

REPORT ON EXAMINATION

OF THE

NIPPONKOA INSURANCE COMPANY OF AMERICA

AS OF

DECEMBER 31, 2006

DATE OF REPORT

MAY 4, 2007

EXAMINER

JAMES MASTERSON, CFE

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

May 4, 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 22597 dated February 21, 2007, attached hereto, I have made an examination into the condition and affairs of NIPPONKOA Insurance Company of America as of December 31, 2006, and submit the following report thereon.

Wherever the designations "the Company" or "NKA" appear herein without qualification, they should be understood to indicate NIPPONKOA Insurance Company of America.

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 offices located at 14 Wall Street, Suite 812, New York, NY 10005.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the five-year period from January 1, 2002 through December 31, 2006. 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, 2006. 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.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on December 7, 2000 to serve as the vehicle for the domestication of the U.S. Branch of the KOA Fire & Marine Insurance Company, Ltd. (“KOA Japan”), pursuant to Article 72 of the New York Insurance Law. KOA Japan was established in 1944 under the laws of Japan and operated in the United States through a U.S. Branch, which was licensed under the laws of the State of New York on September 30, 1984. The domestication was completed on March 31, 2001 and the Company was licensed on April 1, 2001. Upon domestication, the Company’s equity of \$39,000,538 was reclassified as paid-in capital of \$5,000,000 and paid-in and contributed surplus of \$34,000,538. The paid-in capital consists of 5,000 authorized, issued and outstanding shares of common stock at \$1,000 par value per share. Capital and paid-in and contributed surplus have not changed from the previous examination date.

On April 1, 2001, the Company’s parent, Koa Japan, merged with and into The Nippon Fire & Marine Insurance Company Ltd. (“Nippon”), with Nippon as the surviving company. The name of the merged companies and new ultimate parent was then changed to NIPPONKOA Insurance Company, Limited, Japan.

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 nor more than twenty-five members. The board meets four times during each calendar year. At December 31, 2006, the board of directors was comprised of the following twelve members:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|-----------------------------------------|--------------------------------------------------------------------------------|
| John P. Hilferty North Brunswick, NJ | Senior Vice President and Secretary, NIPPONKOA Insurance Company of America |
| Shinichi Kandatsu Scarsdale, NY | Vice President, NIPPONKOA Insurance Company of America |
| Arnold Kideckel Bronx, NY | Partner, Wilson, Elser, Moskowitz, Edelman & Dicker LLP |
| Naohisa Kuzuu New York, NY | President, NIPPONKOA Insurance Company of America |

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|----------------------------------------------------------|------------------------------------------------------------------------------------------|
| Sharon D. Morrison Rosedale, NY | Vice President and Controller, NIPPONKOA Insurance Company of America |
| Masaru Nakagawa West New York, NJ | Vice President, NIPPONKOA Insurance Company of America |
| Kenjiro Nishimura Greenwich, CT | Senior Vice President, NIPPONKOA Insurance Company of America |
| Isamu Okubo Saitama-shi, Saitama Prefecture, Japan | General Manager, International Department of the Parent, NIPPONKOA Insurance Group |
| Philip Quaranta, Jr. Cos Cob, CT | Partner, Wilson, Elser, Moskowitz, Edelman & Dicker LLP |
| Anthony J. Stola Howard Beach, NY | Vice President, NIPPONKOA Insurance Company of America |
| Yoshifumi Tanemoto Rye, NY | Vice President and Treasurer, NIPPONKOA Insurance Company of America |
| Joseph M. Thornton Tolland, CT | Vice President, NIPPONKOA Insurance Company of America |

As noted above, the Company only had twelve members of its board of directors as of December 31, 2006, due to the resignation of board member David G. DeMott on July 1, 2006. At the time of Mr. Demott's resignation, NIPPONKOA Insurance Company Limited, Japan ("the Parent") had offered the Company for sale, ceased insurance operations and transferred all of its insurance and reinsurance obligations to NIPPONKOA Insurance Company Limited US Branch ("the Branch"). In anticipation of the sale of the Company, the Parent postponed the replacement of Mr. DeMott. Consequently, the Company was not in compliance with Section 1201(a)(5)(B)(v) of the New York Insurance Law and Article II, Section 1 of its by-laws, which states:

"The directors of the Corporation shall not be fewer than thirteen nor more than twenty-one in number."

It is recommended that the Company reconstitute its board of directors to meet the requirements as set forth in Section 1201(a)(5)(B)(v) of the New York Insurance Law and its by-laws.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of Isamu Okubo who 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 meetings consistently should resign or be replaced.

As of December 31, 2006, the principal officers of the Company were as follows:

| <u>Name</u> | <u>Title</u> |
|--------------------|-----------------------------------|
| Naohisa Kuzuu | President |
| John P. Hilferty | Senior Vice President & Secretary |
| Yoshifumi Tanemoto | Vice President & Treasurer |
| Shinichi Kandatsu | Vice President |
| Masaru Nakagawa | Vice President |
| Anthony J. Stola | Vice President |
| Sharon D. Morrison | Vice President & Controller |
| Kenjiro Nishimura | Senior Vice President |
| Joseph M. Thornton | Vice President |

B. Territory and Plan of Operation

As of December 31, 2006, the Company was licensed to transact business in California, Colorado, Connecticut, Georgia, Hawaii, Illinois, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia and Washington.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

| <u>Paragraph</u> | <u>Line of Business</u> |
|------------------|------------------------------------------------|
| 3 | Accident & health |
| 4 | Fire |
| 5 | Miscellaneous property damage |
| 6 | Water damage |
| 7 | Burglary and theft |
| 8 | Glass |
| 9 | Boiler and machinery |
| 10 | Elevator |
| 12 | Collision |
| 13 | Personal injury liability |
| 14 | Property damage liability |
| 15 | Worker's compensation and employer's liability |
| 16 | Fidelity and surety |
| 19 | Motor vehicle and aircraft physical damage |
| 20 | Marine and inland marine |
| 21 | Marine protection and indemnity |

The company is also empowered to transact such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law including insurance described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law 803, 69th Congress, as amended; 33 USC Section 901 et seq. as amended).

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 \$1,390,000.

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

| <u>Calendar Year</u> | <u>New York State</u> | <u>Total United States</u> | <u>Premiums Written in New York State as a percentage of United States Premium</u> |
|----------------------|-----------------------|----------------------------|------------------------------------------------------------------------------------|
| 2002 | \$4,063,614 | \$7,522,890 | 54.02% |
| 2003 | \$3,780,425 | \$6,830,451 | 55.35% |
| 2004 | \$517,592 | \$1,746,521 | 29.64% |
| 2005 | (\$27,515) | \$3,091 | (890.16)% |
| 2006 | (\$52,965) | (\$22,845) | 231.85% |

The Company has ceased writing new and renewal facultative reinsurance and insurance policies as of July 1, 2003; all of the Company's previous business expired by July 2004. The Company phased out its ocean marine cargo insurance business during 2004 with the last policies cancelled effective December 31, 2004. The Company currently has no business in force.

C. Reinsurance

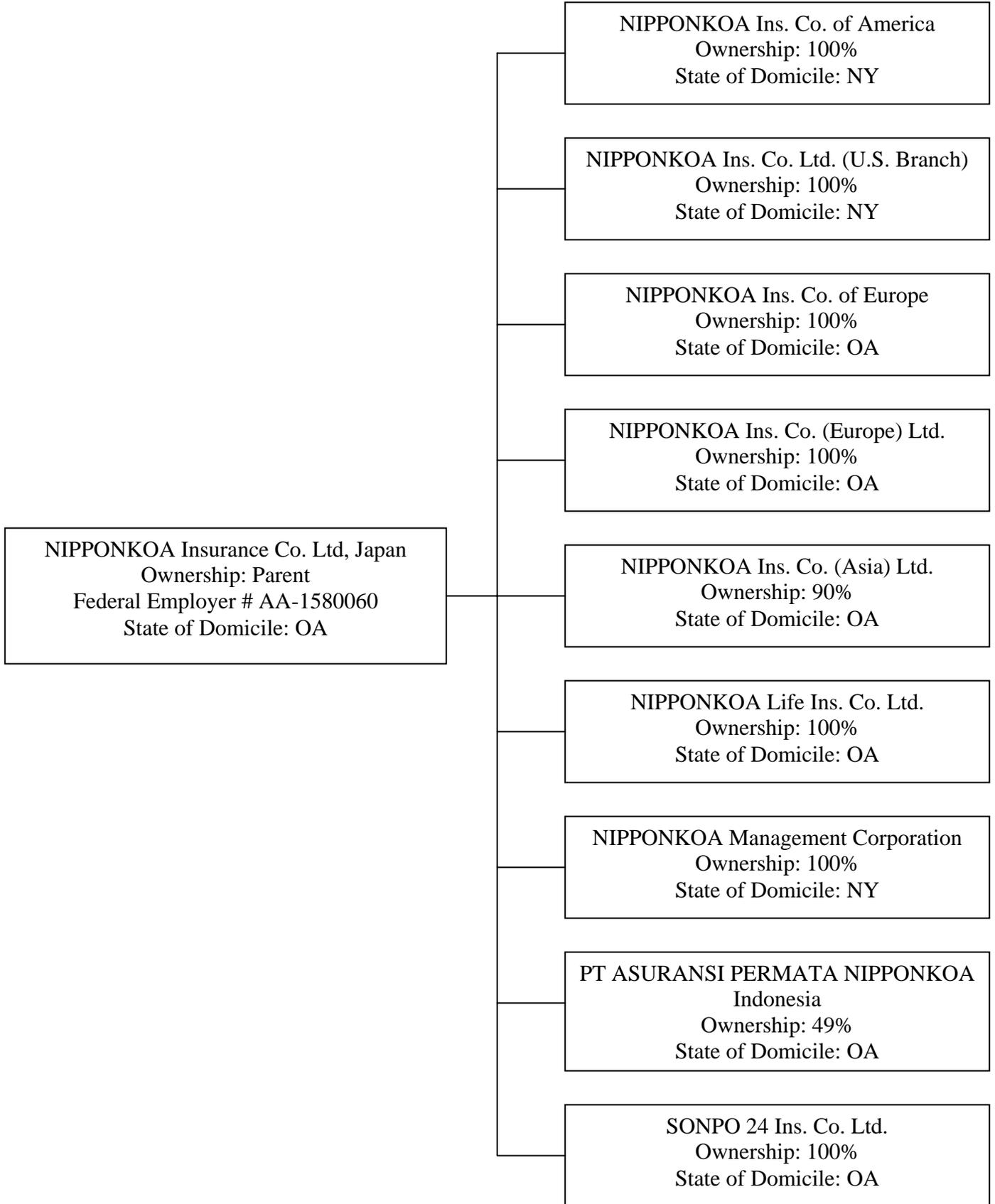
As of December 31, 2006, the Company did not have a reinsurance program in place.

D. Holding Company System

NKA is 100% owned and controlled by NIPPONKOA Insurance Company, Limited, Japan, a holding company primarily engaged in the business of property and casualty insurance, offering a full range of products and services in Japan.

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 a chart of the holding company system as of December 31, 2006:



At December 31, 2006, the Company was party to the following agreements with other members of its holding company system:

Business Services Agreement

Effective July 1, 2006, the Company entered into a business services agreement with NIPPONKOA Management Corporation (“NKM”). Under this agreement, NKM provides office space, general administrative and business services to the Company, until the Company is sold or liquidated. Pursuant to the agreement, the Company shall reimburse NKM for all costs and expenses based upon the time records of the employees.

Transfer and Assumption Agreement

Effective July 1, 2006, the Company entered into a transfer and assumption agreement with NIPPONKOA Insurance Company, Limited US Branch. Under this agreement, NKA transferred all of its loss reserves and other insurance policy related obligations to the Branch. The gross and net amounts of loss and loss expenses transferred by the Company to the Branch were \$15,011,714 and \$11,175,215 respectively. Additionally, contingent commission reserves of \$235,000 and funds held on deposit of \$15,000 were transferred.

Non-Insurance Transfer and Assumption Agreement

Effective July 1, 2006, the Company entered into a non-insurance transfer and assumption agreement with NKM. Pursuant to the agreement, all of the Company’s non-insurance and non-investment assets were sold to NKM and all of the Company’s non-policy obligations were assumed by NKM. The obligations transferred included, but were not limited to, sponsorship of the employee 401(K) Plan. NKM paid \$651,841 to the Company based upon the admitted and non-admitted assets that were purchased.

Substitution and Assignment Agreement

Effective July 1, 2006, the Company amended and restated the agreement of substitution and assignment. Pursuant to the terms of this agreement, NKM substituted NKA as Assistant U.S. Manager of the US Branch. NKA had served in such capacity since April 1, 2003.

These agreements were filed with the Department pursuant to Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2006, 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) | 1% |
| 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 five-year period covered by this examination:

| | <u>Amounts</u> | <u>Ratios</u> |
|----------------------------------------------|---------------------|----------------|
| Losses and loss adjustment expenses incurred | \$13,579,318 | 51.11% |
| Other underwriting expenses incurred | 16,112,341 | 60.64 |
| Net underwriting loss | <u>(3,121,908)</u> | <u>(11.75)</u> |
| Premiums earned | <u>\$26,569,751</u> | <u>100.00%</u> |

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2006 as determined by this examination and as reported by the Company:

| <u>Assets</u> | <u>Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> |
|-------------------------------------------------------------------------|---------------------|----------------------------|----------------------------|
| Bonds | \$18,471,146 | \$0 | \$18,471,146 |
| Cash and short-term investments | 28,968,083 | 0 | 28,968,083 |
| Investment income due and accrued | 217,981 | 0 | 217,981 |
| Current federal and foreign income tax recoverable and interest thereon | 412,460 | 0 | 412,460 |
| Net deferred tax asset | <u>77,697</u> | <u>73,779</u> | <u>3,918</u> |
| Totals | <u>\$48,147,367</u> | <u>\$73,779</u> | <u>\$48,073,588</u> |

Liabilities, surplus and other funds

Liabilities

| | |
|-----------------------------------------------------|----------------|
| Other expenses (excluding taxes, licenses and fees) | \$48,111 |
| Net deferred tax liability | 3,918 |
| Payable to parent, subsidiaries and affiliates | <u>222,796</u> |
| Total liabilities | \$274,825 |

Surplus and other funds

| | |
|--------------------------------------------|---------------------|
| Common capital stock | \$5,000,000 |
| Gross paid in and contributed surplus | 34,000,538 |
| Unassigned funds (surplus) | <u>8,798,225</u> |
| Surplus as regards policyholders | <u>47,798,763</u> |
| Total liabilities, surplus and other funds | <u>\$48,073,588</u> |

NOTE: The Company indicated that the Internal Revenue Service has not performed, nor notified the Company that it planned to perform, an audit of the Company's Federal income tax returns for any year covered by this examination. With the exception of any impact that might be caused from any examination changes contained in this report, the examiner is unaware of any potential exposure of the Company to any further tax assessments and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$7,856,907 during the five-year examination period January 1, 2002 through December 31, 2006, detailed as follows:

Underwriting Income

| | | |
|-------------------------------------------------|----------------|-------------------|
| Premiums earned | | \$26,569,751 |
| Deductions: | | |
| Losses incurred | \$10,446,752 | |
| Loss adjustment expenses incurred | 3,132,566 | |
| Other underwriting expenses incurred | 15,879,216 | |
| Aggregate write-ins for underwriting deductions | <u>233,125</u> | |
| Total underwriting deductions | | <u>29,691,659</u> |
| Net underwriting gain or (loss) | | \$ (3,121,908) |

Investment Income

| | | |
|-------------------------------|------------------|------------|
| Net investment income earned | \$12,321,793 | |
| Net realized capital gain | <u>(228,521)</u> | |
| Net investment gain or (loss) | | 12,093,272 |

Other Income

| | | |
|-----------------------------------------------------------------------------------------|------------------|--------------------|
| Aggregate write-ins for miscellaneous income | <u>\$322,859</u> | |
| Total other income | | <u>322,859</u> |
| Net income after dividends to policyholders but before federal and foreign income taxes | | \$9,294,223 |
| Federal and foreign income taxes incurred | | <u>1,894,900</u> |
| Net income | | <u>\$7,399,323</u> |

C. Capital and Surplus Accounts

| | | | |
|------------------------------------------------------------------------------------|-------------------------|--------------------------|---------------------|
| Surplus as regards policyholders per report on examination as of December 31, 2001 | | | \$39,941,856 |
| | <u>Gains in Surplus</u> | <u>Losses in Surplus</u> | |
| Net income | \$7,399,323 | | |
| Change in net deferred income tax | | \$1,184,769 | |
| Change in nonadmitted assets | 1,642,353 | | |
| Total gain and losses | <u>\$9,041,676</u> | <u>\$1,184,769</u> | |
| Net increase (decrease) in surplus | | | <u>7,856,907</u> |
| Surplus as regards policyholders per report on examination as of December 31, 2006 | | | <u>\$47,798,763</u> |

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed annual statements.

As previously mentioned in the Holding Company System section of this report, all of the Company's policy obligations were transferred to and assumed by NIPPONKOA Insurance Company Limited US Branch as of July 1, 2006. The Company had no loss reserves as of December 31, 2006.

5. SUBSEQUENT EVENTS

On January 23, 2007, the Company filed a capital reduction plan ("the Plan") with the Department. The Plan stated that NIPPONKOA Insurance Company Limited, Japan (the Company's Parent) entered into a stock purchase agreement with an independent third party buyer. The Plan would reduce the Company's policyholders' surplus to approximately \$10,250,000 as of the date the Company is sold.

On April 20, 2007, the Department approved a stock purchase agreement between the Company's parent and Vetinsurance International, Inc., a Delaware Holding Company and Maveron Equity Partners 111, LP.

On April 25, 2007, the Department approved a capital reduction plan for the Company to repurchase 3,400 authorized and issued shares of its common stock from its parent for \$28,730,000. The par value of the remaining 1,600 shares was increased to \$3,000 per share, resulting in a paid-in-capital of \$4,800,000.

Both the acquisition and the capital reduction plans were implemented on April 25, 2007.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

| <u>ITEM</u> | <u>PAGE NO.</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| A. <u>Reinsurance</u> | |
| i. It is recommended that the property non-ocean marine reinsurance agreements be amended to include an insolvency clause complying with the provisions of Section 1308 of the New York Insurance Law. | 8 |
| ii. It is recommended that the Company amend the insolvency clause in its property facultative excess of loss agreement to include all language required by Section 1308 of the New York Insurance Law and to exclude all prohibited language. | 9 |
| iii. It is recommended that the offset provision of the property non-marine reinsurance agreement be amended to include the required language in compliance with Section 7427 of the New York Insurance Law. | 10 |
| iv. It is recommended that the Company amend its property non-marine reinsurance agreements to include an intermediary clause in compliance with the provisions of Department Regulations 20 and 98. | 11 |
| v. It is recommended that the arbitration clauses in all reinsurance agreements be amended to state that any arbitration should take place within New York State. | 11 |
| <p>These recommendations are no longer applicable as the Company no longer assumes or cedes reinsurance.</p> | |
| B. It is recommended that in future statement filings with the Department, the holding company chart be amended to include a clear indication of the interrelationships between the parent and all affiliated insurers and other affiliates as required by NAIC Annual Statement Instructions. | 13 |
| <p>The Company complied with this recommendation</p> | |
| C. <u>Abandoned Property Law</u> | |
| It is again recommended that the Company file annual abandoned property reports with the State of New York, in accordance with Section 1316 of the New York Abandoned Property Law. | 14 |

This recommendation is no longer applicable.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| <u>ITEM</u> | | <u>PAGE NO.</u> |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| A | <u>Management</u> | |
| i. | It is recommended that the Company reconstitute its board of directors to meet the requirements as set forth in Section 1201(a)(5)(B)(v) of the New York Insurance Law and its by-laws. | 4 |
| ii. | It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced. | 5 |

Appointment No. 22597

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

*I, Eric R. Dinallo, Acting Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:*

Dilbrina Belgrave

as proper person to examine into the affairs of the

NIPPONKOA INSURANCE COMPANY OF AMERICA

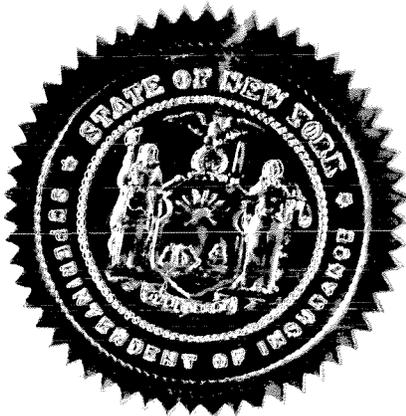
and to make a report to me in writing of the condition of the said

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 21st day of February, 2007



A handwritten signature in black ink, appearing to read "Eric R. Dinallo".

ERIC R. DINALLO

Acting Superintendent of Insurance