REPORT ON EXAMINATION

OF THE

JEFFERSON INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

DATE OF REPORT	SEPTEMBER 20, 2007
EXAMINER	ADEBOLA AWOFESO

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

September 20, 2007

Honorable Eric R. Dinallo
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 22477 dated March 7, 2006 attached hereto, I have made an examination into the condition and affairs of Jefferson Insurance Company as of December 31, 2005, and submit the following report thereon.

Wherever the designations “the Company” or “Jefferson” appear herein without qualification, they should be understood to indicate Jefferson Insurance Company.

Wherever the designations “Monticello” appear herein without qualification, they should be understood to indicate Monticello Insurance Company, an insurer domiciled in Delaware.

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

The examination was conducted at the Company’s administrative office located at 777 San Marin Drive in Novato, CA 94998.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2002. This examination covered the three-year period from January 1, 2003 through December 31, 2005. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2005. 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 certified public accountants ("CPA"). 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 ("NAIC"):

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.

The State of Delaware examined the Monticello Insurance Company, Wilmington, Delaware, a wholly-owned subsidiary of the Jefferson Insurance Company, concurrently with this examination.

2. DESCRIPTION OF COMPANY

The Company was established under the laws of the State of New York on March 15, 1950, under the name, Jefferson Insurance Company. On February 1, 1952, the corporate name was changed to the Jefferson Insurance Company of New York. On July 28, 1999, the corporate name was changed back to Jefferson Insurance Company.

Capital paid in is $10,453,700 consisting of 104,537 shares of $100 par value per share common stock. Gross paid in and contributed surplus is $40,979,284.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen or more than fifteen members. At December 31, 2005, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Joseph J. Beneducci Novato, CA	President and Chief Operating Officer, Fireman's Fund Insurance Company
Gary C. Bhojwani Novato, CA	Senior Vice President, Fireman's Fund Insurance Company
David L. Conway Novato, CA	Senior Vice President, Fireman's Fund Insurance Company
Robert H. Courtemanche Novato, CA	Senior Vice President, Fireman's Fund Insurance Company
Bruce F. Friedberg Novato, CA	Senior Vice President and Chief Actuary, Fireman's Fund Insurance Company
Peter Huehne Novato, CA	Chief Financial Officer, Allianz of America Corporation
Louise Jordan Novato, CA	Senior Vice President and Controller, Fireman's Fund Insurance Company

Name and Residence	Principal Business Affiliation
Janet S. Kloenhamer Novato, CA	Senior Vice President, General Counsel and Corporate Secretary Fireman's Fund Insurance Company
Victor L. Matthews New York, NY	Senior Finance Director, Fireman's Fund Insurance Company
Arthur E. Moossmann, Jr. New York NY	Senior Vice President, Fireman's Fund Insurance Company
Jill E. Paterson Novato, CA	Executive Vice President and Chief Financial Officer, Fireman's Fund Insurance Company
Justin R. Rubin Long Island, NY	Senior Claim Director, Fireman's Fund Insurance Company
Linda E. Wright Novato, CA	Senior Vice President and Treasurer, Fireman's Fund Insurance Company

A review of the minutes of the board of directors shows that there were no meetings held during the examination period. In lieu of meetings, all actions were taken by signed written consent of all directors.

As of December 31, 2005, the principal officers of the Company were as follows:

Name	Title
Joseph J. Beneducci	President and Chief Executive Officer
Jill E. Paterson	Executive Vice President and Chief Financial Officer
Janet S. Kloenhamer	Senior Vice President and Corporate Secretary
Linda E. Wright	Senior Vice President and Treasurer

B. Territory and Plan of Operation

Currently, the Company is in run-off status. The only new business written was the mandatory renewal of certain personal lines.

As of December 31, 2005, the Company was licensed to write business in all states and the District of Columbia, except Hawaii and Louisiana.

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 damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

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 $1,600,000.

The Company's primary business was excess, surplus and specialty lines, concentrating on small commercial and personal exposures that cover substandard risks at surcharged rates.

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

DIRECT WRITTEN PREMIUM

Calendar Year	New York State	Total United States	Premiums Written in New York State as a Percentage of United States Premium
2003	$4,509	$1,410,912	0.32%
2004	$ (727)	$ 294,618	(-0.25)%
2005	$ 0	$ 757	0.00%

C. Reinsurance

Intercompany Pooling Agreement

The Company entered into a reciprocal quota share agreement with its affiliated company, Monticello Insurance Company ("Monticello"), effective January 1, 1977. This agreement provides for the Company to assume 100% of the net writings of Monticello Insurance Company and to cede 20% of the combined net writings to Monticello Insurance Company. Underwriting assets and liabilities, as well as all losses, claims expenses, and underwriting expenses are shared by both companies in accordance with their corresponding pooling percentages of 80% (Jefferson) and 20% (Monticello).

Ceded

Other than the inter-company pooling agreement, there were no current ceded reinsurance agreements in effect at December 31, 2005.

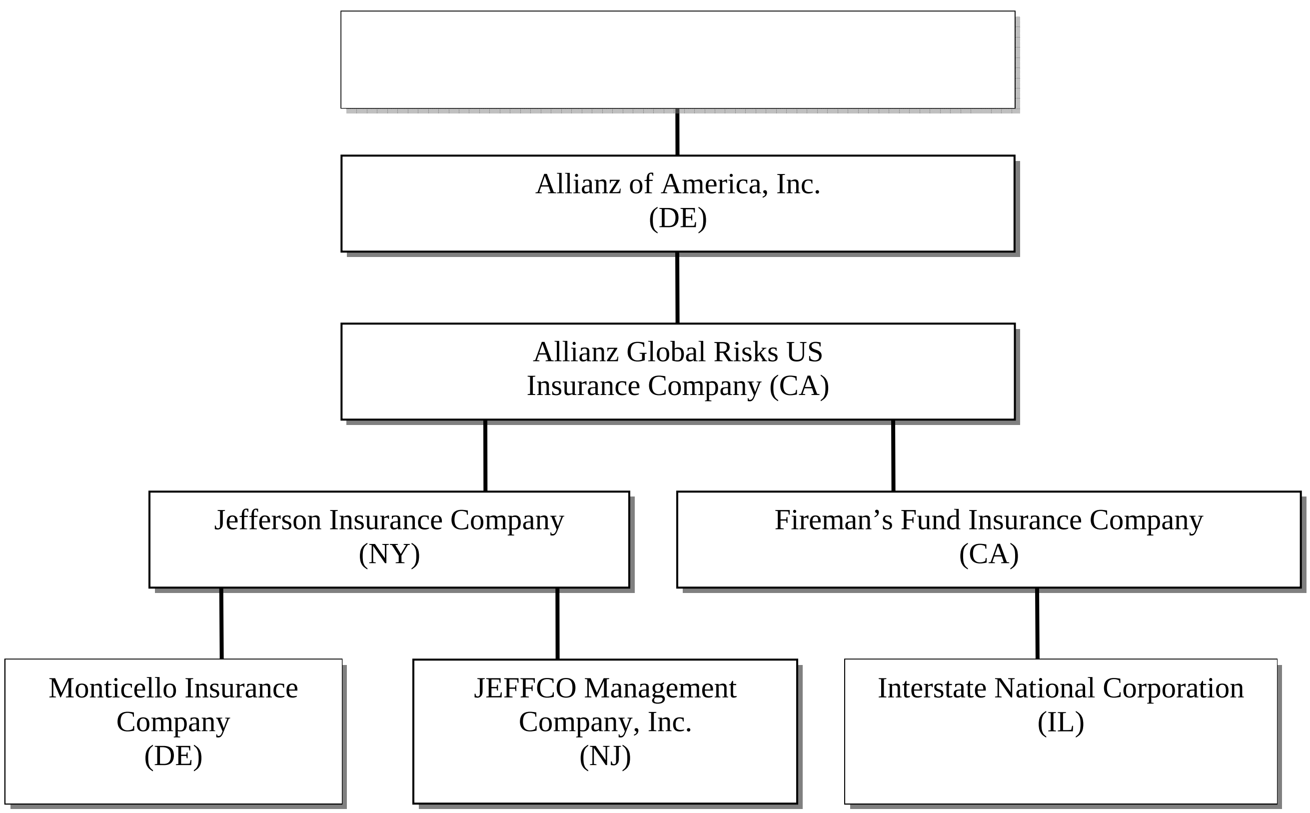
The inter-company pooling reinsurance agreement in effect as of the examination date was reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

D. Holding Company System

At December 31, 2005, Allianz Global Risk U.S. Insurance Company, a California company, owned one hundred percent of the outstanding shares of the Company. The ultimate parent of Jefferson Insurance Company is Allianz Aktiengesellschaft Holding, Munich, Germany, an international holding company of numerous insurance entities and related interests.

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, 2005:



At December 31, 2005, the Company was party to the following agreements with other members of its holding company system in addition to the pooling agreement described in Section 2C herein:

Service Agreement

Effective January 1, 2003, the Company entered into a service agreement with Fireman's Fund Insurance Company ("FFIC"), a member of the Allianz holding company system. Pursuant to the terms of this agreement, FFIC agrees to provide the Company administrative, professional and clerical personnel, claim adjustment and services required for the conduct of business.

This agreement was filed with the Department in accordance with Section 1505(d)(3) of the New York Insurance Law.

Federal Income Tax Allocation Agreement

Effective August 1, 1992, the Company entered into a tax allocation agreement with Allianz of America, Inc. and its subsidiaries and affiliates. Allianz of America, Inc. files a consolidated federal income tax return on behalf of its member companies. The agreement provides for the Company to be charged its share of tax resulting from its taxable income computed on a separate return basis, and if utilized in the consolidated tax return, to be reimbursed for the tax benefits resulting from its operating and net realized capital losses and tax credits on the same basis.

The agreement was submitted to the Department in accordance with Department Circular Letter No. 33 (1979).

Investment Service Agreement

Effective September 17, 1992, the Company entered into a formal agreement with Allianz of America Corporation whereby Allianz of America Corporation would provide investment management services with respect to Jefferson's invested assets.

E. Abandoned Property Law

Section 1316 of the New York 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 abandoned property reports for the period of this examination were all filed on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2005, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	44%
Premiums in course of collection to surplus as regards policyholders	0%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$23,239,179	420.81%
Other underwriting expenses incurred	848,599	15.37
Net underwriting loss	(18,565,288)	336.18
Premiums earned	$ 5,522,490	100.00%

G. Accounts and Records

1. Prior Report Acknowledgment

The Company failed to provide a signed statement from its directors in compliance with Section 312(b) of the New York Insurance Law, which states, in part:

> "A copy of the report (on examination) shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer's files confirming that such member has received and read such report. . ."

It is recommended that the Company comply with Section 312(b) of the New York Insurance Law by furnishing to each member of its board of directors the report on examination and each such member must sign a statement to be retained in the insurer's files confirming that such member has received and read such report.

2. Custodian Agreement

Management answered affirmatively to the following General Interrogatory:

> "Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?"

However, the examiners' review of the custodian agreement revealed that the Company's custodial agreement was lacking certain protective covenants set forth in Section IV.H of the NAIC Financial Condition Examiners Handbook.

It is recommended that the Company procure a custodial agreement which contain the requisite provisions to comply with NAIC guidelines.

3. Engagement Letter

The engagement letter between the Company and its CPA firm of KPMG LLP is missing the required clauses of the Department Regulation 118, Part 89.2.

Such contract must specify that:

> "(a) on or before May 31st, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by section 307(b)(1) of the Insurance Law together with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year and an evaluation of the insurer's and any such subsidiary's accounting procedures and internal control systems as are necessary to the furnishing of the opinion;
>
> (b) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the superintendent within 15 calendar days following such determination; and
>
> (c) the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications in accordance with the provisions of Part 243 of this Title (Regulation 152). More specifically, such workpapers and communications must be retained by the CPA for the period specified in sections 243.2(b)(7) and (c) of this Title. For the purposes of this subdivision, the workpapers and communications shall be deemed to have been created on the date the filing required by section 89.2(a) of this Part was submitted to the superintendent."

It is recommended that the Company comply with the provisions of Section 307(b) of the New York Insurance Law and Department Regulation 118, Part 89.2, with respect to its written engagement contracts with its CPA.

4. General Expenses

The examiners reviewed the Company's method of expense allocation to ascertain its compliance with methods delineated in Part 106.2 and as defined by Part 106.3 of Department Regulation 30. During this review, the Company could not provide records which substantiated the basis for its expense allocation.

It is recommended that the Company comply with Department Regulation 30 by keeping records to support its expense allocation basis in a clear and legible manner that can be made readily available for examination.

5. Investment

The Company participates in dollar reverse repurchase agreements and entered into mortgage-backed security reverse repurchase agreements ("dollar roll") with certain securities dealers. However, the Company failed to provide the examiners with copies of the master repurchase agreement, which defines the parameters and assumptions governing trades between the two parties in accordance with the NAIC Accounting Practices and Procedures Manual Statements of Statutory Accounting Principles (“SSAP”) No. 45.

It is recommended that the Company comply with the provisions of SSAP No. 45 and procure master repurchase agreement from counterparties with whom it trades.

6. Reinsurance Recoverable on Loss and Loss Adjustment Expenses

Pursuant to the NAIC Examiners Handbook, the company is required to agree reinsurance recoverable to a valid reinsurance contract. A review of reinsurance recoverable balance revealed the Company’s failure to provide valid reinsurance contracts for two of ten claims selected. Although the reinsurance treaties are in runoff, the failure to maintain the underlying reinsurance contract does not conform to the requirements of the NAIC Examiners Handbook.

It is recommended that the Company comply with the NAIC Examiners Handbook by maintaining its books and records in a way that will enable verification that the reinsurance recoverable amounts are for valid reinsurance contracts.

7. Subsidiary Common Stock

In the 2005 annual statement, an increase of $185,705 in value of Monticello’s common stock was reported by the Company as additional common stock owned. A review of this account revealed that it should have been reported as a realized gain.

It is recommended that the Company treat and report all increases in value of securities holdings as realized gain on sale of securities, not as an additional common stock acquired during the year.

8. Loss Reserve Claim Reviewed

Section 1303 of New York Insurance Law, in part, states as follows:

> "Every insurer shall maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and reserves in an amount estimated to provide for the expenses of adjustment of such losses or claims."

The examiners reviewed the Company's claim files to ascertain the accuracy of the recording of loss transactions as well as the adequacy of the established case loss reserves. This review revealed that in a number of cases the Company inadequately established and maintained reserves for payment of loss indemnity and expenses.

It is recommended that the Company comply with the provisions of Section 1303 of New York Insurance Law by maintaining an adequate reserve for payment of its losses.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2005 as determined by this examination and as reported by the Company:

		Examination		Company	
Assets	Assets	Assets Not Admitted	Admitted Assets	Net Admitted Assets	Surplus Increase (Decrease)
Bonds	$ 85,146,861		$ 85,146,861	$ 85,146,861	
Common stocks	38,967,669		38,967,669	38,967,669	
Cash, cash equivalents and short-term investments	(1,109,664)		(1,109,664)	(1,109,664)	
Other invested assets	4,355,971		4,355,971	4,355,971	
Investment income due and accrued	1,057,084		1,057,084	1,057,084	
Uncollected premiums and agents' balances in the course of collection	18,316	$ 10,595	7,721	$7,721	
Amounts recoverable from reinsurers	3,675,943		3,675,943	3,675,943	
Net deferred tax asset	13,572,487	11,841,068	1,731,419	1,731,419	
Guaranty funds receivable or on deposit	14,052		14,052	14,052	
Receivables from parent, subsidiaries and affiliates	71,206		71,206	71,206	
Total assets	$145,769,925	$11,851,663	$133,918,262	$133,918,262	$ 0

Liabilities, surplus and other funds Liabilities	Examination	Company	Surplus Increase (Decrease)
Losses and loss adjustment expenses	$ 33,455,525	$ 24,911,525	$(8,544,000)
Reinsurance payable on paid losses and loss adjustment expenses	917,641	917,641	
Taxes, licenses and fees (excluding federal and foreign income taxes)	(147,242)	(147,242)	
Unearned premiums	1	1	
Ceded reinsurance premiums payable (net of ceding commissions)	1,544	1,544	
Amounts withheld or retained by company for account of others	2,342	2,342	
Provision for reinsurance	1,751,339	1,751,339	
Funds borrowed dollar rolls	790,757	790,757	
Sundry liabilities	601,614	601,614	
Total liabilities	$ 37,373,521	$ 28,829,521	$(8,544,000)
Surplus and Other Funds			
Common capital stock	$ 10,453,700	$ 10,453,700	
Gross paid in and contributed surplus	40,979,284	40,979,284	
Unassigned funds (surplus)	45,111,757	53,655,757	$(8,544,000)
Surplus as regards policyholders	$ 96,544,741	$105,088,741	$(8,544,000)
Total liabilities and surplus	$133,918,262	$133,918,262	$ 0

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2003 through 2005. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $25,400,187 during the three-year examination period January 1, 2003 through December 31, 2005, detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$5,522,490
Deductions:		
Losses and loss adjustment expenses incurred	$23,239,179	
Other underwriting expenses incurred	848,599	
Total underwriting deductions		24,087,778
Net underwriting gain or (loss)		$(18,565,288)
Investment Income		
Net investment income earned	$22,245,841	
Net realized capital gain	3,825,718	
Net investment gain or (loss)		26,071,559
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$(36,033)	
Total other income		(36,033)
Net income before federal income taxes		$7,470,238
Federal and foreign income taxes incurred		(1,127)
Net Income		$7,469,111

C. Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2002			$71,144,554
Net income	$7,469,111		
Net unrealized capital gains or (losses)	10,229,012		
Change in net deferred income tax	13,558,390		
Change in non admitted assets		$6,987,187	
Change in provision for reinsurance	1,930,001		
Aggregate write-ins for gains and losses in surplus		799,140	
Total gains and losses	$33,186,514	$7,786,327	
Net increase (decrease) in surplus			25,400,187
Surplus as regards policyholders per report on examination as of December 31, 2005			$96,544,741

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $33,455,525 is $8,544,000 more than the $24,911,525 reported by the Company in its December 31, 2005, filed annual statement. The 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.

It is recommended that the Company comply with Section 1303 of the New York Insurance Law and maintain loss adjustment expense reserves adequate to provide for the cost of adjusting all losses or claims incurred on or prior to the annual statement date.

The examination increase to the reserves represents the Company's 80% share of the pooling agreement with its subsidiary Monticello Insurance Company of Delaware.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business 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 the Company's claims and complaint handling procedures. This review revealed no significant problem areas.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Management	
i.	Board of Directors	
a.	It is recommended that the Company comply with its by-laws and maintain at least thirteen directors with at least three of them residing in New York State.	5
	The Company has complied with this recommendation.	
b.	It is recommended that the board meet on a regular basis in order to properly exercise its management oversight responsibilities in accordance with Section 15 of the Company's by-laws.	6
	The Company has complied with this recommendation.	
c.	It is recommended that the board of directors approve all investment transactions pursuant to the provisions of Section 1411(a) of the New York Insurance Law.	6
	The Company has complied with this recommendation.	
ii.	Conflict of Interest It is recommended that the Company require its directors and officers to complete conflict of interest statements on an annual basis.	7
	The Company has complied with this recommendation.	
B.	Holding Company System	11
i.	Service Agreement	
a.	It is recommended that the Company comply with Section 1505(b) of the New York Insurance Law by maintaining its books and records in a way that will enable verification that the agreement has been implemented as represented to this Department.	
	The Company has complied with this recommendation.	
b.	It is recommended that the Company maintain vouchers for disbursements of one hundred dollars or more in accordance with Section 1217 of the New York Insurance Law.	11
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
c.	It is recommended that the Company obtain a non-disapproval notification from the Department in accordance with the provisions of Section 1505(d) of the New York Insurance Law prior to entering into service agreements, involving the rendering of services on a regular basis.	12
	The Company has complied with this recommendation.	
ii.	Intercompany Reinsurance Agreement	
	It is recommended that the Company file with the Department all inter-company reinsurance agreements and commutations of those agreements in accordance with the provisions of Section 1505(d)(2) of the New York Insurance Law.	14
	The Company has complied with this recommendation.	
C.	Abandoned Property Law	
i.	It is recommended that, in the future, the Company comply with the provisions of Section 1316 of the New York Abandoned Property Law and file the required reports.	15
	The Company has complied with this recommendation.	
ii.	It is recommended that the Company develop formal procedures for monitoring outstanding checks that may be escheatable.	16
	The Company has complied with this recommendation.	
D.	Accounts and Records	
i.	Cash	
a.	It is recommended that the Company perform and maintain proper bank reconciliations and complete them on a timely basis.	16
	The Company has complied with this recommendation.	
b.	It is recommended that the Company review its outstanding check list on a regular basis and write-off all uncashed checks.	16
	The Company has complied with this recommendation.	
c.	It is recommended that the Company take the steps necessary to have its name included on all bank accounts.	17
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
ii.	Reporting Premiums Written on the Annual Statement	
	It is recommended that the Company comply with SSAP No. 53 and record premiums in the year corresponding with the effective dates of the policies.	18
	The Company has complied with this recommendation.	
iii.	Locations of Company's Records	
	It is recommended that the Company file a plan in accordance with Section 325(b) of New York Insurance Law to move its administrative operations to Novato, California.	18
	The Company has complied with this recommendation.	
iv.	Failure to File Timely CPA Reports	
	It is recommended that the Company comply with Section 307(b) of the New York Insurance Law and file timely audited financial statements with the Department.	19
	The Company has complied with this recommendation.	
v.	Annual Statements Preparation Issues	
	It is recommended that the Company comply with the annual statement instructions, exercise due diligence in its annual statement preparation, and maintain appropriate supporting documentation for all items in the filed annual statement.	20
	The Company has complied with this recommendation.	
vi.	Missing or Incomplete Underwriting and Claim Files	
	It is recommended that the Company maintain its underwriting and claim files, in accordance with Department Regulation 152.	21
	The Company has complied with this recommendation.	
vii.	Custodian Agreement	
	It is recommended that the Company amend its custodial agreement to incorporate all of the provisions set forth in the Examiners Handbook.	21
	The Company has not complied with this recommendation and a similar recommendation is contained in this report.	

ITEM		PAGE NO.
viii.	Internal Controls It is recommended that the Company identify and rate all of its risk areas and put in place the appropriate level of internal controls. The Company has complied with this recommendation.	22
E.	Agents' Balances or Uncollected Premiums It is recommended that the Company comply with Section 1302(b) of the New York Insurance Law when reporting its admitted asset for agents' balances or uncollected premiums. The Company has complied with this recommendation.	27
F.	Reinsurance Recoverable on Loss and Loss Adjustment Expenses It is recommended that the Company exercise greater care in reporting reinsurance recoverable on paid losses and loss adjustment expenses on Schedule F. The Company has complied with this recommendation.	27
G.	Losses and Loss Adjustment Expenses It is recommended that the Company comply with the annual statement instructions when completing the "Notes to Financial Statements". The Company has complied with this recommendation.	28
H.	Provision for Reinsurance	
i.	It is recommended that the Company bill its reinsurance recoverables on paid losses and loss adjustment expenses to its reinsurers in a timely manner. The Company has complied with this recommendation.	30
ii.	It is recommended that the Company age its reinsurance recoverables on paid losses in accordance with the annual statement instructions in order to allow a proper calculation of the provision for reinsurance. The Company has complied with this recommendation.	30
I.	Market Conduct Activities It is recommended that the Company maintain a complaint log in accordance with the provisions of Section 216.4(e) of Department Regulation 64. The Company has complied with this recommendation.	31

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Accounts and Records	
1	Prior Report Acknowledgment	
	It is recommended that the Company comply with Section 312(b) of the New York Insurance Law by furnishing to each member of its board of directors the report on examination and each such member must sign a statement to be retained in the insurer's files confirming that such member has received and read such report.	10
2	Custodial Agreement	
	It is recommended that the Company procure a custodial agreement in compliance with NAIC guidelines.	10
3	Engagement Letter	
	It is recommended that the Company comply with the provisions of Section 307(b) of the New York Insurance Law and Department Regulation 118, Part 89.2, with respect to its written engagement contracts with its CPA.	11
4	General Expenses	
	It is recommended that the Company comply with Department Regulation 30 by keeping records to support its expense allocation basis in a clear and legible manner that can be made readily available for examination.	11
5	Investment	
	It is recommended that the Company comply with the provisions of SSAP No. 45 and procure master repurchase agreement from counterparties with whom it trades.	12
6	Reinsurance Recoverable of Loss and Loss Adjustment Expenses	
	It is recommended that the Company comply with the NAIC Examiners Handbook by maintaining its books and records in a way that will enable verification that the reinsurance recoverable amount is for valid reinsurance contracts.	12
7	Subsidiary Common Stock	
	It is recommended that the Company treat and report all increase in value of securities holdings as realized gain on sale of securities, not as an additional common stock acquired during year.	12

ITEM		PAGE NO.
8	Loss Reserve Claim Review	
	It is recommended that the Company comply with the provisions of Section 1303 of New York Insurance Law by maintaining an adequate reserve for payment of its losses.	13
B.	Loss and Loss Adjustment Expenses	
	It is recommended that the Company comply with Section 1303 of the New York Insurance Law and maintain loss adjustment expense reserves adequate to provide for cost of adjusting all losses or claims incurred on or prior to the annual statement date.	18

Respectfully submitted,

/S/
Adebola Awofeso
Senior Insurance Examiner

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

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

/S/
Adebola Awofeso

Subscribed and sworn to before me

this__________ day of ___________________, 2007.

Appointment No <u>*22477*</u>

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, <u>HOWARD MILLS,</u> *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Adebola Awofeso

as proper person to examine into the affairs of the

JEFFERSON INSURANCE 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 <u>*7th*</u> *day of* <u>*March, 2006*</u>

HOWARD MILLS
Superintendent of Insurance