REPORT ON EXAMINATION

OF

MOUNTAIN VALLEY INDEMNITY COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT	MAY 9, 2019
EXAMINER	LEE R. PROWELL

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May 9, 2019

Honorable Linda A. Lacewell
Acting Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31794 dated June 26, 2018**,** attached hereto, I have made an examination into the condition and affairs of Mountain Valley Indemnity Company as of December 31, 2017, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Mountain Valley Indemnity 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 5630 University Parkway, Winston-Salem, North Carolina 27102.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2013. This examination covered the four-year period from January 1, 2014 through December 31, 2017. Transactions occurring subsequent to this period were reviewed when deemed appropriate by the examiner.

The examination was conducted in conjunction with the State of North Carolina, which was the facilitating state of the National General Holding Group ("NGHG"). Delaware was the lead state of NGHG, as well as its other sub-group, AmTrust Group. The examination was performed concurrently with the examinations of the following insurers:

Adirondack Insurance Exchange (NY)
Direct General Life Insurance Company (SC)
Direct General Insurance Company (TN)
Direct National Insurance Company (AR)
Imperial Fire and Casualty Insurance Company (LA)
Century National Insurance Company (CA)
Integon Casualty Insurance Company (NC)
Integon General Insurance Company (NC)
Integon Indemnity Corporation (NC)
Integon Preferred Insurance Company (NC)
Integon National Insurance Company (NC)
MIC General Insurance Corporation (MI)
National General Assurance Company (MO)
National General Insurance Company (MO)
National General Insurance Online, Inc. (MO)
National General Premier Insurance Company (CA)
National Health Insurance Company (TX)
New Jersey Skylands Insurance Association (NJ)
New Jersey Skylands Insurance Company (NJ)
New South Insurance Company (NC)
Standard Property & Casualty Insurance Company (LA)

Other states participating in this examination were Arkansas, California, Illinois, Louisiana, Michigan, Missouri, New Jersey, South Carolina, Tennessee and Texas.

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 current and 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, and management's compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

Company history
Management and control
Territory and plan of operation
Reinsurance
Holding company description
Financial statement presentation
Loss review and analysis
Summary of recommendations

Effective February 4, 2015 the Company redomesticated to New York from New Hampshire, effectively making this report the first examination of the Company performed by the Department. Consequently, a review of comments and recommendations contained in the prior report on examination was not performed.

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

2. DESCRIPTION OF COMPANY

Mountain Valley Indemnity Company, formerly known as White Mountain Insurance Company, was incorporated under the laws of the State of New Hampshire on February 2, 1995 and commenced business on March 3, 1995. Its present title was adopted on December 7, 1999. On April 10, 2007, Tower Group, Inc. acquired the Company, along with its affiliate and the holding company, Preserver Group, Inc. ("PGI").

On February 1, 2012, Adirondack Insurance Exchange ("the Exchange"), a reciprocal insurer domiciled in New York, purchased the Company from PGI for $19.4 million, which represented the Company's adjusted statutory surplus as of January 31, 2012.

On September 15, 2014, National General Holding Corp. ("NGHC") acquired the Exchange's attorney-in-fact, Adirondack AIF, LLC ("the Attorney-in-Fact") in a transaction approved by the Department. Pursuant to the transaction, NGHC is currently the ultimate controlling entity of the Attorney-in-Fact and hence the controlling entity of the Company and its parent company, the Exchange.

On February 4, 2015, the Department approved the Redomestication Declaration of Intent and Charter of the Company for redomesticating from the state of New Hampshire to the state of New York.

A. Corporate Governance

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting not less than seven members nor more than 17 members. The board met at least annually during the examination period. At December 31, 2017, the board of directors was comprised of the following seven members:

Name and Residence	Principal Business Affiliation
Donald Bolar Lewisville, NC	Vice President and Chief Accounting Officer, National General Management Corporation
Barry Samuel Karfunkel Lawrence, NY	Chief Executive Officer, National General Management Corporation
Andrew Vincent McGuire Geneva, IL	President, National General Management Corporation
Thomas Edward Newgarden New York, NY	Director, National General Management Corporation
Peter Andrew Rendall New York, NY	Treasurer, National General Management Corporation
Michael Hal Weiner New York, NY	Chief Financial Officer, National General Management Corporation

Name and Residence	Principal Business Affiliation
Jeffrey Allan Weissmann Clifton, NJ	Secretary and General Counsel, National General Management Corporation

A review of the minutes of the board of directors' meetings held during the examination period indicated that Mr. Donald Bolar attended less than 50% of the meetings for which he was eligible to attend. Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria.

It is recommended that board members who are unable or unwilling to attend at least 50% of the meetings should resign or be replaced.

Section 1411(a) of the New York Insurance Law states, in part:

> "No domestic insurer shall make any loan or investment… unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan…"

It was noted that the investment transactions for the years under examination were not approved by the board of directors. It is recommended that the board of directors approve the Company's investment transactions and that the minutes indicate such approvals, consistent with the requirements of Section 1411(a) of the New York Insurance Law.

As of December 31, 2017, the principal officers of the Company were:

Name	Title
Andrew Vincent McGuire	President
Jeffrey Allan Weissmann	Secretary
Peter Andrew Rendall	Treasurer
Michael Hal Weiner	Chief Financial Officer
Brad Michael Schock	Vice President, Tax

B. Territory and Plan of Operation

As of December 31, 2017, the Company was licensed to write business in 26 states. However, during the examination period, the Company wrote business solely in Colorado, New York, and Texas.

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
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value

Based upon 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 $6,000,000.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

Calendar Year	Direct Premiums	Assumed Premiums	Total Gross Premiums
2014	$ 1,451,010	$12,866,727	$ 14,317,737
2015	$ 82,974,672	$ 9,982,454	$ 92,957,126
2016	$ 91,186,257	$14,170,893	$105,357,150
2017	$118,665,557	$14,170,893	$132,836,450

The major lines of business written by the Company are homeowners multiple peril and fire, which accounted for approximately 87% and 6%, respectively, of the direct premiums written in 2017. As of December 31, 2017, the Company wrote business in Colorado, New York and Texas through approximately 103, 548 and 12 independent agents, respectively.

The Company writes business in foreign states in which the parent company is not licensed. The business is then ultimately pooled with the parent.

Due to the large pooling agreement (described in section 2C of this report), the net exposure of the Company is significantly different than its direct and assumed exposure.

C. Reinsurance Ceded

Inter-company Pooling Agreement

Effective January 1, 2012, the Company entered into an inter-company pooling agreement with its parent, the Exchange, to pool the underwriting experience of the two entities. The Exchange is the pool leader. The pooling agreement was approved by the Department on January 9, 2012.

Under the terms of the pooling agreement, all gross premiums, losses, insurance expenses and other related underwriting activity of the Company are ceded to the Exchange. The Exchange then purchases reinsurance on behalf of itself and the Company. The remaining business is then distributed 90% and 10% to the Exchange and the Company, respectively.

Ceded Reinsurance Program

Under the pooling agreement described above, all of the Company’s written premiums are ceded to the Exchange, an authorized affiliate and the Company’s parent.

As pool leader, the Exchange is the only pool member that is party to ceded reinsurance agreements with non-affiliated reinsurers covering business written by the pool, and has a contractual right of recovery from reinsurers.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the

NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle ("SSAP") No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's President and Treasurer pursuant to the NAIC annual statement instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

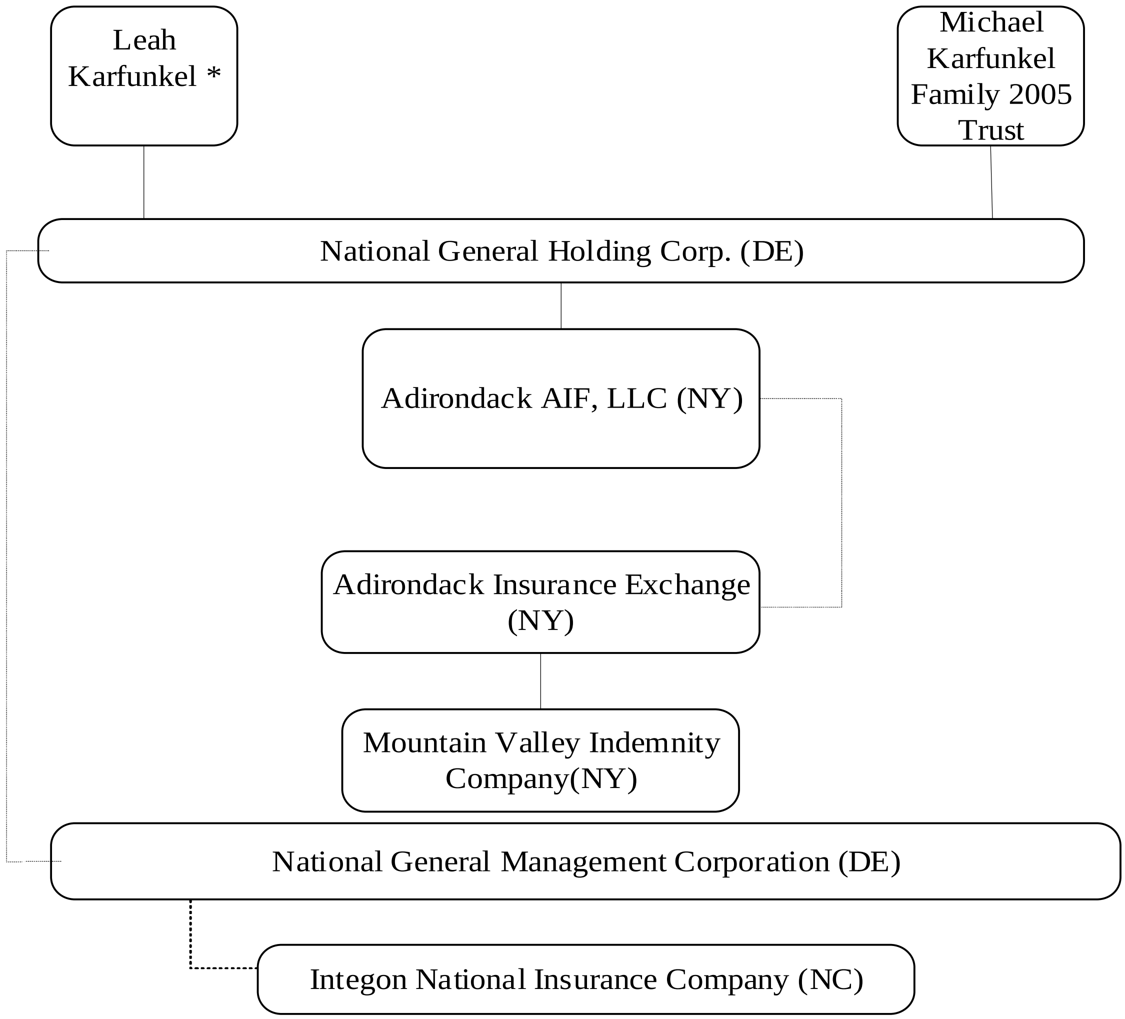
D. Holding Company System

The Company is a member of the National General Holding Group. The Company is a wholly-owned subsidiary of the Exchange, a New York domiciled reciprocal insurer. The Exchange is a member-owned insurance association managed by its appointed Attorney-in-Fact, a New York limited liability company. The Attorney-in-Fact is a wholly-owned subsidiary the National General Holding Corp. ("NGHC"), a public company domiciled in Delaware. NGHC is ultimately controlled by Leah Karfunkel*. No other person or group holds greater than 10% of the common stock of NGHC; however, various entities of AmTrust Financial Services, Inc. ("AFSI") collectively own 1.6% of NGHC's common stock. Leah Karfunkel is one of the controlling parties of AFSI.

NGHC provides a variety of insurance products via 22 wholly-owned domestic insurance companies, of which 20 write primarily property and casualty business. The Company historically concentrated on writing commercial lines of business. However, in 2015, the Company began to write personal lines. This allowed its parent, the Exchange, to expand its platform geographically through reinsurance of the Company's personal lines writings.

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 abridged chart of the holding company system at December 31, 2017:



* Leah Karfunkel as trustee of Leah Karfunkel 2016-NG GRAT (11.8%) and the Michael Karfunkel Family 2005 Trust (30%) directly and indirectly owns 41.8% of NGHC's common stock. Leah Karfunkel has all powers of sole trustee with respect to NGHC's common stock held by each trust.

Holding Company Agreements

At December 31, 2017, the Company was party to the following agreements with other members of its holding company system:

Service and Expense Sharing Agreement

Effective January 1, 2012, the Company entered into a Service and Expense Sharing Agreement with the Exchange. According to the agreement, the Exchange agrees to perform or oversee the performance of all functions related to the conduct of property and casualty business on behalf of the Company, including, but not limited to:

- Underwriting and marketing
- Policy issuance, billing, and collection
- State filing and regulatory compliance
- Loss prevention, premium audit
- Claims services
- Legal
- Corporate services, accounting, human resources and IT services

Tax Allocation Agreement

Effective January 1, 2012, the Company entered into a tax allocation agreement with the Exchange to jointly file consolidated federal income tax returns in accordance with the relevant Internal Revenue Service regulations. The Company did not notify the Department of its intention to enter into a tax allocation agreement with its Parent pursuant to Section 1608(e)(4) of the New York Insurance Law.

It is recommended that the Company comply with Section 1608(e)(4) of the New York Insurance Law and notify the Department in writing at least 30 days prior to entering into a tax allocation agreement with its parent.

Subsequent to the examination, the Exchange notified the Department of its tax allocation agreement dated October 31, 2018.

All agreements subject to Article 1505 of the New York Insurance Law were filed with the Department.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2017, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

Operating Ratios	Result
Net premiums written to surplus as regards policyholders	70%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	75%
Two-year overall operating	81%

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

	Amounts	Ratio
Losses and loss adjustment expenses incurred	$32,120,597	67.65%
Other underwriting expenses incurred	16,226,060	34.18
Net underwriting loss	(870,807)	(1.83)
Premiums earned	$47,475,850	100.00%

The Company's reported risk-based capital score ("RBC") was 902.8% at December 31, 2017. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

F. Accounts and Records

As previously described, the Company and the Exchange are the sole parties to an insurance pooling agreement. Per the terms of the pooling agreement, settlements are to be made within 45 days after the end of each quarter.

The examiner's review of the inter-company pooling accounts and settlements as of September 30, 2017 noted that the Company's inter-company balance was settled on December 27, 2018. The time of the settlement did not comply with the requirement of the pooling agreement to settle within 45 days after the end of each quarter.

It is recommended that the Company settle the inter-company pooling accounts within 45 days after the end of each quarter, as required by the pooling agreement.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017, as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$47,760,594	$ 0	$47,760,594
Cash, cash equivalents and short-term investments	5,681,114	0	5,681,114
Investment income due and accrued	270,110	0	270,110
Uncollected premiums and agents' balances in the course of collection	726,859	500,426	226,433
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,704,488	0	3,704,488
Amounts recoverable from reinsurers	3,770,800	0	3,770,800
Net deferred tax asset	750,557	276,409	474,148
Guaranty funds receivable or on deposit	55	0	55
Electronic data processing equipment and software	659,312	659,312	
Receivables from parent, subsidiaries and affiliates	2,200,031	0	2,200,031
Miscellaneous receivable	3,305	3,305	
Prepaid expense	4,626	0	4,626
Total assets	$65,531,851	$1,439,452	$64,092,399

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses		$ 6,303,699
Reinsurance payable on paid losses and loss adjustment expenses		26,352
Commissions payable, contingent commissions and other similar charges		622,558
Other expenses (excluding taxes, licenses and fees)		1,316,674
Taxes, licenses and fees (excluding federal and foreign income taxes)		294,422
Current federal and foreign income taxes		573,157
Unearned premiums		7,851,906
Advance premium		210,130
Ceded reinsurance premiums payable (net of ceding commissions)		26,215,691
Provision for reinsurance		257,471
Miscellaneous Payables		114,087
Total liabilities		$43,786,147
Surplus and Other Funds		
Common capital stock	$3,600,000	
Gross paid in and contributed surplus	8,750,000	
Unassigned funds (surplus)	7,956,252	
Surplus as regards policyholders		20,306,252
Total liabilities, surplus and other funds		$64,092,399

Note: The Internal Revenue Service has completed its audits of the parent Company's consolidated Federal Income Tax returns through tax year 2014. 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 Internal Revenue Service has not audited tax returns covering tax years 2015 through 2017. 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

The net income for the examination period as reported by the Company was $4,742,154 as detailed below:

Underwriting Income		
Premiums earned		$47,475,850
Deductions:		
Losses and loss adjustment expenses incurred	$32,120,597	
Other underwriting expenses incurred	16,226,060	
Total underwriting deductions		48,346,657
Net underwriting gain or (loss)		$ (870,807)
Investment Income		
Net investment income earned	$ 4,458,569	
Net realized capital gain	437,343	
Net investment gain		4,895,912
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (31,780)	
Finance and service charges not included in premiums	151,549	
Limited assignment distribution fee	4,912	
Service fee	608,967	
Other income	1,626,282	
Membership fee	151,681	
Total other income		2,511,611
Net income before federal and foreign income taxes		$ 6,536,716
Federal and foreign income taxes incurred		1,794,562
Net income		$ 4,742,154

C. Capital and Surplus

Surplus as regards policyholders increased $2,848,668 during the four-year examination period January 1, 2014 through December 31, 2017 as reported by the Company, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders as reported by the Company as of December 31, 2013			$17,457,584
Net income	$4,742,154		
Net unrealized capital gains or (losses)	454,697		
Change in net deferred income tax	750,554		
Change in non-admitted assets		$1,283,875	
Change in provision for reinsurance		257,471	
Prior year adjustment		1,376,217	
Correction of error SSAP No. 3	0	181,174	
Total gains and losses in surplus	$5,947,405	$3,098,737	
Net increase (decrease) in surplus			2,848,668
Surplus as regards policyholders as reported by the Company as of December 31, 2017			$20,306,252

No adjustments were made to surplus as a result of this examination.

Capital paid in is $3,600,000 consisting of 3,600,000 shares of $1 par value common stock. Gross paid in and contributed surplus is $8,750,000. Neither gross paid in and contributed surplus, nor capital paid in changed during the examination period.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $6,303,699 is the same as reported by the Company as of December 31, 2017. 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 SSAP No. 55. Homeowners multiple peril and private passenger auto liability lines of business made up approximately 25% and 60%, respectively, of the reported reserves as of December 31, 2017.

5. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Corporate Governance	
i.	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced	4
ii.	It is recommended that the board of directors approve the Company's investment transactions and that the minutes indicate such approvals, consistent with the requirements of Section 1411(a) of New York Insurance Laws.	4
B.	Holding Company System	
	It is recommended that the Company comply with Section 1608(e)(4) of the New York Insurance Law and notify the Department in writing at least 30 days prior to entering into a tax allocation agreement with its parent.	8
C.	Accounts and Records	
	It is recommended that the Company settle the inter-company pooling accounts within 45 days after the end of each quarter, as required by the pooling agreement.	11

Respectfully submitted,

_____________/S/__________________
Lee Prowell
Senior Insurance Examiner

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

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

___________/S/____________
Lee Prowell

Subscribed and sworn to before me

this_________ day of __________________, 2018.

APPOINTMENT NO. 31794

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **Maria T. Vullo**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Lee Prowell

as a proper person to examine the affairs of the

Mountain Valley Indemnity Co.

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

COMPANY

with such other information as he shall deem requisite.

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

this 26th day of June, 2018

MARIA T. VULLO
Superintendent of Financial Services

By: Joan P. Riddell

Joan Riddell
Deputy Bureau Chief