

REPORT ON EXAMINATION

OF THE

ADIRONDACK INSURANCE EXCHANGE

AS OF

DECEMBER 31, 2013

DATE OF REPORT

FEBRUARY 10, 2014

EXAMINER

JOHN J. D'AMATO, CPA, CFE, MCM

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

February 10, 2014

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31083 dated December 17, 2013, attached hereto, I have made an examination into the condition and affairs of Adirondack Insurance Exchange as of December 31, 2013, and submit the following report thereon.

Wherever the designation “the Company” or “ADIEX” or “the Exchange” appears herein without qualification, it should be understood to indicate Adirondack Insurance Exchange.

Wherever the term “Department” or “NYDFS” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s home office located at 120 Broadway, New York, NY 10271.

1. SCOPE OF EXAMINATION

The Department performed a single-state examination of Adirondack Insurance Exchange. The previous examination was conducted as of December 31, 2008. This examination covered the five year period from January 1, 2009 through December 31, 2013. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

Concurrently with the examination of Adirondack, the Department performed a multi-state examination of the Tower Group Insurance Companies, of which Tower Group, Inc. is the ultimate parent of Adirondack. New York was the coordinating state with the following states participating in the examination: California¹, Florida, Illinois, Maine, Massachusetts, New Hampshire and New Jersey.

The examination was performed concurrently with the examinations of the following insurers:

New York Domiciled Insurance Companies

- CastlePoint Insurance Company (“CPIC”) [NAIC #: 17205]
- Hermitage Insurance Company (“HIC”) [NAIC #: 18376]
- Tower Insurance Company of New York (“TICNY”) [NAIC #: 44300]

Florida Domiciled Insurance Companies

- CastlePoint Florida Insurance Company (“CPFIC”) [NAIC #: 13599]

Illinois Domiciled Insurance Companies

- CastlePoint National Insurance Company (“CPNIC”) [NAIC #: 40134]

Maine Domiciled Insurance Companies

- North East Insurance Company (“NEIC”) [NAIC #: 24007]
- York Insurance Company of Maine (“YIC”) [NAIC #: 31267]

Massachusetts Domiciled Insurance Companies

- Massachusetts Homeland Insurance Company (“MHIC”) [NAIC #: 40320]
- Tower National Insurance Company (“TNIC”) [NAIC #: 43702]

New Hampshire Domiciled Insurance Companies

- Mountain Valley Indemnity Company (“MVIC”) [NAIC #: 10205]

New Jersey Domiciled Insurance Companies

- New Jersey Skylands Insurance Association (“NJSIA”) [NAIC #: 11454]
- New Jersey Skylands Insurance Company (“NJSIC”) [NAIC #: 11453]
- Preserver Insurance Company (“PIC”) [NAIC #: 15586]

¹ - While the California Department of Insurance does not have any domestic insurers within the Tower Insurance Group (“the Group”), they participated on this examination because the Group is considered to be a “commercially domiciled insurer” in California per California Insurance Code Section 1215.13.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment and an evaluation based upon the ultimate parent company’s, Tower Group International, Ltd. (“TGIL”), Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Adirondack Insurance Exchange (“ADIEX”) was incorporated under the laws of the State of New York on May 25, 2006. It became licensed on May 25, 2006 and commenced business on the same date. The Exchange was organized by White Mountains Insurance Group, Ltd., Bermuda (“White Mountains”) with an initial surplus to policyholders of \$70,700,000. The initial surplus was provided by Homeland Insurance Company of New York (“HICNY”), a subsidiary of White Mountains, pursuant to a loan agreement conforming to Section 1307 of the New York Insurance Law, which provides that such loan may only be repaid out of free and divisible surplus of such insurer with the approval of the superintendent. The surplus note bears interest at prime plus 1% divided by 1 minus the corporate income tax rate of 35% and at no time may exceed the maximum rate as described under Section 5-501 of the New York General Obligations Law. Interest payments have not been approved and any interest due from ADIEX has not been reported as income nor has it been accrued as an addition to the principal or notional amount of the instrument.

On July 1, 2010 Tower Group, Inc. (“TGI”) acquired the personal lines companies of OneBeacon Insurance Group, a subsidiary of White Mountains, which included ADIEX and its attorney in fact, Adirondack AIF, LLC (“AAIF”). In conjunction with the sale, the surplus note issued by HICNY was cancelled, and replacement notes in the aggregate amount of \$70,700,000 were issued by ADIEX to various affiliate insurance companies of TGI.

On February 1, 2012, ADIEX purchased 100% of the shares of Mountain Valley Indemnity Company (“MVIC”) from affiliate Preserver Group, Inc. (“PIC”) in the amount of \$19.4 million, which represented MVIC’s adjusted statutory surplus as of January 31, 2012. ADIEX acquired MVIC to write personal lines business in states where it is not licensed allowing ADIEX to expand its platform geographically through reinsurance of the MVIC’s personal lines writings. ADIEX and MVIC entered into an intercompany pooling arrangement on January 1, 2012 sharing 90% and 10%, respectively, of the combined underwriting results excluding portfolio transactions.

A. Management

ADIEX does not have a board of directors (“Board”), but its subscribers are to select an Advisory Committee per the Rules of the Advisory Committee of ADIEX. The Advisory Committee shall consist of at least nine and not more than twelve members elected by subscribers, two-thirds of

whom are to be subscribers and not more than one-third that may be members of the Adirondack AIF, LLC (“the attorney-in-fact” or “AIF”) or from an affiliate of the attorney-in-fact. At December 31, 2013, the Advisory Committee was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Bruce W. Sanderson* North Caldwell, New Jersey	President, Hermitage Insurance Company, member of AIF
Gregory A. Meyer Glen Ellyn, Illinois	President, CPIC, member of AIF
Louis Atti, Chairman Angola, New York	Vice President, ENB Insurance Agency, Inc.
David Bauer Albany, New York	President, Capital Bauer Insurance Agency, Inc.
Joseph Tedesco Harrison, New York	Vice President, DeRosa, Rockefeller, Sohigian, Werdal Agency
Mark McDonnell, New York, NY	Vice President, Personal Lines Sales, TGIL
Peter Harris, New York, NY	President, Northwoods Corporation
Elizabeth Gardner South Hampton, New York	Operations Manager, Maran Corporate Risk Associates, Inc.
John V. Stype Aquebogue, New York	Chief Operating Officer, Val, Stype & Sons, Inc.

* Bruce Sanderson submitted his resignation, as President of Adirondack AIF, LLC and a member of the Advisory Committee, to the Advisory Committee prior to the February 2, 2014 meeting. Brian Connors, employed by TGIL, was appointed an Advisory Committee member to fill the vacancy of Mr. Sanderson.

A review of the minutes of the Advisory Committee meetings held during the examination period indicated that the annual meetings were generally well attended and each advisory committee member had an acceptable record of attendance.

It is noted that the Company is in violation of Section 312(b) of the New York Insurance Law that states, in part:

"A copy of the report 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 obtaining and retaining in its files signed statements from each member of the board of directors that they have received and read the prior report on examination.

As of December 31, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Bruce W. Sanderson*	President
William E. Hitselberger	Executive Vice President and Chief Financial Officer
William F. Dove	Senior Vice President and Chief Actuary
Gregory A. Meyer	Senior Vice President
Vito A. Nigro	Treasurer
Elliot S. Orol	Senior Vice President, General Counsel and Secretary

* As indicated above Bruce Sanderson submitted his resignation, as President of Adirondack AIF, LLC prior to the February 2, 2014 meeting. Mark McDonnell was appointed as President of Adirondack AIF.

B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed to write business only in the state of New York.

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>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
26	Gap

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 \$9,900,000.

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 Premiums</u>	<u>Premiums Written in New York State as a percentage of Total Premium</u>
2009	\$169,316,368	\$169,316,368	100.0%
2010	\$150,204,243	\$150,216,275	94.43%
2011	\$139,918,472	\$139,937,517	97.97%
2012	\$150,739,009	\$150,739,009	100.0%
2013	\$159,630,538	\$159,630,538	100.0%

The Exchange primarily writes package insurance, homeowners insurance and auto insurance. In 2013, homeowners multiple peril (43%), private passenger auto liability (36%) and auto physical damage (13%) accounted for 92% of the direct premiums written. The Exchange sells its insurance products through a network of independent agents targeting markets in the state of New York. It is noted that for calendar years 2010 and 2011, the Company wrote a small amount of business outside of the state of New York in violation of Section 1102(b) of the New York Insurance Law, which states:

“No corporation organized under any law of this state shall do an insurance business outside this state unless so authorized pursuant to the provisions of this chapter or exempted by the provisions of this chapter from such requirement.”

It is therefore recommended that the Exchange comply with Section 1102(b) of the New York Insurance Law.

C. Reinsurance

The Exchange had no assumed reinsurance business as of December 31, 2013.

Effective January 1, 2012, the Exchange entered into an inter-company pooling agreement with its insurance subsidiary MVIC to pool the underwriting experience of the two entities. The Exchange is a risk sharing participant in a pool with its affiliate MVIC.

The participating percentages of each pool member as of December 31, 2013 were as follows:

<u>Company</u>	<u>State of Domicile</u>	<u>NAIC No.</u>	<u>Pooling Percentage</u>
Adirondack Insurance Exchange	NY	24007	90%
Mountain Valley Indemnity Company	NH	10205	<u>10%</u>
			100%

After recording the assumed transactions noted above, the Exchange records 100% of the reinsurance activity assumed from or ceded to non-affiliated reinsurers. The Exchange remaining net underwriting activity, after deducting all external reinsurance, is then retroceded to the pool member in accordance with each entity's pool percentage. AIE is the only pool member that is a party to any reinsurance agreements with non-affiliated reinsurers covering business subject to the reinsurance agreement and has a contractual right of direct recovery from the non-affiliated reinsurer per the terms of the reinsurance agreement.

MVIC did not cede any underwriting results to the pool in 2013.

The company has structured its ceded reinsurance program exposure as follows:

Reciprocal Homeowners Quota Share 1

<u>Type</u>	<u>Limit</u>
40% Quota Share	Property - 2,500,000 Personal Liability – 1,000,000 Occurrence Limit – 250,000,000

ADIEX Internal Excess Program

<u>Layer</u>	<u>Limit</u>	<u>Retention</u>	<u>Maximum</u>	<u>Reinsurer</u>
Casualty Excess	\$4,000,000	\$1,000,000	\$12,000,000	TICNY
Property per risk	4,000,000	1,000,000	16,000,000	TICNY

ADIEX Corporate Excess of Loss Program

<u>Layer</u>	<u>Limit</u>	<u>Retention</u>
Casualty Clash Excess	\$ 5,000,000	\$ 5,000,000
1st Property Excess	5,000,000	5,000,000
2nd Property Excess	20,000,000	10,000,000

Reciprocal Property Catastrophe Program

<u>Layer</u>	<u>Limit</u>	<u>Retention</u>
1st Layer	\$ 10,000,000	\$ 10,000,000
2nd Layer	30,000,000	20,000,000
3rd Layer	40,000,000	50,000,000
4th Layer	<u>90,000,000</u>	<u>90,000,000</u>
	\$170,000,000	\$ 10,000,000

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Material letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133.

All material ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

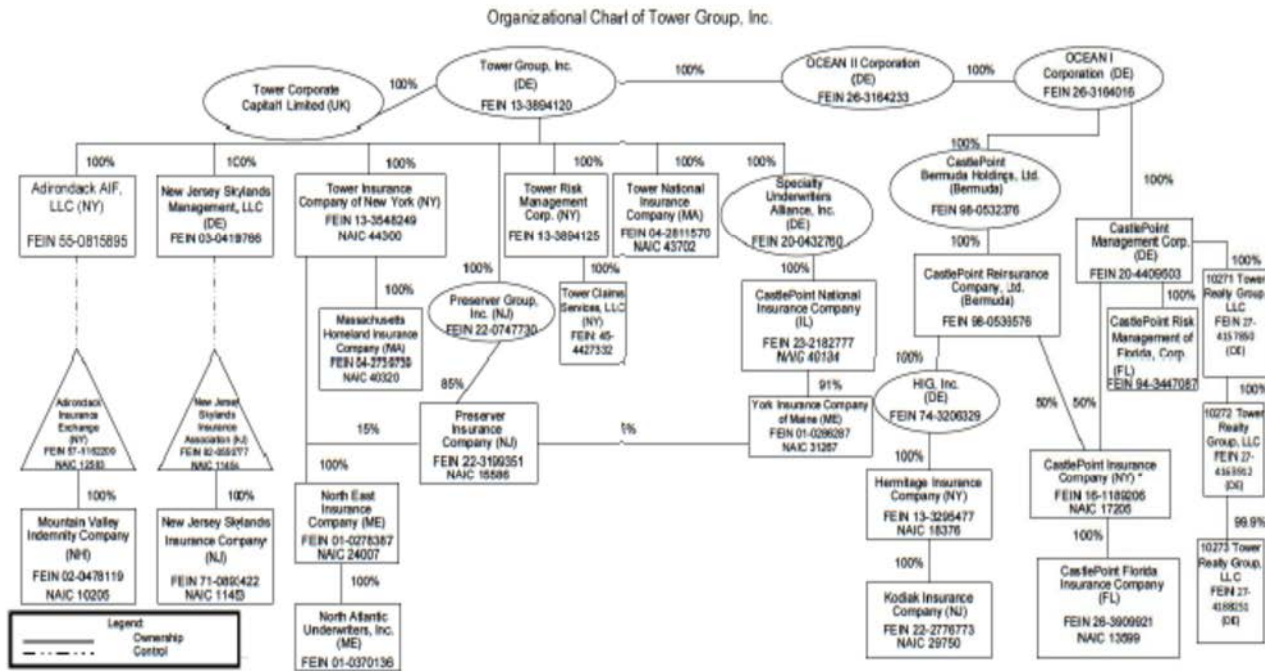
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

D. Holding Company System

The Exchange is controlled by the Adirondack AIF, LLC (AAIF), its Attorney-in-Fact. AAIF is a wholly owned subsidiary of TGI, which is ultimate controlled by TGIL.

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 except for the 2010 statement.

The following organizational chart displays the chain of ownership of subsidiary and affiliated companies which members of Tower Group, Inc. at December 31, 2013:



As of December 31, 2013, the Company was party to the following agreements with other members of its holding company system:

Service and Expense Sharing Agreements between AIE and Mountain Valley Indemnity Company.

Effective January 31, 2012, the Exchange entered into a Service and Expense Sharing Agreement with MVIC. According to the agreement, the Exchange agrees to perform or oversee the performance of all functions related to the conduct of property and casualty business on behalf of MVIC including but not limited to:

1. Underwriting and marketing;
2. Policy issuance, billing, and collection;
3. State filing and regulatory compliance;
4. Loss prevention, premium audit;

5. Claims services;
6. Legal;
7. Corporate Services, accounting, human resources and IT services

Tax Allocation Agreement

Effective 2012, the Company entered into a tax allocation agreement with MVIC to jointly file consolidated federal income tax returns in accordance with the relevant Internal Revenue Service regulations. The Company never notified the Department of its intention to enter into a tax allocation agreement with its subsidiary.

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

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	184.0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	81.0%
Premiums in course of collection to surplus as regards policyholders	7.0%

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	\$406,043,418	65.44%
Other underwriting expenses incurred	254,900,816	41.08%
Net underwriting loss	<u>(40,452,631)</u>	<u>(6.52)%</u>
Premiums earned	<u>\$620,491,603</u>	<u>100.00%</u>

F. Accounts and Records

The Company does not have any employees and ultimately relies upon its ultimate parent, TGIL, to perform all administrative and accounting functions. TGIL utilizes SunGard for all accounts payable and general ledger functions. Due to various acquisitions over the TGIL's life span, it has seven different policy administration applications, fifteen claims/loss administration applications and ten other applications utilized to aggregate all information from the policy and claims applications for reporting purposes, issuing payments and quotes and billings.

There were significant material weaknesses noted regarding internal controls over the above systems.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$158,484,983	\$0	\$158,484,983
Preferred stocks (stocks)	884,800	0	884,800
Common stocks (stocks)	19,598,876	2,141,292	17,457,584
Cash, cash equivalents and short-term investments	(802,180)	0	(802,180)
Subtotals, cash and invested assets	\$178,166,479	\$2,141,292	\$176,025,187
Investment income due and accrued	1,551,697	0	1,551,697
Uncollected premiums and agents' balances in the course of collection	5,745,575	1,802,029	3,943,546
Deferred premiums, agents' balances and installments booked but deferred and not yet due	23,517,852	0	23,517,852
Amounts recoverable from reinsurers	3,092,729	0	3,092,729
Current federal and foreign income tax recoverable and interest thereon	1,002,694	0	1,002,694
Sundry balances	1,197,395	0	1,197,395
Miscellaneous receivable – involuntary pool	326,916	0	326,916
Prepaid expenses	113,514	113,514	0
Total Assets	<u>\$214,714,851</u>	<u>\$4,056,835</u>	<u>\$210,658,016</u>

Liabilities, surplus and other fundsLiabilities

Losses and Loss Adjustment Expenses	\$58,042,601
Commissions payable, contingent commissions and other similar charges	2,158,718
Other expenses (excluding taxes, licenses and fees)	1,145,213
Taxes, licenses and fees (excluding federal and foreign income taxes)	(233,182)
Net deferred tax liability	15,796,059
Unearned premiums	56,380,916
Advance premium	1,155,983
Ceded reinsurance premiums payable (net of ceding commissions)	4,234,094
Funds held by company under reinsurance treaties	18,635
Amounts withheld or retained by company for account of others	126
Payable to parent, subsidiaries and affiliates	8,429,579
Sundry Liabilities	196,968
NYAIP liability	<u>3,760,831</u>
Total liabilities	<u>151,086,541</u>

Surplus and Other Funds

Surplus notes	70,700,000
Unassigned funds (surplus)	<u>(11,128,525)</u>
Surplus as regards policyholders	<u>59,571,475</u>
Total Liabilities, surplus and other funds	<u>\$210,658,016</u>

Note: The Internal Revenue Service has never audited the Exchange's Federal Income Tax returns.

B. Statement of Income

The net income for the examination period was \$15,476,805 as detailed below.

Underwriting Income

Premiums earned		\$620,491,603
Deductions:		
Losses and loss adjustment expenses incurred	\$404,107,418	
Other underwriting expenses incurred	<u>254,900,816</u>	
Total underwriting deductions		<u>659,008,234</u>
Net underwriting gain or (loss)		(38,516,631)

Investment Income

Net investment income earned	37,166,119	
Net realized capital gain	<u>14,786,153</u>	
Net investment gain or (loss)		51,952,272

Other Income

Net gain or (loss) from agents' or premium balances charged off	(6,372)	
Finance and service charges not included in premiums	2,271	
Aggregate write-ins for miscellaneous income	<u>12,307</u>	
Total other income		<u>8,206</u>
Net income after dividends to policyholders but before federal and foreign income taxes		13,443,847
Federal and foreign income taxes incurred		<u>(2,032,958)</u>
Net Income		<u>\$15,476,805</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$6,261,807 during the five year examination period January 1, 2009 through December 31, 2013, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2008				\$65,833,282
		<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$15,476,805			
Net unrealized capital gains or (losses)			\$1,798,413	
Change in net deferred income tax			9,679,722	
Change in non-admitted assets			1,543,095	
Aggregate write-ins for gains and losses in surplus	<u>0</u>		<u>8,717,382</u>	
Net decrease in surplus	\$15,476,805	\$21,738,612		<u>(6,261,807)</u>
Surplus as regards policyholders per report on examination as of December 31, 2013				<u>\$59,571,475</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$58,042,601 is the same as reported by the Company as of December 31, 2013. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

5. SUBSEQUENT EVENTS

Acquisition/Merger Agreement

On January 3, 2014, TGIL, the ultimate parent of the Company entered into a Merger Agreement (“the Merger Agreement”) with ACP Re, Ltd. (“ACP Re”) and London Acquisition Company, LTD (“LACL”), a wholly owned subsidiary of ACP Re. According to the Merger Agreement, ACP Re would acquire 100% of the outstanding stock of TGIL for \$3 per share (an aggregate value of about \$172.1

million). Additionally, ACP Re subsidiaries, AmTrust Financial Services (“AmTrust”) would acquire the renewal rights and assets of TGIL’s commercial lines insurance operations, and specialty personal-lines insurer National General Holdings Corporation (“NGHC”), would acquire the renewal rights and assets of TGIL’s personal lines insurance operations. According to the terms of the Merger Agreement, TGIL would be the surviving corporation in the merger and become a wholly-owned subsidiary of ACP Re.

The Merger Agreement was approved by the respective Companies’ Board of Directors and was conditioned upon certain criteria being met, which included but was not limited to the approval of TGIL’s shareholders, government approvals and each party’s compliance with covenants and agreements contained in the Merger Agreement.

An amendment to the Merger Agreement was announced on May 8, 2014, which included but was not limited to a reduction of the per share price to \$2.50, a reduction of the termination fee TGIL would be required to pay under certain circumstances, an extension of the shareholder meeting to vote on the merger to no later than November 15, 2014, eliminated the condition that at least 85% of shareholders had to approve the merger and that further adverse developments of the insurance companies’ reserves would not be an influential factor in the termination of the agreement.

On August 6, 2014 the Company’s shareholders approved and adopted the Merger Agreement, as amended pursuant to Amendment No. 1 to the Agreement and Plan of Merger, by and among the Company, ACP Re, Ltd. and LACL, and the agreement between the Company, ACP Re, Ltd. and LACL required by Section 105 of the Bermuda Companies Act of 1981, as amended.

By letter dated September 12, 2014 (the “Approval Letter”), the NYDFS approved ACP Re’s acquisition of TGIL New York insurers: Tower Insurance Company of NY, Hermitage Insurance Co. and Castle Point Insurance Company.

On September 15, 2014, the Merger Agreement of TGIL was completed.

The merger agreement was subject to various transactions that involved the administration and management of the TGIL’s run-off of its legacy business, providing stop loss coverage and prospectively managing and reinsuring the commercial and personal business written by the New York insurers and the other TGIL’s companies. A brief description of the reinsurance agreements follows:

Master reinsurance agreement: Pursuant to this agreement, TGIL’s insurers would agree to cede 100% of their commercial lines of business to Technology Insurance Company an affiliate of AM Trust and 100%

of their personal lines of business to Integon National Insurance Company, an affiliate of National General Holding Company. The cessions will exclude certain third party assumed reinsurance business. Simultaneously, the two quota share reinsurance agreements and cut through endorsements related to the commercial and personal lines dated January 3, 2014, were terminated on a run-off basis.

Loss Portfolio Transfer: Upon execution of the merger agreement each TGIL U.S. insurer would enter into a Loss Portfolio Transfer (LPT) with Castle Point Re (CP Re) an affiliated entity of TGIL domiciled in Bermuda. According to the LPT, CP Re would assume all insurance liabilities of the TGIL's U.S. insurers as of the closing date and cash and invested assets equal to the assumed liabilities. Once, the LPT agreement becomes effective, the NY insurers, TICNY, HIC and CPIC will have no claims liabilities.

Aggregate Stop Loss Agreement: Upon execution of the merger agreement AmTrust International Insurance, Ltd. ("AII"), a Bermuda reinsurer, and National General Re, Ltd. ("NGR"), a Bermuda reinsurer, as 50% participants, entered into a \$250 million Aggregate Stop Loss Reinsurance Agreement with CP Re. Under this agreement AII and NGR will reinsure CP Re (which, pursuant to the LPTA above, will have assumed all TGIL U.S. insurers liabilities) against adverse development up to a limit of \$250 million. The coverage attaches at the first dollar of adverse development, based on the TGIL U.S. insurers' liabilities as of the closing of the Tower transactions.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three 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 Advisory Committee formally vote and approve the Exchange's investment transactions at every meeting and that the minutes indicate such approvals to ensure full compliance with Section 1411(a) of New York Insurance Law.	4
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. It was recommended that the Exchange exhibit greater care in the preparation of its filed annual statement.	11
The Company has complied with this recommendation.	
ii. It was recommended that the Exchange comply with Section 1301(a)(6) and going forward report all uncollected premium over ninety days past due as non-admitted assets in future annual statements filed with the Department.	11
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 comply with Section 312(b) of the New York Insurance Law by obtaining and retaining in its files signed statements from each member of their board of directors that they have received and read the prior report on examination.	6
B.	<u>Territory and Plan of Operation</u>	
	It is recommended that the Company comply with Section 1102 (b) of the New York Insurance Law.	7
C.	<u>Holding Company System</u>	
	It is recommended that the Company comply with Section 1608(e)(4) of the New York Insurance Law and notify the Department in writing at least 30 days prior to entering into a tax allocation agreement with its subsidiary.	11

Respectfully submitted,

John J. D'Amato, CPA, CFE, MCM
Examiner

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

John J. D'Amato, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

John J. D'Amato

Subscribed and sworn to before me

this _____ day of _____, 2016.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

John Damato

as a proper person to examine the affairs of the

Adirondack Insurance Exchange

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

COMPANY

with such other information as he shall deem requisite.

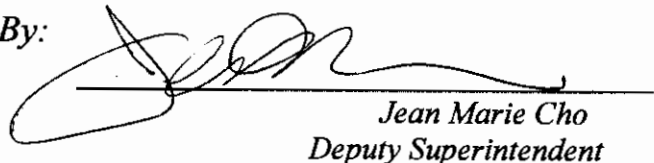
*In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York*

this 17th day of December, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:


Jean Marie Cho
Deputy Superintendent