

REPORT ON EXAMINATION

OF THE

ROCHDALE INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

DATE OF REPORT

OCTOBER 3, 2005

EXAMINER

GILBERT DENTON

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

October 3, 2005

Honorable Howard Mills
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 22255 dated September 10, 2004 attached hereto, I have made an examination into the condition and affairs of Rochdale Insurance Company as of December 31, 2003, and submit the following report thereon.

Wherever the designations "the Company" or "Rochdale" appear herein without qualification, they should be understood to indicate Rochdale Insurance Company.

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 59 Maiden Lane, New York, NY 10004.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2000. This examination covered the three-year period from January 1, 2001 through December 31, 2003. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2003. 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

Rochdale Insurance Company was incorporated under the laws of the State of New York on June 29, 1955 and began business on September 14, 1955. Duncanson & Holt, Inc., a New York underwriting management firm, acquired sole ownership of the Company on December 22, 1976.

Following the Department's approval dated July 20 1992, the Company's ownership was transferred to Rochdale Capital Corporation, a privately held company incorporated in the State of New York.

On October 19, 1999, because the Company's surplus level went below the minimum amount required by Section 4103 of the New York Insurance Law, the Company was served with a court order of rehabilitation and went under the control of the New York Insurance Department Liquidation Bureau.

On June 5, 2000, AmTrust Financial Services, Inc., ("AmTrust") acquired all of the Company's issued and outstanding stock. In addition to the purchase price of the Company, AmTrust contributed \$2,730,923 to Rochdale's capital and paid in surplus, increasing the Company's surplus to the minimum amount required by the Department. The Superintendent was discharged as rehabilitator of Rochdale on June 8, 2000.

On December 29, 2000, Technology Insurance Company, a wholly-owned subsidiary of AmTrust, acquired all of Rochdale's issued and outstanding common stock from AmTrust in satisfaction of an indebtedness from AmTrust.

As of December 31, 2003, capital paid in is \$1,900,000 consisting of 19,000 shares of common stock at \$100 par value per share. Gross paid in and contributed surplus is \$10,274,247.

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 nineteen members. At December 31, 2003, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Donald T. DeCarlo Douglaston, NY	Attorney, Lord, Bissell & Brook
George Karfunkel Brooklyn, NY	Senior Vice President & Director, American Stock Transfer and Trust Company
Leah Karfunkel Brooklyn, NY	Director, Rochdale Insurance Company
Michael Karfunkel Brooklyn, NY	Chairman of the Board and President, American Stock Transfer and Trust Company
Renee Karfunkel Brooklyn, NY	Director, Rochdale Insurance Company
Herbert Lemmer Brooklyn, NY	Senior Vice President & General Counsel, American Stock Transfer and Trust Company
Jay Miller New York, NY	Secretary, Rochdale Insurance Company
Ann Neuberger Brooklyn, NY	Director, American Stock Transfer and Trust Company
Henry Reinhold Brooklyn, NY	Treasurer, American Stock Transfer and Trust Company
Eli Tisser Brooklyn, NY	Treasurer, Rochdale Insurance Company
Stephen Ungar New York NY	General Counsel, AmTrust Financial Services, Inc.
Barry D. Zyskind Brooklyn, NY	President, AmTrust Financial services, Inc.

Name and ResidencePrincipal Business Affiliation

Ester Zyskind
Brooklyn, NY

Director,
Rochdale Insurance Company

A review of the minutes of the board of directors' meetings revealed that the board did not hold any regular meetings during the examination period. Business decisions and corporate resolutions were authorized by written consent of the board in lieu of regular meetings. The Company's by-laws do not address the use of unanimous written consent of the board in lieu of regular meetings. Additionally, it is noted that the Company's by-laws provide that the election of officers and designation of the executive committee shall be done "at the first meeting of the board of directors in each year held next after the annual meeting of shareholders." It is the Department's position that the board of directors should meet at least one time each year and should only act by unanimous written consent in very limited emergency situations.

It is recommended that the Company's board of directors hold regular meetings and limit the practice of authorizing its business decisions and corporate resolutions by written consent of the board of directors in lieu of regular meetings to emergency situations only. Subsequent to the examination period, the Company held a regular meeting in accordance with its by-laws. Such meeting was attended by all board members.

As of December 31, 2003, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Barry D. Zyskind	President
Jay J. Miller	Secretary
Eli Tisser	Treasurer

B. Territory and Plan of Operation

As of December 31, 2003, the Company was licensed to write business in seventeen states and the District of Columbia.

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	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also empowered to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances 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 \$1,500,000.

The Company primarily writes monoline workers' compensation insurance, geared to small to medium sized businesses with low hazard operations. They also write a small volume of surety and

inland marine business. Most of the Company's business is in highly competitive markets. The Company business is produced by independent agents.

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>DIRECT PREMIUMS WRITTEN</u>		<u>Premiums Written in New York State as a Percentage of United States Premiums Written</u>
	<u>New York State</u>	<u>Total United States</u>	
2001	\$1,164,075	\$4,488,952	25.93%
2002	\$2,625,866	\$12,485,878	21.03%
2003	\$13,663,144	\$36,372,848	37.56%

C. Reinsurance

Assumed

The Company assumes a relatively minor volume of business as compared to its direct writings.

Ceded

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2003. The contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Schedule F data as contained in the Company's filed annual statement was found to accurately reflect its reinsurance transactions.

The Company had the following ceded reinsurance program in effect at December 31, 2003:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Workers' Compensation</u>	
First excess of Loss 100% Authorized	\$19,500,000 in excess of \$500,000, per occurrence.
Second excess of Loss 75% Authorized 25% Unauthorized	\$30,000,000 in excess of \$20,000,000 per occurrence.

The Company also maintains a 90% quota share agreement with its affiliates, Technology Insurance Company ("Technology") and AmTrust International Insurance Limited ("AIIL") net of other reinsurance recoverable. Pursuant to the agreement, the Company retains 10% of the "Net Retained Liability," with Technology assuming 20% and AIIL assuming the remaining 70%.

The Company continues to run-off its property and casualty exposures in-force as of the date it entered rehabilitation.

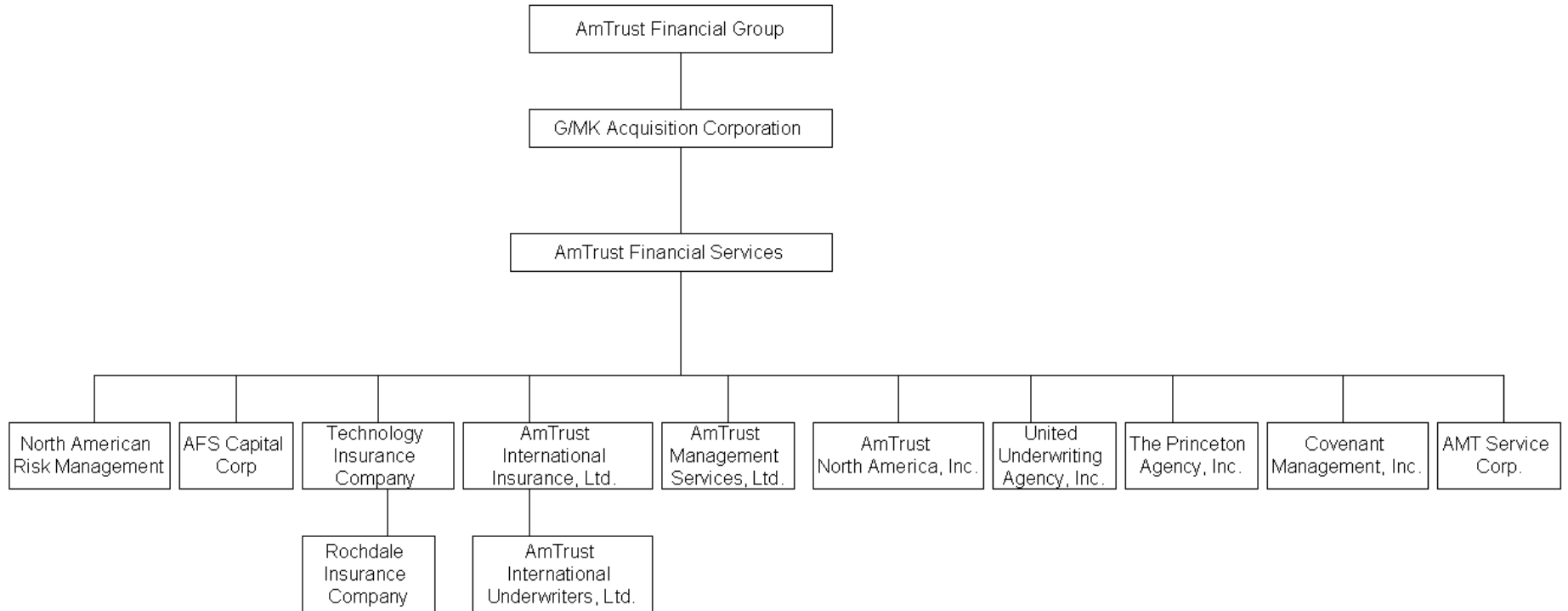
D. Holding Company System

The Company is a member of the AmTrust Financial Group, Inc. The Company is 100% owned by Technology Insurance Company, a New Hampshire corporation, which is ultimately controlled by AmTrust Financial Group, Inc., a Delaware corporation.

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 at December 31, 2003:

AmTrust Financial Group



At December 31, 2003 the Company was party to the following agreements with other members of its holding company system:

1. Claims Service

The Company's claims are being serviced by its affiliate, Covenant Management Inc. However, there is no written agreement between the two parties to provide such services. Section 1505(d)(3) of the New York Insurance Law states:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:

(3) rendering of services on a regular systematic basis.”

It is recommended that the Company prepare a written agreement with Covenant Management Inc. for the claims services provided and submit the agreement to this Department for our non-disapproval in accordance with Section 1505(d)(3) of the New York Insurance Law.

2. Inter-company Reinsurance Agreement

Effective April 1, 2003 the Company entered into a 90% quota share reinsurance agreement with Technology Insurance Company (“Technology”) and AmTrust International Insurance Limited (“AAIL”). Pursuant to the captioned agreement, the Company cedes 90% of its net retained liability (70% to AAIL and 20% to Technology). The inter-company reinsurance agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

3. Inter-company Management Agreement

Effective January 1, 2001, AmTrust Financial Services, Inc. (“AmTrust”) provides management services to the Company and its parent, Technology Insurance Company, Inc. (“TIC”). Pursuant to the agreement, AmTrust provides all required financial, administrative, underwriting and accounting services including, premium collections and refunds for the Company and TIC. The Company and TIC each pay AmTrust a fee equal to the lesser of 2% of their respective written premiums or \$500,000.

The inter-company management agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

4. General Agency Agreement

Effective July 1, 2002 the Company entered into a general agency agreement with Technology Insurance Company and AmTrust North America Inc. (“ANA”), whereby ANA perform the underwriting functions, marketing and administrative services with regard to all policies issued by the Company. Furthermore, ANA and its agent solicit and accept applications for policies and perform certain processing functions in full conformance with all laws and regulations pertaining to the appointment of general agents.

The general agency agreement was approved by the Department pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

5. Claim Service Agreement

Effective January 1, 2001, the Company entered into a claim service agreement with AmTrust Financial Services Inc., whereby AmTrust administers the run-off of the business written by the Company prior to June 8, 2000 as well as certain types of specialty products and surety bonds written by the

Company thereafter. The Company retains compromise and settlement authority over claims subject to this agreement and has ultimate control and supervision over the entire claim process.

The claim service agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

6. Tax Allocation Agreement

Effective July 1, 2002 the Company entered into a tax allocation agreement with AmTrust Financial Services Inc. Pursuant to the agreement, the Company shall be included in the consolidated federal income tax return of the group. The tax liability or refund under the agreement represents the amount the Company would pay or receive if it had filed a separate return with the Internal Revenue Service.

The tax allocation agreement was filed with the Department pursuant to Department Circular Letter No. 33 (1979).

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 has not filed any abandoned property reports for the period of this examination pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

It is recommended that the Company files its abandoned property reports 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, 2003, based upon the results of this examination:

Net premiums written in 2003 to surplus as regards policyholders	1.39:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	106.0%*
Premiums in course of collection to surplus as regards policyholders	72.7%*

The above ratios denoted with an asterisk fall outside the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The premiums in course of collection to surplus as regards policyholders ratio fell outside the benchmark range due to the fact that the Company cedes a 90% quota share of its net retained business, and premiums in course of collection are reported gross of premiums ceded. The liabilities to liquid assets ratio fell outside the benchmark range as a result of the examination increase to losses and loss adjustment expenses.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss		
adjustment expenses incurred	\$4,297,994	43.35%
Other underwriting expenses incurred	3,666,553	36.98
Net underwriting gain	<u>1,950,402</u>	<u>19.67</u>
Premiums earned	<u>\$9,914,949</u>	<u>100.00%</u>

G. Accounts and Records

(i). CPA Engagement Letter

Upon review of the Company's CPA contract ("engagement letter"), it was noted that the contract did not incorporate the provisions of Part 89.2(c) of Department Regulation 118, which states:

"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 amend its CPA engagement letter to incorporate the record retention clause pursuant to Part 89.2(c) of Department Regulation 118.

(ii). Claim Files

During the period covered by this examination, the Company's claims were administered by Covenant Management Inc., who uses an imaging system called NOAH. On May 31, 2004, the data from the Company's former third party administrator ("TPA"), Robbins and Gallagher, was converted to the NOAH system.

The Company was unable to produce December 31, 2003 data from the NOAH system and the imaged files on the system could not be printed. The Company indicated that it would take several weeks to fix these problems. Additionally, the imaged files created prior to May 31, 2004, which were converted from the Company's former TPA, did not indicate the name of the document.

In order to verify the 2003 Schedule P claims data, the examiners had to select a smaller sample of files than initially requested and have the Company produce hard copies of the files.

Section 4117(f) of the New York Insurance Law states:

“Every property/casualty insurance company doing business in this state shall keep a complete and itemized record showing all losses and claims on which it has received notices including all notices received by it of the occurrence of any event which may result in a loss.”

Further, Part 243.3(a) of Department Regulation 152 requires that:

“(1) Records and indices of records required to be maintained under this Part may be maintained in any durable medium.

(2) Where the original record was not a paper document, an insurer shall be able to produce information or data which accurately represents a record of communications between a person or entity and the insurer or accurately reflects a transaction or event.

(3) Upon transfer of an original record to a durable medium, the insurer may destroy the original record after assuring that all information contained in the original record, including signatures, handwritten notations, or pictures, is contained in the durable medium.

(4) If the insurer does not retain the original paper record, or if there was no original paper record, a duplicate or back-up system sufficient to permit reconstruction of the record shall be established at a separate location. The record may be retained in any form permitted by this Part.”

It is recommended that the Company maintain its imaged claim files pursuant to the provisions of Section 4117(f) of the New York Insurance Law and Part 243.3 of Department Regulation 152.

(iii). Schedule P Discrepancies

The examiner noted the following discrepancies regarding the reporting of the 2003 Schedule P data:

- (a) The cumulative paid loss and loss adjustment expenses reflected in the 2003 Schedule P (Parts 1, 1D, 3 and 3D) were overstated by \$275,000.
- (b) The examiner noted that the Company did not fill out the cumulative claims closed with payment claims count required for the 2003 Schedule P-(Part 5D-Section 1).
- (c) The “total net losses and expenses unpaid” for accident year 2003 as reported in column 24 of Schedule P Part 1 of the Company’s filed annual statement as of December 31, 2003 does not match the “total prior year-end loss and LAE reserves” for accident year 2003 as reported in column 3 of the loss and loss adjustment expense reserves schedule in the Company’s subsequent quarterly statements.

The differences were not material and did not affect the actuarial analysis. However, it is recommended that the Company exercise greater care in the preparation of Schedule P for future annual statements.

(iv). Custodian Agreement

The Company is party to several custodian agreements. The Company’s custodian agreement with Bank One was not in compliance with several provisions of Part 1 Section IV J of the NAIC Financial Condition Examiner’s Handbook.

It is recommended that the Company amend its custodian agreements to incorporate the following covenants in accordance with Part 1 Section IV J of the NAIC Financial Condition Examiner Handbook:

- “The agreement should contain a provision, that in the event of a loss of securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.
- The agreement should contain a provision, that in the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian.

- The agreement should contain a provision, that if the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business day of termination or withdrawal, to the insurer's domiciliary commissioner.
- The agreement should contain a provision, that during regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company and a representative of an appropriate regulatory body shall be entitled to examine, on the premise of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the insurance company.
- The agreement should contain a provision that states, to the extent that certain information maintained by the custodian is relied upon by the insurance company in preparation of its annual statement and supporting schedules, the custodian agrees to maintain records sufficient to determine and verify such information.
- The agreement should contain a provision, that the custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian.
- The agreement should contain a provision that, the custodian shall secure and maintain insurance protection in an adequate amount.
- The agreement should contain provision that, a foreign bank acting as a custodian, or a U.S. custodian's foreign agent or a foreign clearing corporation is only holding foreign securities required by the foreign country in order for the insurer to do business in that country. A US custodian must hold all other securities."

(v). Deferred Tax Asset

The Company made several errors in the calculation of its net deferred tax asset, including the failure to include the net unrealized capital losses, which resulted in an increase to the gross deferred tax asset ("DTA"), and the failure to calculate a not admitted asset for the difference between the gross DTA and the Company's estimate of DTA's expected to reverse in one year.

The net effect of these errors is immaterial; however, it is recommended that the Company exercise greater care in the calculation of its Net deferred tax assets in future annual statements.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2003 and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u> <u>Assets Not</u> <u>Admitted</u>	<u>Net Admitted</u> <u>Assets</u>	<u>Company</u> <u>Net Admitted</u> <u>Assets</u>	<u>Surplus</u> <u>Increase</u> <u>(Decrease)</u>
Bonds	\$17,169,140	\$ 0	\$17,169,140	\$17,169,140	\$0
Common stocks	1,282,599	0	1,282,599	1,282,599	0
Cash, cash equivalents and short-term investments	2,010,226	0	2,010,226	2,010,226	0
Other invested assets	136,455	0	136,455	136,455	0
Investment income due and accrued	150,818	0	150,818	150,818	0
Uncollected premiums and agents' balances in the course of collection	3,842,340	172,839	3,669,501	3,669,501	0
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,663,371	0	3,663,371	3,663,371	0
Amounts recoverable from reinsurers	157,554		157,554	157,554	0
Funds held by or deposited with reinsured companies	1,981,998	0	1,981,998	1,981,998	0
Net deferred tax asset	302,061	0	302,061	302,061	0
Electronic data processing equipment and software	148,364	148,364	0	0	0
Furniture and equipment, including health care delivery assets	17,003	17,003		0	0
Receivables from parent, subsidiaries and affiliates	<u>36,006</u>	<u>0</u>	<u>36,006</u>	<u>36,006</u>	<u>0</u>
Total assets	<u>\$30,897,934</u>	<u>\$338,206</u>	<u>\$30,559,725</u>	<u>\$30,559,728</u>	<u>\$0</u>

<u>Liabilities, Surplus and Other Funds</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and loss adjustment expenses	\$ 8,059,875	\$ 7,272,875	\$(787,000)
Reinsurance payable on paid losses and loss adjustment expenses	1,252,070	1,252,070	0
Other expenses (excluding taxes, licenses and fees)	125,274	125,274	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	4,696,733	4,696,733	0
Unearned premiums	3,269,735	3,269,735	0
Ceded reinsurance premiums payable (net of ceding commissions)	2,182,638	2,182,638	0
Funds held by company under reinsurance treaties	4,318,557	4,318,557	0
Provision for reinsurance	155,167	155,167	0
Premium collected in advance	854,658	854,658	0
Premium audits cancel due	382,837	382,837	0
Claims & loss adjustment expense payable	<u>169,239</u>	<u>169,239</u>	<u>0</u>
Total liabilities	<u>\$25,466,783</u>	<u>\$24,679,783</u>	<u>\$(787,000)</u>
 <u>Surplus and Other Funds</u>			
Common capital stock	\$ 1,900,000	\$ 1,900,000	\$0
Gross paid in and contributed surplus	10,274,247	10,274,247	0
Unassigned funds (surplus)	<u>(7,081,302)</u>	<u>(6,294,302)</u>	<u>(787,000)</u>
Surplus as regards policyholders	<u>\$ 5,092,945</u>	<u>\$ 5,879,945</u>	<u>\$(787,000)</u>
Total liabilities, surplus and other funds	<u>\$30,559,728</u>	<u>\$30,559,728</u>	

NOTE: The Internal Revenue Service has not completed any audit of the Company's consolidated federal income tax returns through tax year 2003. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2001 through 2003. 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 \$2,309,505 during the three-year examination period January 1, 2001 through December 31, 2003, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$9,914,949
Deductions:		
Losses and loss adjustment expenses incurred	\$4,297,994	
Other underwriting expenses incurred	4,466,641	
Gain on commutation settlement	<u>(800,088)</u>	
Total underwriting deductions		<u>7,964,547</u>
Net underwriting gain		\$1,950,402

Investment Income

Net investment income earned	\$1,818,942	
Net realized capital gains	<u>(396,523)</u>	
Net investment gain		<u>1,422,419</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$3,372,821
Federal and foreign income taxes incurred		<u>1,678,541</u>
Net income		<u>\$1,694,280</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2000			\$2,783,440
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
		\$	
Net income	\$1,694,280		
Net unrealized capital gains or (losses)		4,284	
Change in net deferred income tax	302,061		
Change in non admitted assets		320,232	
Change in provision for reinsurance	278,513		
Capital changes paid in	400,000		
Surplus adjustments paid in	686,000		
Prior period adjustment *	<u> </u>	<u>726,833</u>	
Total gains and losses	<u>\$3,360,854</u>	<u>\$1,051,349</u>	
Net increase in surplus			\$ <u>2,309,505</u>
Surplus as regards policyholders per report on examination as of December 31, 2003			\$ <u>5,092,945</u>

* The prior period adjustment represents receivables and reinsurance recoverable balances reported by Rochdale at the time of its acquisition in 2000. These items were subsequently determined to be uncollectible and were written off during 2001. These items should have been written off at the time of the acquisition; therefore, the write-off was reflected as a prior period adjustment.

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$8,059,875 is \$787,000 greater than the \$7,272,875 reported by the Company as of December 31, 2003. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Companies internal records and in its filed annual statements.

The examination change reflects the reserve development reported by the Company in its filed quarterly statement as of June 30, 2005.

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 practices of the Company in the following areas:

- A. Underwriting
- B. Rating
- C. Claims and complaint handling

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It was recommended that the Company comply with the provisions of its charter and by-laws as well as Section 602(b) of the Business Corporation Law with regard to the election of its board of directors.	5
The Company has complied with this recommendation.	
B. <u>Holding Company System</u>	
<u>Inter-Company Management, Cost Allocation and Tax Allocation Agreement</u>	
i. It was recommended that the Company amends its inter-company management agreement and cost allocation agreement to include claims services.	8
The Company has complied with this recommendation.	
ii. It was recommended that in the future, the Company file with the Department prior to implementing any inter-company agreements pursuant to Section 1505(d) of the New York Insurance Law and Circular Letter No. 33 (1979).	9
The Company has complied with this recommendation.	
C. <u>Custodian Agreement</u>	
It was recommended that the Company obtain custodian agreements containing the required protective covenants and provisions in order to properly safeguard its investments.	11
The Company has not complied with this recommendation. A similar comment is made in this report.	

<u>ITEM</u>	<u>PAGE NO.</u>
D. <u>Accounts and Records</u>	
i. <u>Annual Statement</u>	
It was recommended in the future that the Company maintain a reconciliation from its trial balance to its filed annual statements.	13
ii. The Company has complied with this recommendation.	
<u>Regulation 30</u>	
It was recommended that the Company undertake a study to determine the proper amounts to allocate between expenses classified pursuant to Department Regulation 30.	14
The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that the Company's board of directors hold regular meetings and limit its practice of authorizing its business decisions and corporate resolutions by written consent in lieu of a meeting as authorized by its by-laws and the Department.	5
B. <u>Holding Company System</u>	
<u>Claims Service</u>	
It is recommended that the Company submit a claim service agreement with Covenant Management Inc. to the Department in accordance with Section 1505(d)(3) of the New York Insurance Law.	10
C. <u>Abandoned Property Law</u>	
It is recommended that the Company files abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.	13

<u>ITEM</u>	<u>PAGE NO.</u>
D. <u>Account and records</u>	
i. <u>CPA Engagement Letter</u>	
It is recommended that the Company amend its CPA engagement letter to incorporate the record retention clause pursuant to Part 89.2(c) of Department Regulation 118.	14
ii. <u>Claims Files</u>	
It is recommended that the Company maintain its imaged claim files pursuant to the provisions of Section 4117(f) of the New York Insurance Law and Part 243.3 of Department Regulation 152.	16
iii. <u>Schedule P Discrepancies</u>	
It is recommended that the Company exercise greater care in the preparation of Schedule P for future annual statements.	16
iv. <u>Custodian Agreements</u>	
It is recommended that the Company amend its custodian agreements to incorporate the appropriate covenants in accordance with Part 1 Section IV J of the NAIC Financial Condition Examiners Handbook.	17
v. <u>Net Deferred Tax Assets</u>	
It is recommended that the Company exercise greater care in the calculation of its Net deferred tax assets in future annual statements.	18

Appointment No. 22255

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Gilbert Denton

as proper person to examine into the affairs of the

ROCHDALE INSURANCE COMPANY

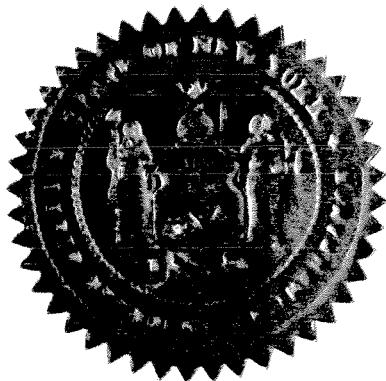
and to make a report to me in writing of the condition of the said

Company

with such other information as she 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 10th day of September, 2004





GREGORY V. SERIO
Superintendent of Insurance