EXAMINATION REPORT

OF

KNIGHTBROOK INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2013 of the

KNIGHTBROOK INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: ______________________

Date: June 15, 2015

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 15th day of June, 2015.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
(302) 674-7300 Dover • (302) 739-5280 fax • (302) 577-5280 Wilmington

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT OF EXAMINATION

OF THE

KNIGHTBROOK INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 15th day of June, 2015

841 Silver Lake Blvd., Dover, DE 19904-2465 • www.delawareinsurance.gov
(302) 674-7300 Dover • (302) 739-5280 fax • (302) 577-5280 Wilmington

TABLE OF CONTENTS

SALUTATION

May 29, 2015

Honorable Karen Weldin Stewart, CIR-ML
Commissioner of Insurance
Delaware Department of Insurance
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 14.029, dated July 11, 2014, an examination has been made of the affairs, financial condition and management of

KNIGHTBROOK INSURANCE COMPANY

hereinafter referred to as "Company" or "KBIC" at the administrative offices of the Company located at 4751 Wilshire Blvd., Suite 111, Los Angeles, California 90010. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination of the Company was conducted by the Delaware Department of Insurance as of December 31, 2008, and covered the four (4) year period from January 1, 2005 to December 31, 2008. This examination covers the five (5) year period from January 1, 2009 through December 31, 2013, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2013. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook* ("NAIC Handbook") and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the State of Delaware. The NAIC Handbook 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 risk within the Company and evaluating its system controls and procedures used to mitigate those risks. The examination also includes an assessment of 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 Delaware State regulations.

All accounts and activities of the Company were considered in accordance with the NAIC Handbook risk focused examination process. The examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, JLK Rosenberger, LLP ("JLKR"). Certain auditor work papers have been incorporated into the examination work papers and have been utilized in determining the scope and areas of emphasis in conducting the examination.

The Company is a direct subsidiary of KnightBrook, LLC and member of NAIC Group Number 1316, KnightBrook Insurance Group ("Group"). Companies in the Group include the Company's wholly owned subsidiary, Guilderland Reinsurance Company and its affiliate Knight Specialty Insurance Company. The examination was not conducted as a coordinated examination and no other companies in the Group were reviewed during this examination.

In addition to items noted in this report, the topics below were reviewed without exception and are included in the work papers of this examination:

Fidelity Bonds and Other Insurance

Pensions, Stock Ownership and Insurance Plans

Statutory Deposits

SUMMARY OF SIGNIFICANT FINDINGS

Loss and Loss Adjustment Expense Reserves

The examination found the Company understated loss and loss adjustment expense reserves as of December 31, 2013 by approximately $37.4 million and $12 million on a gross and net basis, respectively. Therefore;

An examination adjustment was made in order to increase net loss reserves by $12 million as of December 31, 2013.

SUBSEQUENT EVENTS

Subsequent to the examination period ended December 31, 2013, the Company was party to the following transactions:

2013 Annual Statement Amendment and Capital Contribution

On June 19, 2014, the Company amended and restated the originally filed NAIC 2013 Annual Statement due to an additional increase in net incurred but not reported loss reserves of $9 million, a decrease in net income of $9.0 million and a decrease in surplus of $5.9 million. In conjunction with the amendment and restatement, Knight Holdings, Inc. contributed $9 million in additional capital through KnightBrook, LLC in the form of cash. The NAIC Quarterly

Statement as of March 31, 2014, was also amended to reflect the amendment and restatement of the 2013 NAIC Annual Statement filing.

2014 AM Best Downgrade

AM Best issued a report dated November 20, 2014 downgrading the Company from an A- to a B++ Best's Financial Strength Rating. AM Best described the downgrade as follows: "The ratings were placed under review with negative implications in July 2014 following concerns of KBIC's heightened execution risk due to significant business growth in 2013 and the uncertainty regarding loss-reserve and premium adequacy from this new business. These concerns were amplified by sizable adverse loss development experienced in the first quarter of 2014."

Further, AM Best stated "the rating downgrades reflect KBIC's variability in operating results due to continuing unfavorable underwriting and operating performance through Sept. 30, 2014. Also of concern are KBIC's above-average growth and the uncertainty regarding the execution of its business plan in a competitive environment and potential integration risks of future operations, all of which could result in continued pressure on its underwriting margins. KBIC's volatile underwriting performance has been due to a diet of frequent reserve strengthening in recent years. As a result, KBIC has reported significant underwriting losses in the past five years, which have continued into 2014."

2014 Program Changes

Effective December 31, 2014, writings under the Company's Valley View Commercial Auto Program managed under the contract between Knight Management Insurance Services, LLC and Cardigan Management Company, LLC were terminated. The majority of the

Company's other unaffiliated programs were also terminated or not renewed in late 2014 and 2015 as result of the Company's AM Best rating downgrade.

2014 Loss Reserve Strengthening and Capital Contribution

The Company reported loss and loss adjustment expenses reserves of $30.6 million, $31.4 million, $32.6 million and $43.4 million for the first quarter through the fourth quarter of 2014, respectively. The increase in loss and loss adjustment expense reserves from the reported value in the NAIC Quarterly Statement as of September 30, 2014 versus the 2014 NAIC Annual Statement was $10.8 million. On September 30, 2014, Knight Holdings, Inc. contributed $15 million in additional capital through KnightBrook, LLC in the form of a receivable from parent, subsidiaries and affiliates. The receivable was settled in October 2014 in the form of cash.

Change in Ownership Percentages of KnightBrook, LLC

The ownership percentages of the Company's direct parent, KnightBrook, LLC, were materially changed subsequent to the examination period as result of capital contributions received from Knight Holdings, Inc. As of December 31, 2014, Knight Holdings, Inc., Hankey, LLC and Venbrook Insurance Holdings, LLC owned 67.3%, 13.4% and 19.4% of KnightBrook, LLC, respectively.

Knight Insurance Company Multi-Line Quota Share Reinsurance Contract Amendments

The Company issued amendments 6 through 8 to the Multi-Line Quota Share Reinsurance Contract with Knight Insurance Company (KIC) effective February 26, 2014, September 1, 2014, and March 11, 2015, respectively. The following is a summary of each amendment:

- Amendment 6 - The amendment modified and replaced the classes of business covered by the contract. The amendment was subsequently modified and replaced by Amendment 7 to the contract.
- Amendment 7 – The amendment modified and replaced the classes of business covered by the contract to include those classified by the Company as: Property, Casualty, Occupation Benefits or Workers Compensation coverages (except for Title and Life) including but not limited to the Northwestern, Collateral Protection, Guaranteed Auto Protection, Renters Liability Protection, Supplemental Liability Insurance, Personal Accident Coverage/Personal Effects Coverage, Sports Fitness, Public Transportation, Taxi, Paratransit, Surety, Workers Compensation, Occupational Benefits and Native Nations business written by the Company. The amendment also modified one of the exclusion provisions of the contract.
- Amendment 8 – The amendment modified the insolvency provision of the contract.

<u>Interest Paid on Surplus Note</u>

During the first quarter 2014, the Company paid $135.1 thousand in fourth quarter 2013 interest payments on its surplus note with HIC Acceptance, LLC. The interest payment was approved by the Delaware Department of Insurance.

COMPANY HISTORY

The Company was incorporated on December 17, 1934, under the laws of the State of Delaware as a mutual property and casualty reinsurance company. The Company's original name was Excess Mutual Reinsurance Company. As of December 31, 1995, the Company was converted to a stock company and its name was changed to Excess Reinsurance Company. On

July 1, 2008, the Company was acquired by KnightBrook, LLC. Simultaneous to this date, Northwestern Insurance Company, a Pennsylvania domestic insurer, was merged into the Company. On July 21, 2008, the Company was renamed KnightBrook Insurance Company. Since 2008, the Company has primarily operated as a provider of specialized product offerings on a program basis.

CORPORATE RECORDS

The Company's bylaws require its stockholders meet annually on the first Wednesday in April, and require the stockholders elect a Board of Directors and transact other business as applicable. In addition, the Company's bylaws require the first meeting of each newly elected Board of Directors be held immediately following the annual stockholder meeting provided a quorum is present. If no quorum is present, the bylaws require the first meeting be held at a time and place specified by notice of a special meeting of the Board of Directors. Minutes of the stockholder and Board of Directors meetings for the period under examination were requested for review. The Company was unable to provide formally documented minutes or other supporting documentation to evidence the stockholder and Board of Directors meetings for the period under examination. The examination found the Company is not formally holding stockholder and Board of Director meetings as required by its bylaws. In addition, the examination found the Company is not adequately documenting minutes of the meetings. Therefore;

It is recommended the Company begin holding formal stockholder and Board of Director meetings in accordance with its bylaws.

Additionally, it is recommended the Company implement a process to formally document the meetings and actions of the Company's stockholders and Board of Directors.

The examination reviewed the Company's transactions and agreements during the examination period to verify compliance with 18 Del. C. §5005 (a)(2) "Standards and management of an insurer within an insurance holding company system," which requires certain transactions be filed for approval by the Delware Department of Insurance. The examination determined the Company failed to file certain transactions for approval pursuant to Delaware statute including an unfiled affiliated reinsurance agreement and an amendment to a previous filed affiliated reinsurance agreement. Therefore;

> **It is recommended the Company file all applicable unfiled agreements and/or amendments to agreements in accordance with 18 Del. C. §5005 (a)(2) "Standards and management of an insurer within an insurance holding company system."**
>
> **It is recommended the Company implement a process to ensure all applicable agreements are properly filed for approval in accordance with 18 Del. C. §5005 (a)(2) "Standards and management of an insurer within an insurance holding company system."**

MANAGEMENT AND CONTROL

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property, business and affairs of the Company must be managed by a Board of Directors. The Company's bylaws require its Board of Directors consist of not less than six or more than thirteen members, as may be changed from time to time by resolution of the Board of Directors subject to the power of the stockholders to change such actions of the Board of Directors. The bylaws require the Board of Directors be divided into three classes, and each class should be nearly equal in number as possible. In accordance with the bylaws, each year one class of the Board of Directors should be elected for a period of three years so the term of one class expires every year. As reported, Directors serving as of December 31, 2013, are as follows:

Name	Business Affiliation
Don Robert Hankey	Chairman of the Board & Principal Hankey Group of Companies
Eric David Jarvis	President & Chief Executive Officer Knight Insurance Group
Richard Alan Dillon	Chief Financial Officer Knight Insurance Group
William Barry Lopatin	Chairman Venbrook Group
Matthew Lee Sherman	Chief Operating Officer Venbrook Group
Jason Dexter Turner	Chief Executive Officer Venbrook Group

The Company's bylaws also require its Officers be elected or appointed annually by the Board of Directors. Elected or appointed Officers may hold office until their successors are chosen and qualify, and may be removed at any time by an affirmative vote of the majority of the Board of Directors. In accordance with the Company's bylaws, the Officers of the Company may consist of a Chairman of the Board, a President, a Chief Executive Officer, a Vice-President, a Secretary and a Treasurer. The Board of Directors may also elect or appoint additional vice-presidents, one or more assistant secretaries and assistant treasurers, and such other officers, agents, trustees and fiduciaries as deemed necessary. As reported, the primary officers serving as of December 31, 2013 were as follows:

Name	Title
Eric David Jarvis	President and CEO
Jason Dexter Turner	Secretary

Richard Alan Dillon	Treasurer, CFO and Chief Technology Officer
Matthew Lee Sherman	COO
Greg Alan Hill	Assistant Treasurer

As previously stated, the examination found the Company is not formally holding stockholder and Board of Director meetings as required by its bylaws and the Company is not adequately documenting minutes of the meetings. Further, because no minutes are maintained, there is: 1.) no documented evidence the Company's Board of Directors were duly elected each year in accordance with bylaws; 2.) no documented evidence the Company's Officers were properly appointed/elected and changes in the Company's Officers since the prior examination were properly authorized in accordance with the Company's bylaws; and 3.) no formal evidence that investment transactions were approved by the Board of Directors. As a result, the examination found 1.) the Company's Board of Directors were not properly elected in accordance with the Company's bylaws; 2.) the Company's Officers were not properly appointed/elected and termination of certain Officers serving as of the prior examination were not properly terminated in accordance with the Company's bylaws; and 3.) the Company's Board of Directors is not properly approving investment transactions in accordance with 18 Del. C. §1304 "Authorization of Investments," In addition, the examination found the Company is not properly notifying the Commissioner in writing of any change of personnel among its directors or principal officers in accordance with 18 Del. C. §4919 "Change of Directors, Officers; Notice." Therefore;

It is recommended the Company comply with all required provisions of its bylaws including the election of the Board of Directors, the appointment/election of Officers, and termination of Officers.

It is recommended the Company implement a formal process to notify the Commissioner in writing of any change of personnel among its directors or principal officers in accordance with 18 Del. C. §4919 "Change of Directors, Officers; Notice."

It is recommended the Company implement a formal process to present investment transactions and results to the Board of Directors and document the Board of Director approval of all investment transactions in compliance with 18 Del. C. §1304 "Authorization of Investments." It is acknowledged the Company implemented a formal process in the first quarter of 2015 to document the Board of Directors review of investment transactions.

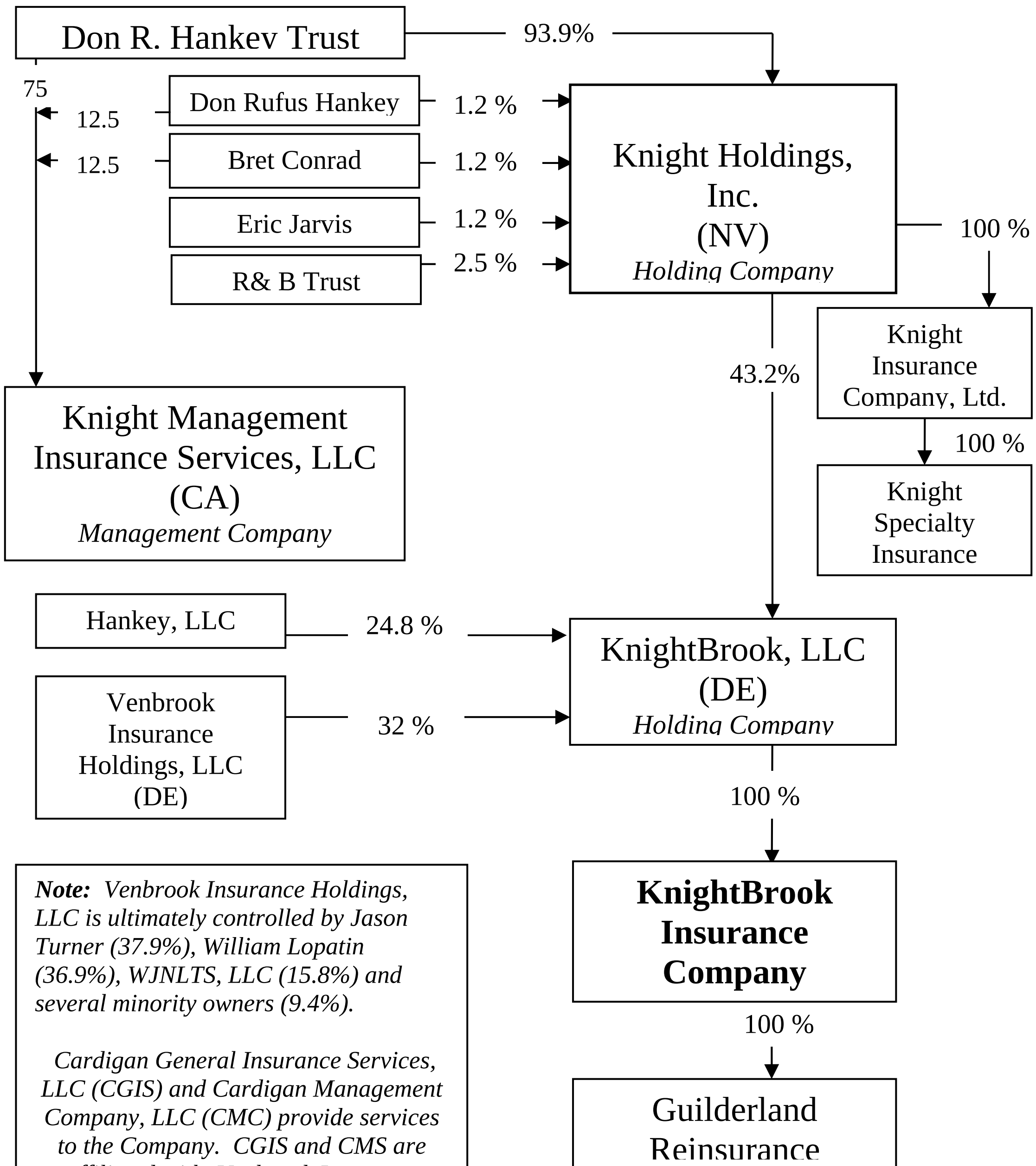
Holding Company System

The Company is a member of an Insurance Holding Company System as defined under Chapter 50 of the Delaware Insurance Code. The Company's direct parent, KnightBrook, LLC ("Parent"), is owned by Knight Holdings, Inc., Hankey, LLC and Venbrook Insurance Holdings, LLC. As of December 31, 2013, these companies owned 43.2%, 24.8% and 32% of the Parent, respectively. The ownership percentages of the Parent were materially changed subsequent to the examination period. As of December 31, 2014, Knight Holdings, Inc., Hankey, LLC and Venbrook Insurance Holdings, LLC owned 67.2%, 13.4% and 19.4% of the Parent, respectively.

Knight Holdings, Inc. and Hankey, LLC are privately held companies ultimately controlled by Don Hankey. Venbrook Insurance Holdings, LLC is ultimately controlled by: Jason Turner, William Lopatin, WJNLTS, LLC and several minority owners each with 37.9%, 36.9%, 15.8% and 9.4% ownership, respectively.

The following is an abbreviated organizational chart illustrating the Company and its affiliates within the current Holding Company System as of December 31, 2013:

KNIGHTBROOK INSURANCE COMPANY



Note: *Venbrook Insurance Holdings, LLC is ultimately controlled by Jason Turner (37.9%), William Lopatin (36.9%), WJNLTS, LLC (15.8%) and several minority owners (9.4%).*

Cardigan General Insurance Services, LLC (CGIS) and Cardigan Management Company, LLC (CMC) provide services to the Company. CGIS and CMS are affiliated with Venbrook Insurance Holdings, LLC through common ultimate control.

New Olympia, Ltd. provides reinsurance to the Company and is ultimately owned by Jason Turner (9.5%), William Lopatin (9.5%), Matthew Sherman (2%) and

Management, Service, and Other Agreements with Affiliates

Below is a summary of significant affiliated agreements (excluding reinsurance agreements) in effect as of December 31, 2013.

- Management and Service Agreements
  - Knight Management Insurance Services, LLC - Effective July 1, 2008, and amended March 18, 2011, April 26, 2011, August 1, 2011 and September 1, 2011, the Company entered an affiliated Management Agreement with Knight Management Insurance Services, LLC ("KMIS"). In accordance with the agreement, KMIS provides: underwriting risk management services, regulatory services, home office services, accounting services, claims management services and accounting and cash records services. In return, the Company reimburses KMIS for ordinary and necessary expenses associated with the services provided. Outstanding balances under the agreement require settlement within forty-five days following the close of each calendar month.
  - Westlake Services, LLC - Effective June 1, 2011, the Company became party to an affiliated General Agency Agreement between KMIS and Westlake Services, LLC ("Westlake"). In accordance with the agreement, Westlake is authorized to write insurance coverage for the specified programs including the Company's Collateral Protection Insurance, Guaranteed Auto Protection and Keep It Running programs. In addition, Westlake is responsible for collection and accounting of all premium due from insureds and/or sub-producers. In return, KMIS pays Westlake a commission on net collected premium as specified by the contract.

- Cardigan Management Company, LLC - Effective October 10, 2011, the Company became party to an affiliated General Agency Agreement between KMIS and Cardigan Management Company, LLC ("CMC"). In accordance with the agreement, CMC provides KMIS: underwriting risk management services, accounting services, claims management, marketing services and accounting and cash records services. Services are provided only for programs authorized by the contract and include the Company's Valley View Commercial Auto and Lighthouse Paratransit Programs. In return, KMIS reimburses CMC for direct and allocated costs associated with the authorized programs. Subsequent to the examination period, on July 30, 2014, KMIS gave official notice terminating writings under the Valley View Commercial Auto Program effective December 31, 2014.
- Cardigan General Insurance Services, LLC - Effective July 1, 2009, and amended October 1, 2011, the Company became party to an affiliated General Agency Agreement between KMIS and Cardigan General Insurance Services, LLC ("CGIS"). In accordance with the agreement, CGIS provides KMIS underwriting premium collection and accounting services. These services are provided only for programs authorized by the contract and include the Company's Valley View Property & Casualty Program and Livery Program. In return, KMIS reimburses CGIS for direct and allocated costs associated with the authorized programs. In accordance with the agreement, reimbursement and compensation may not exceed 30% of the net written premium produced by CGIS, which is calculated monthly.

- Nowcom Corporation - Effective January 2, 2011, the Company became party to an affiliated Information Technology Service Agreement between KMIS and Nowcom Corporation. In accordance with the agreement, Nowcom provides KMIS hardware, software, network, web, email and internet goods and services as it relates to the Company. In return, KMIS reimburses Nowcom for direct costs based on Nowcom's actual cost, without a profit factor. Per the agreement, indirect and shared expenses shall be allocated to KMIS based on a method of cost allocation in accordance with *Statement of Statutory Accounting Principles No. 70 – Allocation of Expenses*.

- Tax Sharing Agreement
    - Effective August 19, 2000, the Company entered a Tax Allocation Agreement with its subsidiary Guilderland Reinsurance Company that, together with the Parent, forms a group ("Tax Group") in accordance with Internal Revenue Service Code. In accordance with the agreement, each party to the agreement calculates its federal corporate tax liability as if it were filing on a separate return basis. The Parent is responsible to file and pay the federal corporate tax liabilities of the Tax Group. Any party subject to tax on a separate return basis pays the Parent the amount due. Any party entitled a refund on a separate basis, or that generated losses or credits used to reduce the tax of the consolidated Tax Group, is paid the amount due by the Parent. Estimated payments made by the Parent are reimbursed by the Tax Group participants quarterly when tax is due.

- Surplus Note
  - Effective May 1, 2012, the Company and HIC Acceptance, LLC ("HIC Acceptance") entered an affiliated variable rate Promissory Note whereby the Company borrowed $12 million dollars for a term of fifteen years to mature on May 1, 2027. HIC Acceptance is an affiliate owned by Hankey Investment Company L.P. and ultimately controlled by Don Hankey. Interest is payable on the entire principal balance at eighty-eight one-hundredths per cent (.88%) per year above the Prime Rate as defined by the promissory note. The interest rate is never less than four hundred and seven one-thousandths (4.407%) per year.

TERRITORY AND PLAN OF OPERATION

The Company is licensed or is an accredited reinsurer in all fifty (50) states and the District of Columbia, writing homeowners, collateral protection and specialty commercial products. Since 2008, the Company's products have been offered primarily on a program basis. The majority of the Company's premiums are produced through affiliated managing general agents and general agents including: KMIS, CGIS and CMS. In addition, the Company utilizes several unaffiliated managing general agents for underwriting and claims services. All business is produced through a network of affiliated and unaffiliated insurance agencies and brokers. The following is a summary of the Company's gross premium written ("GWP"), ceded premium, net premium for the year ended December 31, 2013:

General Agent / Managing General Agent	Program	Total GWP	% of Total GWP	Total Premiums Ceded	% of GWP Ceded	Total Net Premium
CMC	Valley View Commerical Auto	$ 50,654,448	42.3%	$ 36,978,666	73.0%	$ 13,675,782
CGIS	Livery Transportation	27,740,019	23.2%	19,173,335	69.1%	8,566,683
Aggressive Insurance Services	Nonstandard Auto	18,394,536	15.4%	14,697,999	79.9%	3,696,537
Sonoran National Insurance Group	Supplemental Liability Insurance (SLI)	6,544,168	5.5%	4,478,262	68.4%	2,065,906
Draco Insurance Solutions, Inc.	Lighthouse Paratransit & Taxi	3,859,422	3.2%	2,700,854	70.0%	1,158,568
Norman Company, Inc.	Norman Guaranteed Auto Protection	3,298,984	2.8%	329,898	10.0%	2,969,086
Sonoran National Insurance Group	Renter's Liability Protection (RLP)	3,060,208	2.6%	2,142,822	70.0%	917,386
KMIS	Westlake Material Damage	2,820,003	2.4%	1,974,724	70.0%	845,279
CGIS	Other(s)	164,684	0.1%	101,492	61.6%	63,192
CMS	Other(s)	691,022	0.6%	160,022	23.2%	531,000
KMIS	Other(s)	(3,085)	0.0%	(1,542)	50.0%	(1,542)
Aggressive	Other(s)	196,551	0.2%	137,188	69.8%	59,364
Various	Other(s)	2,391,593	2.0%	1,943,454	81.3%	448,139
		$ 119,812,552	100.0%	$ 84,817,172	70.8%	$ 34,995,380

The following is a summary of the Company's primary programs written during the period ended December 31, 2013:

- CMC Valley View Commercial Auto Program – Products under the Valley View Commercial Auto Program include general liability, commercial auto liability, and limited property coverage. The book of business arises from the legacy business written by Northwestern Insurance Company, which was merged into the Company upon its acquisition in 2008. The business services commercial businesses throughout the mid-Atlantic and northeast states, with concentration in Pennsylvania, Delaware, Maryland, Maine, New Jersey and Massachusetts. Subsequent to the examination period, writings under the Valley View Commercial Auto Program were terminated effective December 31, 2014.

- CGIS Livery Transportation Program – The Livery Transportation Program is a public auto transportation program that provides commercial auto liability, physical damage and general liability as required by airport locations for premises liability and leased airport locations. The classification of auto includes pre-arranged limousine and airport shuttle operations while the general liability provides premises liability and fire damage legal liability. The Livery Transportation Program operates primarily in southern California.

- Alternative Risk Consulting, LLC (dba Aggressive Insurance Services) Nonstandard Auto Program – The Nonstandard Auto Program insures high-risk drivers for coverages that include automobile liability, uninsured motorist, medical payments, physical damage (collision and other than collision), rental reimbursement and roadside assistance coverage. The Nonstandard Auto Program is primarily written in Georgia, and to a lesser degree, in Texas.
- Sonoran National Insurance Group Renter's Liability Protection ("RLP") and Supplemental Liability Insurance ("SLI") Program(s) – The RLP and SLI Programs are optional commercial automobile liability coverages offered by car rental companies and elected by the renter at the time of rental. The RLP and SLI Programs are marketed by the Company's affiliate, HFC Acceptance, LLC, as a compliment to its primary fleet financing products offered to rental car operators. The programs cover all fifty states. The RLP and SLI products are further described as follows:
    - RLP provides auto liability coverage at the state minimum financial responsibility limits. These limits vary by state, but are typically under \$50,000 per occurrence. RLP is not available in states that require the

rental car company to remain as the primary insured for all rented vehicles.

- SLI is an over-the-counter product that offers liability protection to rental car customers in excess of state minimum limits and excess of the renter's own insurance up to $1 million. This product is the most commonly sold auto liability product in the daily auto rental industry.

- Draco Insurance Solutions, Inc. Paratransit & Taxi Program - The Paratransit Program provides insurance to clients who are in the business of providing transportation of individuals on a pre-arranged and non-emergency basis, which are typically contracted with assisted living facilities or retirement communities. In addition, this Paratransit Program includes a class of taxi operators that is legacy business controlled Draco Insurance Solutions, Inc. The program covers various states nationwide. Writings under the Paratransit & Taxi Program were terminated effective December 2013.
- Norman and Company, Inc. Guaranteed Auto Protection ("GAP") Program – The Norman GAP Program is offered by participating automobile finance companies to protect an automobile borrower/lessee for the deficiency balance between the carrying value of the outstanding automobile loan and the comprehensive/collision automobile physical damage settlement in the event of a total loss of a collateralized vehicle. The product is offered in various states subject to approval by the Company with limits not to exceed $50,000.
- KMIS Westlake Material Damage ("WMD") Program - The WMD Program provides collision and comprehensive coverage for automobile purchases

financed by a number of entities, the most significant being Westlake Financial Services, Inc. ("Westlake"). Westlake is controlled by Mr. Don Hankey and is a California finance company that specializes in auto financing and related activities.

GROWTH OF THE COMPANY

The following information reflects the admitted assets, surplus as regards policyholders, gross premiums written, net premiums written and net income of the Company since the prior examination:

Year	Admitted Assets	Surplus as Regards Policyholders	Gross Premiums Written	Net Premiums Written	Net Income (Loss)
2013	$ 162,260,165	$ 41,470,834	$ 119,812,551	$ 34,995,379	$ (8,290,765)
2012	125,410,868	39,492,308	87,298,243	29,144,477	(2,557,889)
2011	67,814,902	26,609,101	72,211,065	32,728,949	(2,979,147)
2010	56,429,207	30,388,676	41,206,995	19,776,392	162,374
2009	45,055,374	29,156,961	18,213,126	11,422,284	(700,110)
2008	30,874,444	25,044,421	1,397,784	800,945	511,535

The Company’s surplus as regards policyholders increased $16.4 million over the examination period from $25.0 million in 2008 to $41.5 million in 2013 despite cumulative net operating losses totaling $14.4 million. The increase in surplus over the examination period is primarily attributed to 1.) a $12 million surplus note contribution from HIC Acceptance, LLC in 2012, 2.) a cumulative $11.4 million unrealized increase in invested assets and 3.) a $5.6 million increase in deferred tax assets. Despite the increase in surplus, the Company’s RBC ratio has declined for all years under examination from a high of 1,064.1% in 2009 to 391.6% in 2013.

The Company experienced significant growth in gross premium written over the examination period from $1.4 million in 2008 to $119.8 million in 2013. Despite the top line growth, the Company experienced deteriorating underwriting results for nearly all years under examination. Unfavorable underwriting results were the primary contributing factor to the cumulative net losses over the examination period given generally decreasing administrative expense ratios. Despite these negative trends, admitted assets increased $131.4 million over the examination period. The increase in admitted assets is primarily the result of cash flow from operations and the Company’s 70% quota share agreement with KIC (increased from 50% effective April 2012 in all states except Florida where the ceding percentage remains 50%) whereby the collateral arrangement was changed from a line of credit prior to 2011 to funds held for all years subsequent.

LOSS EXPERIENCE

As reported, the Company’s total net loss and loss adjustment expense reserves as of December 31, 2013, were $27.7 million and $1.3 million, respectively. The Company reported incurred losses and loss adjustment expenses attributable to insured events of prior years decreased by $2.9 million as a result of the Company’s closing a number of claims files offset by a strengthening of reserves on prior year losses. However, the examination determined total net loss and loss adjustment expenses were understated by approximately $12 million as of December 31, 2013. Therefore, the examination found net loss and loss adjustment expense attributable to insured events of prior years increased by approximately $9.1 million given the need to further strengthen loss reserves for 2013 and prior year losses.

REINSURANCE

The Company reported the following distribution of premiums written for the year ended December 31, 2013:

	2013	% GPW	2008	% GPW
Direct business	$ 119,726,624	99.9%	$ 1,397,784	100.0%
Reinsurance assumed from affiliates	-	-	-	-
Reinsurance assumed from non-affiliates	85,928	0.1%	-	-
Gross premiums written ("GPW")	$ 119,812,552	100%	$ 1,397,784	100%
Reinsurance ceded to affiliates	$ 54,958,938	45.9%	$ -	-
Reinsurance ceded to non-affiliates	29,858,235	24.9%	596,839	42.7%
Total ceded	$ 84,817,173	70.8%	$ 596,839	42.7%
Net premiums written	$ 34,995,379	29.2%	$ 800,945	57.3%

Assumed Reinsurance

The Company did not assume material business during the exam period.

Ceded Reinsurance

The Company ceded 70.8% of gross premium written during 2013 and reported total gross reinsurance recoverable of $94.6 million as of year ended December 31, 2013. Gross reinsurance recoverable consisted of $30.9 million recoverable for paid loss and loss adjustment expense and known case and case loss adjustment expense. The remaining $63.7 million in gross reinsurance recoverable consisted of incurred but not reported losses and unearned premium. As of December 31, 2013, the Company's five largest reinsurers represented approximately $86.6 million and 91.6% of the total gross reinsurance recoverable. Gross reinsurance recoverable from the Company's two unauthorized affiliated reinsurers represented 78.3% of the total. The Company's largest net retention on any one risk was $1 million as of December 31, 2013. The following is a summary of the primary affiliated and non-affiliated ceded reinsurance contracts:

- **Ceded Reinsurance - Affiliated**

  - Knight Insurance Company, Ltd - Effective July 1, 2009, with Amendment numbers 1 to 5 executed March 4, 2010, April 26, 2011, August 1, 2011, November 19, 2012 and November 20, 2012, the Company and KIC entered an affiliated Multi-Line Quota Share Reinsurance Contract. In accordance with the agreement, the Company cedes and KIC assumes amounts over the Company's retention on specified programs subject to specified policy limits to be written by the Company. As of December 31, 2013, KIC assumed 70% of the Company's net liability in all states except Florida where KIC accepts 50% of the Company's net liability. Specified lines of business include those classified by the Company as: Property, Commercial Auto, General Liability, and Inland Marine, Occupation Benefits and Workers Compensation coverages including but not limited to the Northwestern, Collateral Protection, GAP, Renters Liability Protection, Supplemental Liability Insurance, Personal Accident Coverage/Personal Effects Coverage, Sports Fitness, Livery, Public Transportation, Taxi, Paratransit, Workers Compensation, Occupational Benefits and Native Nations business written by the Company. The original agreement specified a premium cap of not more than $30 million of original premiums received by the Company, and the net liability attributable thereto, will be ceded in any one contract year. Effective April 1, 2012, the premium cap was increased to $60 million of original premiums received by the Company, and the net liability attributable thereto, in any one contract year. Subsequent to the examination period the Company issued amendments 6 through 8 of the agreement effective February 26, 2014, September 1, 2014 and March 11, 2015, respectively.

- New Olympia Re, Ltd. - Effective July 1, 2013, the Company and New Olympia Re, Ltd. ("New Olympia") entered an affiliated Quota Share Reinsurance Contract. In accordance with the agreement, the Company cedes and New Olympia assumes 100% of the Company's net retention on specified lines of business subject to specified policy limits. Business covered includes those classified by the Company as commercial auto, general liability and inland marine as produced by the CGIS Livery Transportation Program. The agreement specifies a premium cap of not more than $30 million of original premiums received by the Company, and the net liability attributable thereto, will be ceded in any one contract year. As previously stated, examination determined the Company failed to file transactions for approval pursuant to 18 Del. C. §5005 (a)(2) "Standards and management of an insurer within an insurance holding company system." In addition, the examination found the Company did not report the agreement as affiliated reinsurance in the 2013 NAIC Annual Statement in accordance with 18 Del. C. §5001 (1) and (2) "Definitions" and *SSAP No. 25 – Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* paragraph 3.

  It is recommended the Company begin reporting the agreement as affiliated reinsurance in all future filings in accordance with 18 Del. C. §5001 (1) and (2) "Definitions" and *SSAP No. 25 – Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* paragraph 3.

- **Ceded Reinsurance – Non-affiliated**

  - Subscribing Reinsurer(s) – Effective September 1, 2009 for a term of thirteen months expiring on October 1, 2010, the Company and Subscribing Reinsurers entered a Private Passenger Automobile Quota Share Reinsurance Contract. The agreement was amended or reissued annually to modify various provisions and extend coverage for all policy years under examination. In accordance with the agreement, the Company cedes and Subscribing Reinsurers assume 90% of the Company's net retention on specified lines of business subject to specified policy limits, specified territories and certain exclusions. The agreement covers business produced and underwritten in the state of Georgia by Alternative Risk Consulting, LLC (dba Aggressive Insurance Services) and classified by the Company as private passenger automobile liability including: bodily injury, property damage liability, uninsured motorists, underinsured motorists, medical payments and personal injury protection and automobile physical damage. Subject to special provisions whereby statutes require extension of coverage, the agreement remains in full force and effect until the agreements expiration, cancellation or the next premium anniversary of the underlying policy, but not beyond twelve months following the date of termination or expiration of the agreement.

ACCOUNTS AND RECORDS

The accounts and records review included an assessment of the Company's risk management process for identifying and controlling risks in key operational areas. In making the assessment for each key area, the Company's processes were reviewed, risks were identified and mitigating controls were identified. Consideration was given to the design and operating effectiveness of identified controls.

The Company's information technology ("IT") platforms, applications and services are managed under the affiliated computer services agreement between KMIS and Nowcom. The primary applications include the SunGard iWorks Enterprise Accounting System ("EAS") and the Company's primary claims and policyholder systems SCIPS and B2-EZ Insure. EAS includes the general ledger, investment subsidiary ledger, statutory reporting and managerial reporting applications. SCIPS is the legacy claims system from the CMC General Agency Agreement and the Northwestern Insurance Company business. B2-EZ Insure is a claim system developed by B2-USA, a Texas company. This EZ Insure system was customized by B2-USA for each of the Company's programs. The Company also utilizes significant manual spreadsheets to facilitate financial reporting, reinsurance accounting and summary of information from various systems and insurance programs.

The Delaware Department of Insurance engaged INS Services, Inc. to perform a limited review and assessment of the Company's information systems and the related control environment. There were no reportable examination findings or recommendations with respect to the Company's information technology systems and controls.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus as regards policyholders of the Company, as determined by this examination, as of and for the period ended December 31, 2013:

- Assets
- Liabilities, Surplus and Other Funds
- Statement of Income
- Capital and Surplus Account
- Reconciliation of Capital and Surplus From the Prior Examination

Assets
As of December 31, 2013

	Ledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 33,925,501	$ -	$ 33,925,501	1
Preferred stocks	1,805,000	-	1,805,000	
Common stocks	70,985,293	-	70,985,293	2
Real estate - Properties occupied by the company	68,718	-	68,718	
Cash and short-term investments	37,476,240	-	37,476,240	
Investment income due and accrued	267,971	-	267,971	
Uncollected premiums and agent balances	12,792,572	475,960	12,316,612	
Amounts recoverable from reinsurers	4,305,979	-	4,305,979	
Funds held by or deposited with reinsured companies	50,297	-	50,297	
Current federal and foreign income tax recoverable	646,981	44,660	602,321	
Receivables from parent, subsidiaries and affiliates	208,098	-	208,098	
Aggregate write-ins for other than invested assets	248,135	-	248,135	
Total assets	$ 162,780,785	$ 520,620	$ 162,260,165	

Liabilities, Surplus, and Other funds
As of December 31, 2013

			Notes
Losses	$	39,715,290	3
Reinsurance payable on paid loss and loss adjustment expenses		105,141	
Loss adjustment expenses		1,282,410	*3*
Commission payable, contingent commissions and other similar charges		1,462,812	
Other expenses		382,590	
Taxes, licenses and fees		665,637	
Net deferred tax liability		800,106	
Unearned premiums		19,950,035	
Advance premiums		30,941	
Ceded reinsurance premiums payable		5,800,736	
Funds held by company under reinsurance treaties		61,476,515	*4*
Amount withheld or retained by company for account of others		6,757	
Provision for reinsurance		1	
Payable to parent, subsidiaries and affiliate		460,552	
Aggregate write-ins for liabilities		649,808	
Total liabilities	$	132,789,331	
Common capital stock	$	4,218,200	
Surplus notes		12,000,000	
Gross paid in and contributed surplus		28,038,355	
Unassigned funds (surplus)		(14,785,721)	
Total surplus as regards policyholders	$	29,470,834	
Total liabilities, capital and surplus	$	162,260,165	

Statement of Income
For the Period Ended December 31, 2013
and
Capital and Surplus Account
From December 31, 2012 to December 31, 2013

Income:		
Premiums earned		$33,075,277
Net investment income earned		1,662,805
Net realized capital gains		362,436
Other income		100,312
Total income		$35,200,830
Expenses:		
Losses incurred		$27,144,650
Loss adjustment expenses incurred		4,967,510
Other underwriting expenses		11,012,564
Net loss from agents' or premium balances		393,279
Federal and foreign income tax incurred		(26,408)
Total expenses		$43,491,595
Net income:		$ (8,290,765)
Surplus as regards to policyholders, December 31, 2012		$39,492,308
Net income		(8,290,765)
Additions:		
Change in unrealized capital gains	$7,030,821	
Change in net deferred income tax	3,065,804	
Change in nonadmitted assets	172,665	
Change in provision for reinsurance	1	
Total additions		10,269,291
Deductions:		
Examination Adjustment		(12,000,000)
Surplus as regards to policyholders, December 31, 2013		$29,470,834

Reconciliation of
Capital and Surplus From Prior Examination
From December 31, 2009 to December 31, 2013

		Common Capital Stock	Surplus Notes	Gross Paid-in & Contributed Surplus	Unassigned Funds	Total
December 31, 2008		$ 4,218,200	$ -	$ 26,048,920	$ (5,222,699)	$ 25,044,421
2009 Operations	(1)	-	-	-	1,798,425	1,798,425
2009 Special Surplus		-	-	-	-	-
2009 Dividends		-	-	-	-	-
CPIC Acquisition Restatement	(2)	-	-	1,960,000	354,114	2,314,114
December 31, 2009		4,218,200	-	28,008,920	(3,070,160)	29,156,960
2010 Operations	(1)	-	-	-	1,238,540	1,238,540
2010 Special Surplus		-	-	-	-	-
2010 Dividends		-	-	-	-	-
CPIC Acquisition Restatement	(2)	-	-	-	(6,824)	(6,824)
December 31, 2010		4,218,200	-	28,008,920	(1,838,444)	30,388,676
2011 Operations	(1)	-	-	-	(3,809,010)	(3,809,010)
2011 Special Surplus		-	-	750,000	-	750,000
2011 Dividends		-	-	-	-	-
CPIC Acquisition Restatement	(2)	-	-	(720,565)	-	(720,565)
December 31, 2011		4,218,200	-	28,038,355	(5,647,454)	26,609,101
2012 Operations	(1)	-	-	-	883,207	883,207
2012 Special Surplus	(3)	-	12,000,000	-	-	12,000,000
2012 Dividends		-	-	-	-	-
December 31, 2012		4,218,200	12,000,000	28,038,355	(4,764,247)	39,492,308
2013 Operations	(1)	-	-	-	1,978,526	1,978,526
2013 Special Surplus		-	-	-	-	-
2013 Dividends		-	-	-	-	-
Examination Adjustment	(4)				(12,000,000)	(12,000,000)
December 31, 2013		$ 4,218,200	$ 12,000,000	$ 28,038,355	$ (14,785,721)	$ 29,470,834

(1): Operations is defined as: net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance and aggregate write-ins for gains and losses to surplus.
(2): During 2011, the Company acquired Commerce Protective Insurance Company ("CPIC") which was merged into KBIC under SSAP 68. All assets, liabilities and related surplus accounts of CPIC were merged into KBIC at their historical statutory bases and the 2011 statement of KBIC reflects this merger.
(3): In 2012, a surplus note in the amount of $12 million was issued in exchange for cash. The note was underwritten and administered by affiliate, HIC Acceptance, LLC. Each payment of principal and interest may be made only with prior approval of the DE DOI.
(4): The examination determined the Company understated loss and loss adjustment expenses reserves as of December 31, 2013 by approximately $37.4 million and $12 million on a gross and net basis, respectively.

Common Capital Stock

As amended on October 21, 2008, the Company's Certificate of Incorporation authorizes the issue of 3,000,000 shares of common stock with a $3.73292 par value. As of December 31, 2013, the Company had 1,130,000 common shares issued and outstanding totaling $4,218,200. All outstanding common shares of the Company are owned by KnightBrook, LLC. The examination found the Company does not maintain a stock ledger as required by its bylaws. In addition, the Company did not issue stock certificates for capital contributions received subsequent to the examination period. Therefore;

It is recommended the Company maintain a stock ledger as required by its bylaws and properly issue shares in the Company when capital is contributed.

Paid in Surplus

As of December 31, 2013, the Company reported gross paid in and contributed surplus of $28.0 million. The change in gross paid in and contributed surplus during the examination period was due to the acquisition of Commerce Protective Insurance Company by the Company during 2011, which was merged into the Company in accordance with *Statement of Statutory Accounting Principles No. 68 – Business Combinations and Goodwill*. The Company received gross paid in surplus in the amounts of $9 million and $15 million subsequent to the examination. As a result, the Company's paid in surplus increased to $52.0 million as of the examination report date.

Surplus Notes

Effective May 1, 2012, the Company and HIC Acceptance, LLC entered a variable rate Promissory Note whereby the Company borrowed $12 million dollars for a term of fifteen years to mature on May 1, 2027. During 2013, the Company paid interest on the surplus note in the amounts of $135.1 thousand, $132.2 thousand, $133.7 thousand and $135.1 thousand for the quarters ended December 31, 2012, March 31, 2013, June 30, 2013 and September 30, 2013, respectively. Subsequent to the examination period, the Company paid $135.1 thousand in fourth quarter 2013 interest payments during the first quarter 2014. All payments were approved by the Delaware Department of Insurance.

Dividends

No dividends were paid by the Company during the examination period.

SCHEDULE OF EXAMINATION ADJUSTMENTS

Description	Per Examination	Per Company	Surplus Increase (Decrease)	Notes
Assets:				
Adjusted Admitted Assets	$ 162,260,165	$ 162,260,165	$ -	
Liabilities:				
Loss Reserves	$ 39,715,290	$ 27,715,290	$ (12,000,000)	3
Capital and Surplus:				
Unassigned funds	$ 29,470,834	$ 41,470,834	$ (12,000,000)	3
Liabilities and Surplus:				
Adjusted Liabilities and Surplus	$ 162,260,165	$ 162,260,165	$ -	

NOTES TO THE FINANCIAL STATEMENTS

Note 1:
Bonds **$ 33,925,501**

As of December 31, 2013, the Company reported total bond investments on Schedule D – Part 1 with book adjusted carrying values in the amount of $33.9 million and fair market values of $36.2 million. Bonds were comprised of the following classes:

	Statement Value	% of Total
U.S. Governments	$ 2,759,508	8.1%
Industrial and Miscellaneous	31,165,993	91.9%
Total	$ 33,925,501	100.0%

The Company reported an additional $15.7 million in bonds at book adjusted carrying value as short-term investments or cash equivalents for total bond holdings of $67.4 million. Of the Company's total bond holdings, $46.6 million or 69.2% were categorized as Class 1 with respect to NAIC credit quality standards. NAIC Class 2 bonds totaled $15.1 million and represented 22.4% of total bonds. The remaining holdings were NAIC Class 3, 4 and 6 and accounted for 8.4% of total bonds. The bond holdings were all publically traded securities. Bond maturities were heavily weighted to the short-term relative to maturity with 53.7%, 9.6%, 33.9% 1.4% and 1.4% maturing in less than one year, one to five years, five to ten years, ten to twenty years and over twenty years, respectively.

Note 2:
Common Stock **$70,985,293**

As of December 31, 2013, the Company reported total common stock investments with book adjusted carrying values and fair market values in the amount of $71.0 million. The Company's common stock holdings consisted primarily of a portfolio of unaffiliated publically traded companies at $68.0 million. The remaining $3.0 million in common stock consisted of the Company's wholly owned subsidiary, Guilderland Reinsurance Company. As of December 31, 2013, the common stock portfolio represented 43.7% of the Company's total admitted assets and had a cumulative unrealized gain of $17.4 million versus the cumulative actual cost of $53.5 million.

The examination verified the existence and reported values for the common stock securities as of December 31, 2013, without exception. Investments in affiliates were reviewed for proper reporting in accordance with *Statement of Statutory Accounting Principles No. 97 – Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88* without exception.

Note 3:

Losses	**$ 39,715,290**
Loss Adjustment Expenses	**$1,282,410**

INS Consultants, Inc. ("Consulting Actuary") performed a review of the inherent risks, management oversight and other mitigating controls over the Company's actuarial processes and procedures. The Consulting Actuary's review included detail testing and an independent calculation of the Company's loss and loss adjustment expense reserves as of December 31, 2013. The Company's consulting actuary, CTK Actuarial Services, Inc., provided the Consulting Actuary its Statement of Actuarial Opinion and the supporting actuarial data, documents and calculations. The examination determined the Company's loss and loss adjustment expenses reserves were understated on both a gross and net basis by approximately $37.4 million and $12 million, respectively.

Note 4:
Funds Held by Company Under Reinsurance Treaties **$61,476,515**

As of December 31, 2013, the Company reported total funds held by the Company under reinsurance treaties in the amount of $61.5 million. The examination reviewed the reported funds held balances including a third-party confirmation of the reported balances. The following is a summary of the funds held by the Company as of December 31, 2013 by reinsurer:

Balances reported in thousands

Reinsurer	Total Reinsurance Recoverable	Funds Held by Company	Ceded Balances Payable	Funded (Unfunded) Balance
Unaffiliated Reinsurer				
Whitestone Insurance, Ltd.	$ 680	$ 714	$ -	$ 34
Affiliated Reinsurers				
Knight Insurance Company Ltd.	$ 67,062	$ 52,639	$ 2,184	$ (12,239)
New Olympia Re	6,975	8,123	885	2,033
Sub-total	$ 74,037	$ 60,762	$ 3,069	$ (10,206)
Total	$ 74,717	$ 61,476	$ 3,069	$ (10,172)

The Company did not establish a $12.2 million provision for unauthorized reinsurance liability as required by *SSAP No. 62R – Property and Casualty Reinsurance* and the NAIC Annual Statement Instructions after increasing reserves for loss and loss adjustment expenses subsequent to December 31, 2013. In addition, the examination reviewed the Company's reporting subsequent to the examination period and found the Company did not establish a $27.4 million provision for unauthorized reinsurance liability in the 2014 NAIC Annual Statement. However, it was noted the Company received cash or other securities from KIC to fully collateralize the unfunded balance for unauthorized reinsurance within a reasonable period of time subsequent to both reporting dates.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations contained in the prior examination report as of December 31, 2008.

SUMMARY OF RECOMMENDATIONS

The following is a summary of examination recommendations that warranted disclosure in the report on examination as of December 31, 2013.

1. The examination found the Company is not formally holding stockholder and Board of Director meetings as required by its bylaws.

   It is recommended the Company begin holding formal stockholder and Board of Director meetings in accordance with its bylaws.

2. The examination found the Company is not adequately documenting minutes for its stockholder and Board of Director the meetings.

   It is recommended the Company implement a process to formally document the meetings and actions of the Company's stockholders and Board of Directors.

3. The examination found the Company failed to file transactions for approval pursuant to 18 Del. C. §5005 (a)(2) "Standards and management of an insurer within an insurance holding company system" including an unfiled affiliated reinsurance agreement and an amendment to a previous filed affiliated reinsurance agreement.

   It is recommended the Company file all applicable unfiled agreements and/or amendments to agreements in accordance with 18 Del. C. §5005 (a)(2) "Standards and management of an insurer within an insurance holding company system."

Additionally, it is recommended the Company implement a process to ensure all applicable agreements are properly filed for approval in accordance with 18 Del. C. §5005 (a)(2) "Standards and management of an insurer within an insurance holding company system."

4. Because no minutes or other supporting evidence were maintained to verify the stockholder and Board of Directors meetings were held during the examination period the examination found 1.) the Company's Board of Directors were not properly elected in accordance with the Company's bylaws; 2.) the Company's Officers were not properly appointed/elected and termination of certain Officers serving as of the prior examination were not properly terminated in accordance with the Company's bylaws.

   It is recommended the Company comply with all required provisions of its bylaws including the election of the Board of Directors, the appointment/election of Officers, and termination of Officers.

5. The examination found the Company is not properly notifying the Commissioner in writing of any change of personnel among its directors or principal officers in accordance with 18 Del. C. §4919 "Change of Directors, Officers; Notice."

   It is recommended the Company notify the Commissioner in writing of any change of personnel among its directors or principal officers in accordance with 18 Del. C. §4919 "Change of Directors, Officers; Notice."

6. The examination found the Company's Board of Directors is not properly approving investment transactions in accordance with 18 Del. C. §1304 "Authorization: Record of Investments."

   It is recommended the Company implement a formal process to present investment transactions and results to the Board of Directors and document the Board of Director approval of all investment transactions to comply with 18 Del. C. §1304 "Authorization: Record of Investments." It is acknowledged the Company implemented a formal process in the first quarter of 2015 to document the Board of Directors review of investment transactions.

7. The examination found the Company did not report its reinsurance agreement with New Olympia, Ltd. as affiliated reinsurance in the 2013 NAIC Annual Statement in accordance with 18 Del. C. §5001 (1) and (2) "Definitions" and *SSAP No. 25 – Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* paragraph 3.

   It is recommended the Company begin reporting the agreement as affiliated reinsurance in all future filings in accordance with 18 Del. C. §5001 (1) and (2) "Definitions" and *SSAP No. 25 – Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* paragraph 3.

8. The examination found the Company understated loss and loss adjustment expenses reserves as of December 31, 2013 by approximately $37.4 million and $12 million on a gross and net basis, respectively. Therefore;

   An examination adjustment was made in order to increase net loss reserves by $12 million as of December 31, 2013.

9. The examination found the Company does not maintain a stock ledger as required by its bylaws. In addition, the Company did not issue stock certificates for capital contributions received subsequent to the examination period.

   It is recommended the Company maintain a stock ledger as required by its bylaws and properly issue shares in the Company when capital is contributed.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	December 31, 2013	December 31, 2008	(Decrease)
Assets	$ 162,260,165	$ 30,874,444	$ 131,385,721
Liabilities	$ 132,789,331	$ 5,830,023	$ 126,959,308
Capital and Surplus	$ 29,470,834	$ 25,044,421	$ 4,426,413

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and the consulting information technology specialist with INS Services, Inc. is acknowledged.

Respectfully submitted,

____
Richard E. Palmatary, CPA, CFE
Examiner In-Charge
State of Delaware