NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

ALLIANZ LIFE INSURANCE COMPANY OF NEW YORK

CONDITION:	DECEMBER 31, 2013
DATE OF REPORT:	JUNE 15, 2015

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

ALLIANZ LIFE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2013

DATE OF REPORT:	JUNE 15, 2015
EXAMINERS:	NEAL RISCHALL SHARON REYNOLDS

TABLE OF CONTENTS

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

June 5, 2015

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
New York, New York 10004

Sir:

In accordance with instructions contained in Appointment No. 31089, dated July 30, 2014 and Appointment No. 31349 annexed hereto, an examination has been made into the condition and affairs of Allianz Life Insurance Company of New York, hereinafter referred to as "the Company".

The examination took place at the home office of the Company's parent, Allianz Life Insurance Company of North America ("Allianz"), located at 5701 Golden Hills Drive, Minneapolis, Minnesota 55146 and the Company's home office located at One Chase Manhattan Plaza, 38th Floor, New York, New York 10005.

Wherever "Department" appears in this report, it refers to the New York State Department of Financial Services.

1. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2014 Edition* (the "Handbook"). The examination covers the three-year period from January 1, 2011 through December 31, 2013. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2013 but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

In the course of the examination, a review was also made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The results of this review are contained in item 6 of this report.

The examination was conducted on a risk focused basis in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners ("NAIC"). The Handbook guidance provides for the establishment of an examination plan based on the examiner's assessment of risk in the insurer's operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management's compliance with New York statutes and Department guidelines, Statutory Accounting Principles as adopted by the Department, and annual statement instructions.

Information about the Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The Company's risks and management activities were evaluated incorporating the NAIC's nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit

- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2011 through 2013, by the accounting firm KPMG LLP. The Company received an unqualified opinion for all years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company has an internal audit department and a separate internal control department which was given the task of assessing the internal control structure and compliance with the NAIC's Model Rule Requiring Annual Audited Financial Reports ("MAR"). The Company follows the same control processes as the parent and, where applicable, the shared internal audit and MAR workpapers and reports were reviewed and portions were relied upon for this examination.

The examiner reviewed the corrective actions taken by the Company with respect to the violations and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

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

2. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York with the name Preferred Life Insurance Company of New York on September 21, 1982. The Company was licensed on April 11, 1984 and commenced business on September 1, 1984.

The Company changed its name to Allianz Life Insurance Company of New York effective January 1, 2003.

Initial resources of $6,000,000, consisting of common capital stock of $2,000,000 and paid in contributed surplus of $4,000,000, were provided through the sale of 200,000 shares of common stock (with a par value of $10 each) for $30 per share.

In 2006, the Company ceded, and subsequently sold, 100% of its group accident and health line of business to Houston Casualty Company.

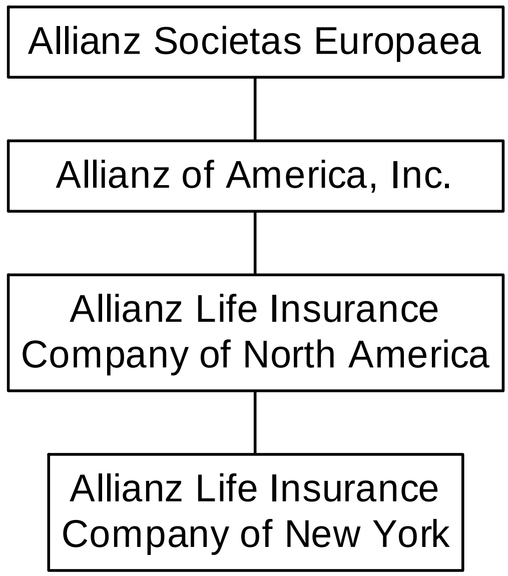
The Company received $17 million in capital contributions from its parent during the year 2008 and $20 million in capital contributions in both 2010 and 2012 for the purpose of maintaining a sufficient Risk Based Capital ratio.

B. Holding Company

The Company is a wholly owned subsidiary of Allianz, a Minnesota insurance company. Allianz is in turn a wholly owned subsidiary of Allianz of America, Inc. (“AZOA”), a Delaware holding company. The ultimate parent of the Company is Allianz Societas Europaea (“Allianz SE”), a German property and casualty company.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2013 follows:



D. Service Agreements

The Company had the following 12 service agreements in effect with affiliates during the examination period where payments were made for services:

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Tata Consultancy Services Limited (“TCS”) Outsourcing Agreement Department File No. 41484	07/01/2010	Allianz	The Company	TCS provides certain IT-related services to the Company through its agreement with Allianz.	2011: $0** 2012: $0 2013: $0
Service Agreement Department File No. 43052 Amendment to Service Agreement Department File No. 43425	07/01/2010 08/20/2010	Allianz	The Company	Allianz provides various administrative services to the Company, including but not limited to: accounting, audit, underwriting, claims, actuarial, investment management, and data processing. Agreement No. 43425 amends only Schedule A of agreement No. 43052. Schedule A lists the services to be provided by Allianz.	2011: $(7,734,802) 2012: $(6,798,988) 2013: $(6,453,996)
Amended and Restated Broker-Dealer Agreement Department File No. 42314 Amended and Restated Broker Dealer Agreement Department File No. 42314A	06/01/2010 02/15/2013	Allianz Life Financial Services, LLC (“ALFS”)	The Company	Under this agreement ALFS acts as sole distributor for the company’s variable contracts.	2011: $(311,914)*** 2012: $126,999 2013: $1,453,527

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Investment Management Agreement Department File No. 43028	08/01/2010 Terminated 04/30/2013	AZOA	The Company	Allianz of America provides investment management services to designated accounts of the Company.	2011: $(180,837) 2012: $(184,420) 2013: $(199,296)
Investment Management Agreement Department File No. 43913	03/28/2011	Pacific Investment Management Company (“PIMCO”)	The Company	PIMCO provides investment services to the Company.	2011: $(179,739) 2012: $(184,420) 2013: $(185,292)
Investment Management Agreement Department File No. 45879	06/01/2012	Allianz Investment Management, LLC (“AIM”)	The Company	AIM provides investment management services for a portion of the company’s investment portfolio, and general investment advisory services and investment operation services and support including oversight, evaluation, and direction of the company's investment managers, asset liability and investment analysis, and consultation.	2011: $(12,268) 2012: $(13,827) 2013: $(14,004)
Services Agreement for Institutional Class Shares of PIMCO Equity Series VIT Department File No. 42887	07/01/2010	The Company	PIMCO and PIMCO Equity Series VIT	The Company receives compensation for providing certain services to owners of its variable contracts invested in PIMCO Equity Series VIT funds.	2011: $4,193 2012: $11,668 2013: $10,435

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
PIMCO Variable Insurance Trust Administrative Services Department File No. 42330 Assignment and Amendment of Services Agreement Department File No. 42330B	06/17/2010 04/01/2012	The Company	PIMCO	File No. 42330: The Company receives compensation for providing certain administrative, recordkeeping and investor services to investors investing in the PIMCO VIT through the separate accounts. File No. 42330B: Assigns the obligations and duties of PIMCO VIT under the agreement to its affiliate PIMCO Investments, LLC.	2011: $391,024 2012: $547,347 2013: $621,994
Services Agreement for Advisor Class Shares of PIMCO Equity Series VIT Department File No. 42887A	07/01/2010	The Company	PIMCO and PIMCO Equity Series VIT	The Company receives compensation for providing certain services to owners of its variable contracts invested in PIMCO Equity Series VIT funds.	2011: $10,863 2012: $36,376 2013: $37,256
Administrative Services Agreement Department File No. 46390	09/01/2012	The Company	Allianz Global Investors Fund Management, LLC	The Company receives compensation for providing certain administrative services to owners of the variable contracts investing in the Premier Multi-series VIT.	2011: $0 2012: $4,230 2013: $16,708

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Investor Services Agreement (Department File No. 42330A) Amendment (Department File No. 44190) Amendment (Department File No. 44190A) Amendment (Department File No. 46285)	06/23/2010 05/01/2011 04/30/2012 09/17/2012	The Company	PIMCO	The Company provides various certain administrative, recordkeeping and investor services and receives an annual rate set forth in Schedule A. Each amendment revised Schedule A to add a new investment option.	2011: $718,702 2012: $897,010 2013: $1,035,877
Field Marketing Service Agreement (Department File No. 46284) Agreement Terminated 3/22/2013	01/30/2013 02/07/2013 02/25/2013	Personalized Brokerage Services; Game Plan Financial Marketing; American Financial Marketing: Ann Arbor Annuity Exchange; Life Sales; Roster Financial; Annuity Store Financial and Insurance Services; CFC Capital Partners Insurance Center; Allegiance Marketing Group	The Company	The agreement grants each Field Marketing Organization responsibility to recruit, recommend agents and agencies to the Company, and to train, support and supervise such agents and agencies.	2011: $(111,545) 2012: $ (23,266) 2013: $ (25,351)

* Amount of Income or (Expense) Incurred by the Company
** Fees for services under this agreement are allocated through the master services agreement between the Company and ALLIANZ
*** ALFS is the sole distributor for the Company's variable products. The main source of revenue for ALFS comes from 12b-1 fees which initially was not sufficient to cover its expenses.

The Company also entered into 5 participation agreements with affiliated companies. Under these participation agreements, it is specified that no fees are paid and each party bears its own expenses.

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than seven and not more than ten directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in April of each year. As of December 31, 2013, the board of directors consisted of ten members. Meetings of the board are held at least annually, immediately following the annual meeting of the stockholders.

The ten board members and their principal business affiliation, as of December 31, 2013, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Thomas P. Burns Excelsior, MN	President Allianz Life Insurance Company of New York	2007
Ronald M. Clark Oro Valley, AZ	Retired Allianz of America, Inc.	2013
Martha C. Goss* Hopewell, NJ	Chief Operating and Financial Officer Amwell Holdings, LLC/Hopewell Holdings, LLC	2005
Stephen R. Herbert* Pound Ridge, NY	Partner Locke & Herbert, LLP	1997
Marc B. Olson Chanhassen, MN	Vice President, Financial Consulting Allianz Life Insurance Company of New York	2008
Gary A. Smith* Potomac, MD	Senior Partner Ivy Planning	2005

Name and Residence	Principal Business Affiliation	Year First Elected
Giulio Terzariol Shorewood, MN	Chief Financial Officer and Treasurer Allianz Life Insurance Company of New York	2009
Steven J. Thiel Chanhassen, MN	Vice President and Appointed Actuary Allianz Life Insurance Company of New York	2012
Walter R. White Stillwater, MN	Chairman and Chief Executive Officer Allianz Life Insurance Company of New York	2012
Eugene T. Wilkinson* Vero Beach, FL	President Management Facilities Corp	1984

* Not affiliated with the Company or any other company in the holding company system

Eugene Wilkinson resigned on December 31, 2013 and was replaced by Kevin J. Doyle on January 20, 2014.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2013:

Name	Title
Thomas P. Burns	President
Walter R. White	Chairman and Chief Executive Officer
Gretchen Cepek	Chief Legal Officer and Secretary
Giulio Terzariol	Chief Financial Officer and Treasurer
Carsten Quitter	Chief Investment Officer
Nicole A. Scanlon	Vice President, Controller
Patrick L. Nelson*	Chief Suitability Officer and Consumer Affairs Officer

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

3. TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in six states, namely Connecticut, Illinois, Minnesota, Missouri, New York and North Dakota, and the District of Columbia. In 2013, 82.1% of life premiums, 89.7% of health premiums, and 96.8% of annuity considerations were received from New York. Policies are written on a non-participating basis.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2013:

Life Insurance Premiums		Annuity Considerations		Accident and Health Insurance Premiums	
New York	82.1%	New York	96.8%	New York	89.7%
Florida	5.1%	All others	3.2%	Florida	4.2%
All others	12.7%			All others	6.1%
Total	100.0%	Total	100.0%	Total	100.0%

A. Statutory and Special Deposits

As of December 31, 2013, the Company had $1,645,000 (par value) of United States Treasury Notes on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company.

B. Direct Operations

The principal line of business sold during the examination period was individual annuity.

In 2013, annuity considerations accounted for 98.9% of total direct premiums received by the Company. Of that number, 99% was derived from variable annuities while 1% was derived from fixed deferred and indexed products.

In late 2011, the Company discontinued the sale of individual fixed and deferred annuity products and is concentrating solely on the sale of variable annuity products.

The Company's decision to discontinue the sale of fixed deferred and indexed products resulted in a decline in total annual premiums of 26% in comparison to annual premiums in 2010.

The Company distributes its variable products through broker dealers. Each broker dealer receives commissions directly from the Company.

C. Reinsurance

As of December 31, 2013, the Company had nine reinsurance treaties in effect with nine companies, of which eight were authorized or accredited. The Company's life and accident and health business is reinsured under excess coverage and coinsurance contracts on a yearly renewable term basis. Reinsurance is provided on an automatic basis.

The maximum retention limit for individual life contracts is $50,000. The total face amount of life insurance ceded, as of December 31, 2013, was $73,018,956 which represents 86.87% of the total face amount of life insurance in-force.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth (decline) during the period under review:

	December 31, 2010	December 31, 2013	Increase (Decrease)
Admitted assets	$1,600,642,543	$2,667,983,339	$1,067,340,796
Liabilities	$1,504,572,580	$2,570,154,918	$1,065,582,338
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Preferred capital stock	0	0	0
Gross paid in and contributed surplus	52,500,000	72,500,000	20,000,000
Aggregate write-ins for special surplus funds	0	0	0
Unassigned funds (surplus)	41,569,963	23,328,421	(18,241,542)
Total capital and surplus	$ 96,069,963	$ 97,828,421	$ 1,758,458
Total liabilities, capital and surplus	$1,600,642,543	$2,667,983,339	$1,067,340,796

The majority (74.4%) of the Company's admitted assets, as of December 31, 2013, was derived from Separate Accounts.

The Company's invested assets as of December 31, 2013, exclusive of separate accounts, were mainly comprised of bonds (96.7%).

The majority (99.4%) of the Company's bond portfolio, as of December 31, 2013, was comprised of investment grade obligations.

The Company received a $20 million capital contribution from its parent during 2012, for the purpose of maintaining a sufficient Risk Based Capital ratio.

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	Ordinary Annuities		
	2011	2012	2013
Outstanding, end of previous year	16,047	18,755	20,745
Issued during the year	3,403	2,856	2,425
Other net changes during the year	(695)	(866)	(1,166)
Outstanding, end of current year	18,755	20,745	22,004

The decrease in annuity business is due to the Company's decision to discontinue the sale of fixed deferred and indexed products in late 2011.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	2011	2012	2013
Ordinary:			
Life insurance	$ 30,078	$ (178,909)	$ (166,164)
Individual annuities	255,515	40,013,569	25,600,201
Supplementary contracts	(1,701)	49,397	(90,377)
Total ordinary	$283,892	$39,884,057	$25,343,660
Group:			
Life	$(16,559)	$ 150,548	$ 129,276
Total group	$(16,559)	$ 150,548	$ 129,276
Accident and health:			
Group	$(44,130)	$ (124,412)	$ (344,105)
Other	213,022	695,487	(4,127,560)
Total accident and health	$168,892	$ 571,075	$(4,471,665)
All other lines	$ 0	$ 4,407,618	$ 7,169,939
Total	$436,227	$45,013,298	$28,171,210

Net gains increased to $45.0 million in 2012 from $436,227 in 2011. The $44.6 million increase was primarily due to a change in aggregate reserves that was $118.4 million less than the prior year; offsetting this was a $27.8 million decrease in premiums, a $25.1 million increase in surrenders, and a $16.6 million increase in federal taxes.

Net gains decreased $16.8 million (37.4%) in 2013 as compared to 2012. The decrease was primarily driven by realized hedging losses, a decrease in premium and annuity considerations, and an increase in surrender benefits and withdrawals, partially offset by a decrease in aggregate reserves, net transfers to Separate Accounts and tax expense.

The loss reflected in Accident and Health - Other line of business was related to Regulation 56 standalone asset adequacy analysis which was performed through a gross premium valuation. The testing under the "sound value" requirements resulted in establishing additional reserves of $5.4 million and $1.2 million in 2013 and 2012, respectively.

The 2012 and 2013 all other lines balances of $4,407,618 and $7,169,939 relate primarily to net investment income from bonds that back surplus and not a specific product line. In the normal course of business, total investment income is allocated to each line of business based on net statutory liabilities. The remaining amount is reported within the corporate line of business.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2013, as contained in the Company's 2013 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2013 filed annual statement.

A. Independent Accountants

The firm of KPMG LLP was retained by the Company to audit the Company's combined statutory basis statements of financial position as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

KPMG LLP concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

B. Net Admitted Assets

Bonds	$ 615,292,187
Cash, cash equivalents and short term investments	21,427,359
Contract loans	263,276
Derivatives	5,558,104
Receivable for securities	465,830
Investment income due and accrued	8,794,754
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	43,956
Reinsurance:	
Amounts recoverable from reinsurers	41,558
Other amounts receivable under reinsurance contracts	9,462
Net deferred tax asset	27,901,994
Guaranty funds receivable or on deposit	1,246,233
Miscellaneous receivables	899,966
From separate accounts, segregated accounts and protected cell accounts	$1,986,038,660
Total admitted assets	$2,667,983,339

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$ 558,973,322
Aggregate reserve for accident and health contracts	19,437,603
Liability for deposit-type contracts	1,573,286
Contract claims:	
Life	38,408
Accident and health	31,291
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	30,692
Interest maintenance reserve	10,741,020
Commissions to agents due or accrued	12,712
Commissions and expense allowances payable on reinsurance assumed	1,089
General expenses due or accrued	493,687
Transfers to separate accounts due or accrued	(91,192,793)
Taxes, licenses and fees due or accrued, excluding federal income taxes	974,650
Current federal and foreign income taxes	2,740,590
Unearned investment income	4,371
Amounts withheld or retained by company as agent or trustee	1,005,264
Remittances and items not allocated	1,678,612
Asset valuation reserve	882,464
Reinsurance in unauthorized companies	60,979
Payable to parent, subsidiaries and affiliates	968,464
Derivatives	73,536,577
Payable for Securities	2,117,403
Aggregate write-ins for liabilities:	
Other accounts payable	6,567
From Separate Accounts statement	1,986,038,660
Total liabilities	$2,570,154,918
Common capital stock	2,000,000
Gross paid in and contributed surplus	72,500,000
Unassigned funds (surplus)	23,328,421
Surplus	$ 95,828,421
Total capital and surplus	$ 97,828,421
Total liabilities, capital and surplus	$2,667,983,339

D. Condensed Summary of Operations

	2011	2012	2013
Premiums and considerations	$375,125,029	$347,310,579	$317,722,623
Investment income	32,958,701	34,897,900	38,937,434
Commissions and reserve adjustments on reinsurance ceded	271,318	277,743	245,508
Miscellaneous income	28,411,893	38,672,657	49,452,637
Total income	436,766,941	421,158,879	406,358,202
Benefit payments	$ 81,192,676	109,821,830	155,539,695
Increase in reserves	78,757,933	(39,629,425)	(35,050,044)
Commissions	22,039,593	22,382,873	23,256,835
General expenses and taxes	18,214,147	10,738,527	9,062,007
Net transfers to (from) Separate Accounts	240,506,042	260,640,361	222,410,315
Miscellaneous deductions	0	28	304,498
Total deductions	$440,710,391	$363,954,194	$375,523,306
Net gain (loss)	$ (3,943,450)	$ 57,204,689	$ 30,834,896
Federal and foreign income taxes incurred	(4,379,677)	12,191,389	2,663,686
Net gain (loss) from operations before net realized capital gains	$ 436,227	$ 45,013,300	$ 28,171,210
Net realized capital gains (losses)	(8,242,169)	(14,649,486)	(20,747,196)
Net income (loss)	$ (7,805,942)	$ 30,363,814	$ 7,424,014

The steady increase in miscellaneous income from 2011 to 2013 primarily reflects an increase in collection of management and expense fees and rider charges over those periods as a result of the Company’s growth in variable annuity premiums and fund performance.

The primary increase in benefit payments from 2011 to 2012 is attributed to increases in policy surrenders related to the discontinuation of the individual fixed annuity and individual fixed deferred annuity product lines. The continued increase in benefit payments in 2013 was driven by higher volume of variable annuity inforce business. In addition, policyholders of individual fixed annuity and individual fixed deferred annuity contracts exercised their five year opt out option.

The significant fluctuation in “increase in reserves” from 2011 to 2012 was primarily due to a decrease in variable annuity reserves for product guarantees as a result of positive market performance in 2012. The decrease was also driven by a reduction in fixed annuity reserves due to the Company’s decision to discontinue sales of new fixed annuity products in 2011.

E. Capital and Surplus Account

	2011	2012	2013
Capital and surplus, December 31, prior year	$96,069,963	$ 85,063,449	$135,414,782
Net income	$ (7,805,942)	$ 30,363,814	$ 7,424,014
Change in net unrealized capital gains (losses)	0	(2,125,831)	(43,304,310)
Change in net deferred income tax	2,609,202	(1,176,057)	759,295
Change in non-admitted assets	(1,953,110)	605,447	(21,639)
Change in liability for reinsurance in unauthorized companies	(159,077)	(1,806)	140,258
Change in asset valuation reserve	0	0	(882,464)
Cumulative effect of changes in accounting principles	0	2,370,528	0
Surplus adjustment:			
Paid in	0	20,000,000	0
Prior period adjustment	(3,697,587)	315,238	(1,701,516)
Net change in capital and surplus for the year	(11,006,514)	50,351,333	(37,586,362)
Capital and surplus, December 31, current year	$85,063,449	$135,414,782	$ 97,828,421

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Based upon the sample reviewed, no significant findings were noted.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in the prior financial report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by using unapproved service agreements with eight affiliates that provide services on a regular or systematic basis and also by failing to file a service agreement with an affiliate in a timely manner. This is a repeat violation.
	The examiners review indicated that the Company submitted a request for non-disapproval, pursuant to Section 1505(d) of the New York Insurance Law in February 2012, in its proposed Field Marketing Organization Agreement. The Department issued a notice of non-disapproval in August 2012. The examination also revealed that the Company has implemented a formal process for tracking and reporting intercompany agreements and for regularly educating key personnel about regulatory requirements related to such agreements.
B	The Company violated Section 91.4(a)(3) of Department Regulation No. 33 by failing to classify and index allocation records in such form as to permit ready identification between the item allocated and the basis upon which it was allocated.
	The examiners review indicated that the Company has revised its allocation process by utilizing a detailed calculation at the cost center and expense item level. The revised allocation performed uses either time tracking estimates or policies in force percentages, applied against each individual cost center's expense amounts.
C	The Company violated Section 91.4(a)(5) of Department Regulation No. 33 by not allocating income and expenses between companies in the same manner as if made for major annual statement lines of business.
	The examiners review indicated that the Company is now allocating income and expenses between companies in the same manner as if made for major annual statement lines of business.

Item	Description
D	The Company violated Section 91.4 (f)(4) of Department Regulation No. 33 by failing to have the time estimates used reviewed by an executive responsible for expense allocations. The examiners review indicated that the Company has added a sign-off to the time estimate templates for both the cost center managers and the Vice President of Financial Consulting to document their approval. The Vice President of Financial Consulting is the party responsible for expense allocations. Each of the individual forms are maintained by Finance.
E	The examiner recommends that the Company comply with their own by-laws and investment policy by having the Finance Committee meet, perform the responsibilities required of it, and maintain minutes of these meetings. The examiners review indicated that the Company is complying with its own by-laws by establishing a Finance Committee which meets at least twice a year and preparing minutes of the meetings held summarizing actions taken.
F	The examiner recommends that the securities held in the Company's portfolio be discussed at the Allianz Assets Under Review ("AUR") meetings as indicated in the Company's investment policy, and be reported in the AUR Oversight Committee's minutes in a manner that such investments will be easily identified. The examiners review indicated that the Company incorporated a review and discussion of the Company's portfolio in the Allianz AUR meetings as indicated in the Company's investment policy. The review is documented in the AUR Oversight Committee minutes.
G	The examiner recommends that investment reports presented to the board of directors at each meeting include listings of impaired securities and securities on the Company's watch list. The examiners review indicated that the Company has included information regarding all impaired securities to the Audit Committee of the board of directors during quarterly meetings.

Item	Description
H	The examiner recommends that officers, directors and appropriate senior employees sign conflict of interest certifications annually as required by the corporate Conflict of Interest Policy and that completed conflict of interest certifications be kept in a secure location where they can be easily accessed for examination.
I	The examiner recommends that the Conflict of Interest Committee meet at least annually to discuss and evaluate the impact of any potential conflicts that have been disclosed by directors, officers and key employees, and also prepare minutes of their meetings listing the items discussed and conclusions reached about each item. In addition, the minutes of the meetings should be maintained at the Company's principal office with the other corporate records.
	The examiners review indicated that the Company's Board of Directors has established a Conflict of Interest Committee. The Conflict of Interest Committee met in April 2012 and 2013. Minutes of those meetings have been prepared and are maintained. The Committee will continue to meet at least annually.
J	The examiner recommends that the Company exercise greater oversight in the preparation and reporting of reinsurance information.
	The examiners review indicated that the Company formed a project team to address the Reinsurance program at the Company. A comprehensive review of all treaties has been performed to validate compliance of reinsurance systems and treaty specifications. Additional reports have been prepared in order to better analyze year over year changes to Schedule S data. Included in these additional reports are multiple tie-outs to ledger balances, as well as Blue Book balances to ensure all reports related to Schedule S are accurate.
K	The Company violated Section 91.5(b) of Department Regulation No. 33 by failing to file its investment year allocation plan prior to use.
	The examiners review indicated that the Company submitted a Plan of Asset Segmentation & Investment Income Allocation to the Department in October 2011.
L	The Company violated Section 4228(h) of the New York Insurance Law by failing to maintain adequate self-support demonstrations and by failing to have a qualified actuary sign the self-support demonstrations.
	The examiners review indicated that the Company updated its procedures to ensure that all future demonstrations will be signed, dated and finalized prior to the date of the statement of self-support.

Item	Description
M	The Company violated Section 2114(a)(1) of the New York Insurance Law by paying commissions to 53 brokers that were not licensed as insurance brokers in this state. The Company began a project in the first quarter of 2013 to ensure commission payments are only made to insurance licensed entities.
N	The Company violated Section 4228(f)(1)(A) of the New York Insurance Law by failing to file changes to their agent and broker compensation plan. A corrected compensation plan was filed with the Department. The review revealed the Company is following the filed plan.
O	The Company violated Section 2112(d) of the New York Insurance Law by failing to notify the Superintendent, in a timely manner, that agents had been terminated. The review revealed that the Company is notifying the Superintendent of terminated agents in a timely manner

Respectfully submitted,

/s/
Neal Rischall
Examiner In Charge

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

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

/s/
Neal Rischall
Examiner In Charge

Subscribed and sworn to before me

this__________ day of ____________________

Respectfully submitted,

/s/

Sharon Reynolds
Senior Insurance Examiner

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

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

/s/

Sharon Reynolds
Examiner In Charge

Subscribed and sworn to before me

this__________ day of ____________________