REPORT ON EXAMINATION

OF THE

CASTLEPOINT INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

| | |
|---|---|
| DATE OF REPORT | MAY 19, 2011 |
| EXAMINER | GLENDA GALLARDO |

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

May 19, 2011

Honorable James J. Wrynn
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 30443 dated December 10, 2009, attached hereto, I have made an examination into the condition and affairs of CastlePoint Insurance Company as of December 31, 2009, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualifications, it should be understood to indicate CastlePoint 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 home office located at 120 Broadway, New York, NY 10271.

## 1. SCOPE OF EXAMINATION

The Department has performed a multi-state examination of CastlePoint Insurance Company. The previous examination was conducted as of December 31, 2006. This examination covered the three-year period from January 1, 2007 through December 31, 2009. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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. 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 Financial Condition Examiners Handbook of the NAIC:

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

The Company was incorporated under the laws of the State of New York on August 28, 1922, as a co-operative fire insurance company under the name of the Surety Co-operative Fire Insurance Company. Subsequently, Christiania Insurance Company purchased the Company, then known as Surety Reinsurance Company, and assumed its entire book of business. On February 17, 1993, the Company was relicensed as a stock property and casualty insurance company. On January 1, 1997, Folksamerica Reinsurance Company purchased Christiania Insurance Company as well as the Company.

On May 29, 1998, the Company was purchased by Lawrenceville Holdings, Inc. ("LHI"), a New Jersey corporation ultimately controlled by Medical Inter-Insurance Exchange ("MIIX") of New Jersey. LHI owned 100% of the outstanding stock of the Company. The Company was then granted permission to change its name to MIIX Insurance Company of New York.

On June 29, 2006, Tower Group, Inc. ("TGI"), a Delaware corporation purchased from LHI all of the issued and outstanding stock of the Company. The Company was then granted permission to change its name to Tower Indemnity Insurance Company of New York.

On December 4, 2006, CastlePoint Management Corp., a Delaware Corporation purchased from TGI all of the issued and outstanding capital stock of Tower Indemnity Insurance Company of New York. The Company was then granted permission to change its name to CastlePoint Insurance Company.

On February 5, 2009, Tower Group Inc. and Ocean I Corporation, a wholly-owned indirect subsidiary of TGI, completed the acquisition of the Company pursuant to the terms and conditions of the agreement and plan of merger dated as of August 4, 2008.

At December 31, 2009, capital paid in was $4,000,000 consisting of 100,000 shares of $40 par value per share common stock. Gross paid in and contributed surplus was $114,470,619. Gross paid in and contributed surplus increased by $111,752,591 during the examination period, as follows:

| Year | Description | | Amount |
|---|---|---|---|
| 2006 | Beginning gross paid in and contributed surplus | | $ 2,718,028 |
| 2007 | Surplus contribution | $ 80,422,064 | |
| 2008 | Surplus contribution | 30,000,000 | |
| 2009 | Surplus contribution | 1,330,527 | |
| | Total Surplus Contributions | | 111,752,591 |
| 2009 | Ending gross paid in and contributed surplus | | $114,470,619 |

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-one members. The board meets five times during each calendar year. At December 31, 2009, the board of directors was comprised of the following thirteen members:

| Name and Residence | Principal Business Affiliation |
|---|---|
| Salvatore V. Abano<br>Milltown, NJ | Senior Vice President and Chief Information Officer,<br>Tower Insurance Company of New York |
| Francis M. Colalucci<br>New York, NY | Senior Vice President,<br>Tower Insurance Company of New York |
| Brian W. Finkelstein<br>Rye Brook, NY | Managing Vice President and Controller,<br>Tower Insurance Company of New York |
| Michael H. Lee<br>New York, NY | President and Chief Executive Officer,<br>Tower Insurance Company of New York |
| Gary S. Maier<br>Tenafly, New Jersey | Senior Vice President and Chief Underwriting Officer,<br>Tower Insurance Company of New York |
| Scott T. Melnik<br>Kings Park, NY | Managing Vice President,<br>Tower Insurance Company of New York |
| Elliot S. Orol<br>New York, NY | Senior Vice President, General Counsel and Secretary,<br>Tower Insurance Company of New York |
| Christian K. Pechmann<br>Mendham, NJ | Senior Vice President,<br>Tower Insurance Company of New York |

| Name and Residence | Principal Business Affiliation |
|---|---|
| Laurie A. Ranegar<br>New Hope, PA | Senior Vice President, Operations,<br>Tower Insurance Company of New York |
| Bruce W. Sanderson<br>North Caldwell, NJ | Managing Vice President, Field Management,<br>Tower Insurance Company of New York |
| Thomas H. Song<br>South Orange, NJ | Managing Vice President,<br>Tower Insurance Company of New York |
| Joel S. Weiner<br>New Hope, PA | Senior Vice President, Strategic Planning and Actuarial,<br>Tower Insurance Company of New York |
| Catherine M. Wragg<br>Jersey City, NJ | Managing Vice President, Human Resources and Administration,<br>Tower Insurance Company of New York |

When reviewing the minutes, the examiner noted that the Company did not hold regular board meetings during the period covered by this examination. In lieu of formal board meetings, the Company's business was conducted through "Action by Unanimous Consent of Directors without a Meeting."

It is the Department's position that there should be at least one annual meeting of the Company's Board of Directors and any "Action by Unanimous Consent of Directors without a Meeting" should be limited to emergency situations only. 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 have regular meetings in which they set forth their views on relevant matters so that they may reach appropriate decisions. It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its by-laws and maintain complete minutes of such proceedings.

As of December 31, 2009, the principal officers of the Company were as follows:

| Name | Title |
|---|---|
| Michael H. Lee | President and Chief Executive Officer |
| Francis M. Colalucci* | Treasurer and Chief Financial Officer |
| Joel S. Weiner | Senior Vice President, Chief Actuary and Chief Risk Officer |
| Elliot S. Orol | Senior Vice President, General Counsel and Secretary |
| Gary S. Maier | Chief Underwriting Officer |

*Mr. Colalucci resigned in early 2010 and was replaced by William Hitselberger.

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in New York and New Jersey.

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

| Paragraph | Line of Business |
|---|---|
| 3 | Accident and health |
| 4 | Fire |
| 5 | Miscellaneous property |
| 6 | Water damage |
| 7 | Burglary and theft |
| 8 | Glass |
| 9 | Boiler and machinery |
| 10 | Elevator |
| 11 | Animal |
| 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 |
| 22 | Residual value |

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 $6,000,000.

CastlePoint Insurance Company writes traditional and specialty program business managed by CastlePoint Management Corp. and produced mostly by Tower Risk Management Corp. as well as other general agents. The Company targets programs that are not exposed to catastrophe losses and typically demonstrate shorter-tailed characteristics. The Company offers commercial package, fire and allied lines, commercial general liability, workers' compensation, homeowners, professional liability, commercial and personal inland marine, and commercial and personal automobile. The Company is authorized to write business in New York and New Jersey on an admitted basis.

Effective February 5, 2009, the Company was added to Tower Insurance Company of New York’s inter-company pooling agreement, retroactive to January 1, 2009.

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

| Calendar Year | New York State | Total Premiums | Premiums Written in New York State as a Percentage of Total Premium |
|---|---|---|---|
| 2007 | $ 77,266,046 | $ 86,604,324 | 89.22% |
| 2008 | $160,927,068 | $183,257,868 | 87.81% |
| 2009 | $160,295,957 | $191,943,719 | 83.51% |

## C. Reinsurance

Assumed reinsurance accounted for 11% of the Company’s gross premium written at December 31, 2009, excluding business assumed via the inter-company pooling agreement. The Company’s assumed reinsurance business has remained stable since the last examination. The Company’s assumed business relates in part to the participation in a mandated pool and the assumption of certain specialty programs. The Company utilizes reinsurance accounting as defined in NAIC Accounting Practices and Procedures Manual Statements of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

### 90% Quota Share Reinsurance Agreement

Effective February 19, 2009, the Company entered into a 90% quota share reinsurance agreement with CastlePoint Florida Insurance Company (“CPFIC”), whereby CPFIC cedes 90% of the new and renewal policies identified as workers’ compensation and trucking liability, produced and written on behalf of CPFIC by Aequicap CP Services, Inc. The agreement was amended to revise the reinsurance coverage and termination provisions. The 90% quota share reinsurance agreement and the amendments were approved by the Department pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

### Inter-Company Pooling Agreement

Effective January 1, 2008, Tower Insurance Company of New York (“TICNY”), an affiliate of the Company, functioning as the pool manager, entered into an inter-company pooling agreement (the “Pooling Agreement”) with several of its insurance affiliates: Tower National Insurance Company

("TNIC"), Preserver Insurance Company ("PIC"), North East Insurance Company ("NEIC"), and Mountain Valley Insurance Company ("MVIC") (collectively, the "pool members"). On February 5, 2009, the date the Company was acquired by Tower Group, Inc. ("TGI"), the Pooling Agreement was amended to include the Company. On April 1, 2009, the Pooling Agreement was again amended to include Hermitage Insurance Company ("HIC"), as a result of the acquisition of HIC by TGI. On December 31, 2009, the Pooling Agreement was amended to include CastlePoint National Insurance Company ("CPNIC", formerly known as SUA Insurance Company), as a result of the acquisition of CPNIC by TGI.

According to the terms of the Pooling Agreement, the pool members will cede 100% of all their direct and assumed business written to TICNY, which in turn will accept as assumed reinsurance 100% of the net liabilities with respect to policies issued by the pool members. At the same time, TICNY will retrocede to the pool members a percentage of the pooled business (net of internal and external reinsurance) as set forth in the pooling agreement.

Tower Insurance Company of New York will negotiate, obtain and maintain reinsurance on behalf of itself and the pool members with respect to the insurance liability under all policies written by the pool members, including the Company. All ceded balances related to internal and external reinsurance contracts are recorded in the statutory financial statements of TICNY and all reinsurers that are parties to the contracts are included in TICNY's Schedule F. It is noted that the TICNY is the only pool member that establishes a provision for reinsurance.

The agreement and all its amendments were reviewed and approved by the Department pursuant to Section 1505 of the New York Insurance Law.

The participating percentages of each pool member as of December 31, 2009 were as follows:

| Company | State of Domicile | Abbreviation | NAIC# | Pooling Percentage |
|---|---|---|---|---|
| Tower Insurance Company of New York | NY | TICNY | 44300 | 37% |
| CastlePoint National Insurance Company | IL | CNIC | 40134 | 18% |
| CastlePoint Insurance Company | NY | CPIC | 17205 | 16% |
| Hermitage Insurance Company | NY | HIC | 18376 | 13% |
| Preserver Insurance Company | NJ | PIC | 15586 | 7% |
| North East Insurance Company | ME | NEIC | 24007 | 4% |
| Mountain Valley Indemnity Company | NH | MVIC | 10205 | 3% |
| Tower National Insurance Company | MA | TNIC | 43702 | 2% |
| Total | | | | 100% |

The company has structured its ceded reinsurance program to limit its maximum exposure on any one risk as follows:

Net Quota Share Reinsurance Agreement with CastlePoint Reinsurance Company, Ltd.

Effective July 1, 2009, TICNY and its pool members entered into a 50% quota share reinsurance agreement with an affiliated unauthorized reinsurer, CastlePoint Reinsurance Company Ltd. ("CPRE"). A provision of the contract indicates that the parties may agree in writing to adjust the quota share number to any percentage between 25% and 50%. Business covered under this agreement relates to all new and renewed policies written during the term the contract. Cessions under this agreement should be made only after the application of all inuring reinsurance the Company may have in place. Prior to December 31, 2009, TICNY and its pool members were also reinsured by CPRE. The business covered was as follows:

| | |
|---|---|
| • April 1 to June 30, 2006 | In-force, new and renewal premium (30%) |
| • July 1, 2006 to December 31, 2006 | New and renewal (40%) |
| • January 1, 2007 to March 31, 2007 | New and renewal (49%) |
| • April 1, 2007 to June 30, 2007 | New and renewal (40%) |
| • July 1, 2007 to December 31, 2008 | In-force, new and renewal (25%) |

TICNY and its pool members did not reinsure any new and renewal premium in the first six months of 2009.

In addition to the quota share agreement with CPRE, the Company maintains the following reinsurance program both on a proportional and non-proportional basis:

| Type of Treaty | Cession |
|---|---|
| Proportional | |
| 95% Umbrella Quota Share<br>100% Authorized | Covers commercial and personal umbrella 95% any one risk, any one occurrence up to a maximum of $5 million. |
| 80% Umbrella Quota Share (Agency Reinsurance)<br>100% Authorized | Covers umbrella liability and excess liability produced and underwritten by W. H. Greene and Associates.<br>80% quota share subject to a maximum of $5 million; losses from sexual assault subject to an aggregate of 80% of $5 million. Also covers extra contractual obligations not to exceed $5 million. |

| Type of Treaty | Cession |
|---|---|
| Excess Agreement (Agency Reinsurance)<br>100% Authorized | Covers umbrella liability and excess liability produced and underwritten by W. H. Greene and Associates.<br>$5 million excess of $5 million; losses from sexual assault subject to an aggregate of 80% of $5 million. Also covers extra contractual obligations not to exceed $5 million. |
| 50% Liability Quota Share Reinsurance<br>75% Authorized | 50% Quota Share of brokerage business classified by the Company as commercial multiple peril liability and other liability to a maximum of $1 million. |
| Equipment Breakdown Reinsurance<br>100% Authorized | 100% Quota Share for equipment breakdown insurance. |
| Non-Proportional Excess of Loss | |
| Multi-Line Excess of Loss<br>100% Authorized | $1 million per risk/$3 million each occurrence excess of $1 million. (50% participation). |
| Casualty Clash Excess of Loss ( 2 layers)<br>1st Clash 100% Authorized<br>2nd Clash 85% Authorized | $8 million excess of $2 million. (100% participation). |
| Property Excess of Loss (3 layers) | |
| Covers all policies assumed from State National Insurance that is underwritten by Tower Risk Management<br>1st Layer 95% Authorized<br>2nd Layer 91.28% Authorized<br>3rd Layer 81.5% Authorized | $28 million each risk/$31 million aggregate, $31 million for terrorism, $6 million for e-commerce/cyber risk, excess of $2 million. |
| Workers' Compensation Excess of Loss | |
| (4 layers)<br>1st Layer 80% Authorized<br>2nd Layer 85% Authorized<br>3rd Layer 90% Authorized<br>4th Layer 90% Authorized | $38 million excess of $2 million each occurrence. Reinsurers are liable for the limit of liability plus their proportional share of loss expenses subject to a maximum contribution to the loss of $10 million any one employee, any one occurrence. The Reinsurers' limit of liability for terrorism losses would not exceed $30 million. |

| Type of Treaty | Cession |
|---|---|
| Workers' Compensation Excess of Loss (Agency Reinsurance) (3 layers)<br>1st and 2nd Layers 100% Authorized<br>3rd Layer 90% Authorized | Covers business underwritten on behalf of the Company by Midwest General Agency.<br><br>$13 million excess of $1 million any one loss occurrence.<br>1st Layer 50% placed. |
| Specialty Workers' Compensation Excess of Loss (4 layers)<br>1st Layer 60% Authorized<br>2nd Layer 75% Authorized<br>1st Cat Layer 55% Authorized<br>2nd Cat Layer 72.5% Authorized | Covers business classified by the Company as Specialty Workers' Compensation.<br>$24 million excess of $1 million any one loss occurrence.<br>All layers 100% placed in 2009. |
| Inland Marine Excess of Loss (100% Authorized) | Covers business written in conjunction with NBIS Construction and Transportation Underwriters, Inc<br>$9.5 million each loss occurrence excess of $500 thousand, not to exceed $19 million any one occurrence. |
| Catastrophe Excess of Loss | |
| Property Catastrophic Excess of Loss* (4 layers)<br>1st Layer 20.1% Authorized<br>2nd Layer 20.8% Authorized<br>3rd Layer 17.79% Authorized<br>4th Layer 22.13% Authorized | $575 million excess of $75 million.<br>All layers are 100% placed in 2009. |
| Florida Property Catastrophic Excess of Loss (3 layers)<br>1st Layer 75% Authorized<br>2nd Layer 75.83% Authorized<br>3rd Layer 70.87% Authorized | Covers business written through Tower Risk Management.<br>$30 million excess of $5 million each and every loss occurrence. |

* Includes a 40% participation in Layer 1 and a 5% in Layer 4 by CastlePoint Reinsurance Company Ltd.

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. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively. No exceptions were noted.

All 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.

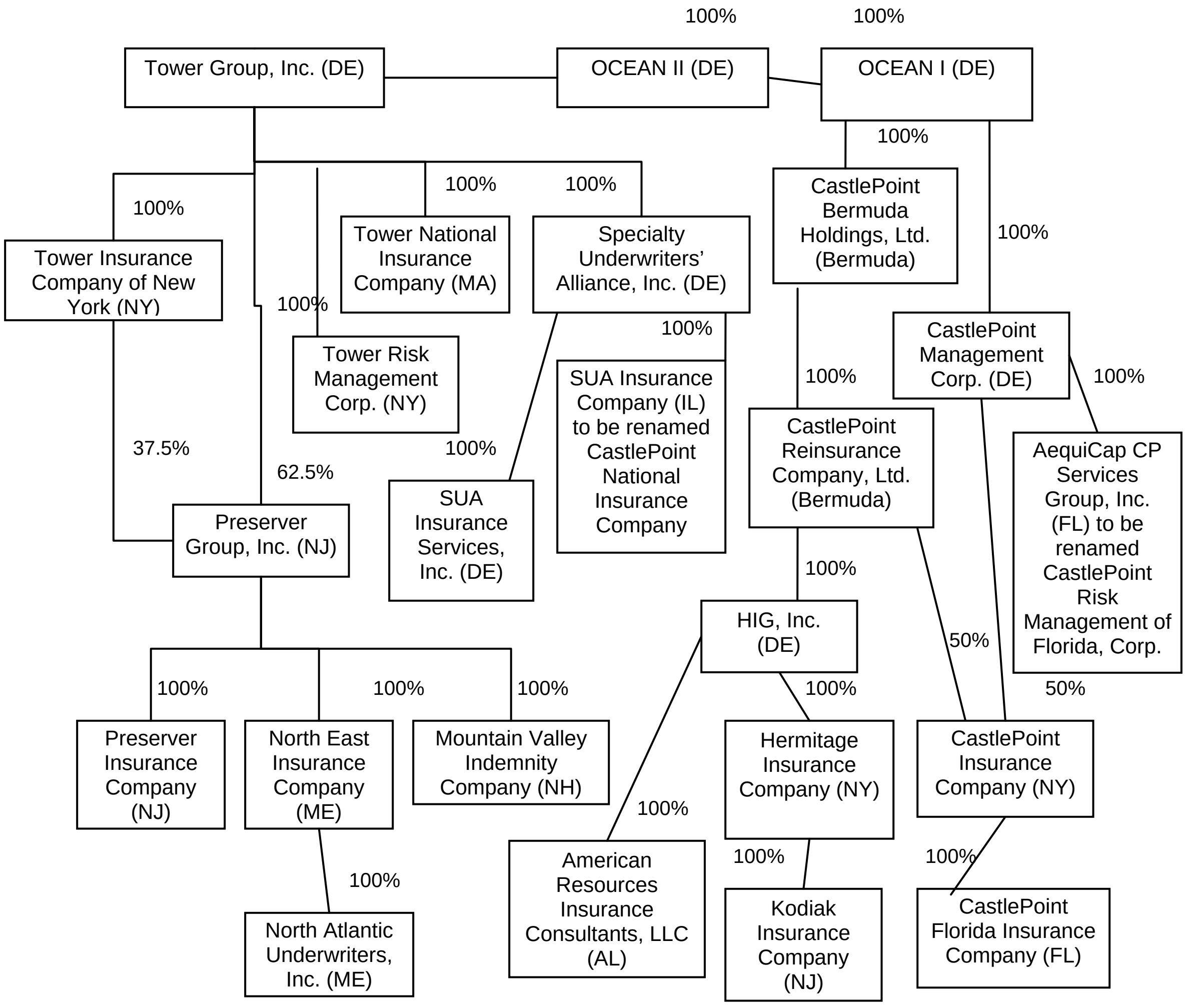
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth 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 paragraph 8 of SSAP No. 62.

## D. Holding Company System

The Company is 50% owned by CastlePoint Management Corporation and 50% by CastlePoint Reinsurance Company, Ltd. Both of these entities are ultimately owned by Tower Group, Inc., a holding company domiciled in the State of Delaware.

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, 2009:




At December 31, 2009, the Company was party to the following agreements with other members of its holding company system:

Service and Expense Sharing Agreements

Effective January 1, 2007, the Company entered into a service and expense agreement with CastlePoint Management Corp. ("CPM") and Tower Insurance Company of New York ("TICNY") to jointly share in the underwriting and claims expenses as well as sharing any profits and losses from rendering services to third parties. According to the terms of the agreement, the following services would be provided or received by either the Company, CMP or TICNY: underwriting and marketing; policy issuance, billing, and collection; state filing and regulatory compliance; loss prevention, premium audit; claims services; administrative services such as human resources, IT and facilities. The agreement was amended to add that all underwriting and claims services provided to the

Company are to be based upon the written criteria, standards and guidelines of the Company. The agreement and the subsequent amendment were non-disapproved by the Department.

It is noted that the Company was not in compliance with Article 2, Section 2.03 (a) of this agreement. This section calls for monthly submissions by TICNY of detailed written estimates of the amounts owed for services and that payments based on those estimates should be made within 15 days following receipt of such estimates. It is recommended that the Company and the participating entities follow the provisions of the agreement as filed pursuant to Section 1505(d)(3) of the New York Insurance Law.

## E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

| | |
|---|---|
| Net premiums written to surplus as regards policyholders | 110% |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 97% |
| Premiums in course of collection to surplus as regards policyholders | 23% |

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

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

| | Amounts | Ratios |
|---|---|---|
| Losses and loss adjustment expenses incurred | $158,260,692 | 60.16% |
| Other underwriting expenses incurred | 123,299,611 | 46.87 |
| Net underwriting loss | (18,508,838) | (7.04) |
| Premiums earned | $263,051,465 | 100.00% |

## F. Accounts and Records

During the review of the Company's premiums billing and collection business function, it was noted that the Company had identified certain un-reconciled differences in the premiums receivable account. The Company has taken steps to resolve this deficiency but it has not yet been able to fully resolve it. It is recommended that the Company continue its remediation efforts in reconciling its premiums receivables.

## 3. FINANCIAL STATEMENTS

### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as determined by this examination and as reported by the Company:

| Assets | Assets | Assets Not Admitted | Net Admitted Assets |
|---|---|---|---|
| Bonds | $217,790,554 | $ 0 | $217,790,554 |
| Preferred stocks | 20,606,910 | 0 | 20,606,910 |
| Common stocks | 9,293,826 | 0 | 9,293,826 |
| Cash, cash equivalents and short-term investments | 17,331,898 | 0 | 17,331,898 |
| Receivable for securities | 75 | 0 | 75 |
| Investment income due and accrued | 2,984,059 | 0 | 2,984,059 |
| Uncollected premiums and agents' balances in the course of collection | 24,781,242 | 1,329,288 | 23,451,954 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 21,358,880 | 0 | 21,358,880 |
| Accrued retrospective premiums | 498,975 | 0 | 498,975 |
| Amounts recoverable from reinsurers | 45,530,076 | 0 | 45,530,076 |
| Other amounts receivable under reinsurance contracts | 5,586,920 | 0 | 5,586,920 |
| Net deferred tax asset | 13,815,836 | 3,122,612 | 10,693,224 |
| Miscellaneous receivable | 786,033 | 574,345 | 211,688 |
| Advances to TPAs | 750,973 | 0 | 750,973 |
| Receivable from residual markets | 532,616 | 3,101 | 529,515 |
| Prepaid expenses | 132,511 | 132,511 | 0 |
| Retroactive reinsurance loss recoverable | 5,051 | 0 | 5,051 |
| Total assets | $381,786,435 | $5,161,857 | $376,624,578 |

Liabilities, Surplus and Other Funds

| | | |
|---|---|---|
| **Liabilities** | | |
| Losses | | $ 89,978,217 |
| Reinsurance payable on paid losses and loss adjustment expenses | | 14,970,586 |
| Loss adjustment expenses | | 20,953,762 |
| Commissions payable, contingent commissions and other similar charges | | 1,151,842 |
| Other expenses (excluding taxes, licenses and fees) | | 2,607,686 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | | 229,120 |
| Current federal and foreign income taxes | | 1,112,713 |
| Unearned premiums | | 54,157,136 |
| Advance premium | | 1,357,046 |
| Ceded reinsurance premiums payable (net of ceding commissions) | | 23,417,130 |
| Funds held by company under reinsurance treaties | | 2,197,944 |
| Amounts withheld or retained by company for account of others | | 12,934 |
| Payable to parent, subsidiaries and affiliates | | 56,478,460 |
| Premium collateral & loss fund deposit | | 2,107,379 |
| Workers' compensation assessment payable | | 2,019,308 |
| State income tax payable | | 476,163 |
| Miscellaneous liabilities | | 151,489 |
| Total liabilities | | $273,378,915 |
| | | |
| **Surplus and Other Funds** | | |
| Effect of adoption of SSAP No. 10R | $ 2,643,791 | |
| Common capital stock | 4,000,000 | |
| Gross paid in and contributed surplus | 114,470,619 | |
| Unassigned funds (surplus) | (17,868,746) | |
| Surplus as regards policyholders | | 103,245,664 |
| | | |
| Total liabilities, surplus and other funds | | $376,624,579 |

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2007 through 2009. 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. Statement of Income

Surplus as regards policyholders increased $94,820,887 during the three-year examination period January 1, 2007 through December 31, 2009, detailed as follows:

| | | |
|---|---|---|
| Underwriting Income | | |
| Premiums earned | | $263,051,465 |
| Deductions: | | |
| Losses incurred | $120,120,489 | |
| Loss adjustment expenses incurred | 38,140,203 | |
| Other underwriting expenses incurred | 123,299,611 | |
| Total underwriting deductions | | 281,560,303 |
| Net underwriting gain or (loss) | | $ (18,508,838) |
| Investment Income | | |
| Net investment income earned | $ 21,091,528 | |
| Net realized capital gain | (14,993,602) | |
| Net investment gain or (loss) | | 6,097,926 |
| Other Income | | |
| Net gain or (loss) from agents' or premium balances charged off | $ (554,251) | |
| Finance and service charges not included in premiums | 461,348 | |
| Retroactive reinsurance and interest on funds held by Company | (145,942) | |
| Total other income | | (238,845) |
| Net income after dividends to policyholders but before federal and foreign income taxes | | $ (12,649,757) |
| Federal and foreign income taxes incurred | | 11,252,664 |
| Net income | | $ (23,902,421) |

| | Gains in Surplus | Losses in Surplus | |
|---|---|---|---|
| Surplus as regards policyholders per report on examination as of December 31, 2006 | | | $ 8,424,777 |
| Net loss | | $23,902,421 | |
| Net transfers (to) from protected cell accounts | | | |
| Net unrealized capital gains or (losses) | | 1,977,758 | |
| Change in net deferred income tax | $ 14,110,332 | | |
| Change in nonadmitted assets | | 7,805,648 | |
| Surplus adjustments paid in | 111,752,591 | | |
| Effect of adoption of SSAP No. 10R | 2,643,791 | 0 | |
| Total gains and losses | $128,506,714 | $33,685,827 | |
| Net increase (decrease) in surplus | | | 94,820,887 |
| Surplus as regards policyholders per report on examination as of December 31, 2009 | | | $103,245,664 |

## 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $110,931,979 is the same as reported by the Company as of December 31, 2009. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company’s internal records and in its filed annual statements.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

| ITEM | | PAGE NO. |
|---|---|---|
| A. | Holding Company System | |
| | It is recommended that the Company finalize a written tax allocation agreement with its parent or any member in its holding company system and file it with the Department pursuant to Department Circular Letter No. 33 (1979). | 8 |
| | The Company has complied with this recommendation. | |

| ITEM | | PAGE NO. |
|---|---|---|
| | It is recommended that the Company draft and file a business service agreement with the Department pursuant to Section 1505 of the New York Insurance Law. | 8 |
| | The Company has complied with this recommendation. | |
| B. | Accounts and Records | |
| | It is recommended that the Company adhere to the NAIC Annual Statement Instructions by classifying balance sheet items under their proper line items and completing all required schedules. | 9 |
| | The Company has complied with this recommendation. | |

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| ITEM | | PAGE NO. |
|---|---|---|
| A. | Management | |
| | It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its by-laws and maintain complete minutes of such proceedings. | 5 |
| B. | Holding Company System | |
| | It is recommended that the Company and the participating entities follow the provisions of the agreement as filed pursuant to Section 1505(d)(3) of the New York Insurance Law. | 14 |
| C. | Accounts and Records | |
| | It is recommended that the Company continue its remediation efforts in reconciling its premiums receivables. | 14 |

Respectfully submitted,

__________/s/_____________
Glenda Gallardo, CFE
Associate Insurance Examiner

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

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

__________/s/_____________
Glenda Gallardo

Subscribed and sworn to before me

this__________ day of ____________________, 2011

*Appointment No.* 30443

*STATE OF NEW YORK*
*INSURANCE DEPARTMENT*

*I,* James J. Wrynn *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

**Glenda Gallardo**

*as proper person to examine into the affairs of the*

**CASTLEPOINT 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* December, *2009*

STATE OF NEW YORK ★ SUPERINTENDENT OF INSURANCE ★ EXCELSIOR

*JAMES J. WRYNN*
*Superintendent of Insurance*