocal

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 18th day of May, 2006





Howard Mills
Superintendent of Insurance