

REPORT ON EXAMINATION AS TO CONDITION

OF THE

PRESERVER INSURANCE COMPANY

PARAMUS, NEW JERSEY 07653-0931

AS AT DECEMBER 31, 2004

NAIC GROUP CODE 0026

NAIC COMPANY CODE 15586

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE

PO BOX 325
TRENTON, NJ 08625-0325

Tel (609) 292-5360

JON S. CORZINE
Governor

STEVEN M. GOLDMAN
Commissioner

June 5, 2006

Honorable Steven M. Goldman
Commissioner of Banking and Insurance
State of New Jersey
Trenton, New Jersey 08625-0325

Commissioner:

In accordance with your instructions and the requirements of the statutes of the State of New Jersey an examination has been made of the condition and affairs of:

PRESERVER INSURANCE COMPANY
PARAMUS, NEW JERSEY 07653-0931
NAIC GROUP CODE 0026
NAIC COMPANY CODE 15586

hereinafter referred to as the Company.

SCOPE OF EXAMINATION

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by N.J.S.A. 17:23-22.

The examination was made as at December 31, 2004 and addressed the three year period from December 31, 2001, the date of the last Financial Condition Examination. During this three year period under examination, the Company's admitted assets increased \$34,806,381 from \$59,143,461 to \$93,949,842, its liabilities increased \$25,988,975 from \$44,663,857 to \$70,652,832 and its surplus as regards policyholders increased \$8,817,406 from \$14,479,604 to \$23,297,010.

The examination was conducted at the home office of the Company located at 95 Route 17 South, Paramus, New Jersey 07653-0931.

The conduct of the examination was governed by the procedures outlined in the New Jersey Financial Condition Examiner's Handbook and followed accepted procedures of regulatory authorities and generally accepted insurance company examination standards. In determining the emphasis to be placed on specific accounts, consideration was given to the Company's system of internal control, the nature and size of each account, its relative importance to solvency and the annual audit work performed by the Company's certified public accountants. No accounts were assigned to a special emphasis category. Asset and liability accounts that are "generally material" were assigned to a standard emphasis category. The accounts requiring standard emphasis are as follows:

- Bonds
- Cash and Short Term Investments
- Agents' Balances or Uncollected Premiums
- Net Deferred Tax Asset
- Interest, Dividends and Real Estate Income Due and Accrued
- Losses
- Loss Adjustment Expenses
- Federal Income Taxes Payable
- Unearned Premiums
- Ceded Reinsurance Premiums Payable
- Receivable From Parents, Subsidiaries and Affiliates

All other accounts were assigned to reduced emphasis.

Additional areas reviewed were in part as follows:

- Compliance With Prior Report on Examination Recommendations
- History
- Affiliated Companies
- Fidelity Bond and Other Insurance
- Pension, Stock Ownership and Insurance Plans
- Statutory Deposits
- Insurance Products and Related Services
- Reinsurance
- Accounts and Records

This report is presented using the NAIC alternate report format. For balance sheet accounts and any other accounts a discussion of adverse findings, material changes in the financial statements and other important regulatory information disclosed by the examination is included. The discussions of these matters are presented in the order that these areas are listed in the financial statements. A discussion of any other important findings follows and is arranged in a logical and understandable manner.

COMPLIANCE WITH PRIOR REPORT ON EXAMINATION RECOMMENDATIONS

Insurance Products and Related Services

It was recommended that the Company execute its agreement with ESIS, Inc.

The Company complied with this recommendation.

It was recommended that the Company maintain proper control over service contracts and that the Company implement procedures to ensure changes or amendments made to contracts is communicated to employees involved.

The Company complied with this recommendation.

Reinsurance

It was recommended, as in the last examination report, that the Company execute all reinsurance contracts in a timely manner.

The Multiple Line Excess of Loss Contract was executed beyond the nine month limit and the Company did not comply with this recommendation. The contract was effective January 1, 2004 and was signed on December 2, 2004.

It was recommended that the Company execute written agreements with its reinsurance intermediaries with the required provisions in order to comply with N.J.S.A. 17:22E-6.

The Company complied with this recommendation.

It was recommended that the intermediary clause should define fiduciary responsibilities as instructed in the NAIC Financial Examiner's Handbook.

The Company complied with this recommendation.

It was noted that in the future reinsurers should be correctly classified as authorized or unauthorized for Annual Statement purposes.

The Company complied with this recommendation.

It was recommended that a written allocation agreement should be made for each reinsurance contract that names two or more affiliated companies.

A written allocation agreement was subsequently issued to the New Jersey Department of Banking and Insurance but is still under review.

Bonds

It was recommended, as in the last examination report, that the Company update its custodian agreement with Merrill Lynch and include a provision stating the obligation of the custodian in accordance with the NAIC guidelines.

The Company did not have this provision with their new custodian and did not comply with this recommendation.

Losses and Loss Adjustment Expenses

It was recommended that the Company should report loss expenses using the current NAIC definition.

The Company complied with this recommendation.

It was recommended that Preserver be named a party to the Quality Review Specialists (QRS) contract.

The Company no longer uses Quality Review Specialists and complied with this recommendation.

Other Expenses

It was recommended that in future annual statements New Jersey Workers' Compensation Surcharges should be classified under, "Amounts Withheld or Retained by Company for Account of Others".

The Company complied with this recommendation.

Drafts Outstanding

It was recommended, as in the last examination report, that the Company review outstanding drafts and comply with the appropriate provisions of the escheat statute of the State of New Jersey.

The Company complied with this recommendation.

Payable to Parent, Subsidiaries and Affiliates

It was recommended that the Company use updated ISU ratios in their management expense allocation calculation.

The Company changed their management agreement and complied with this recommendation.

HISTORY

GENERAL

The formation of the Company was made pursuant to the Certificate of Incorporation dated December 8, 1992. Said Certificate of Incorporation was approved by the Attorney General of New Jersey on December 22, 1992 and filed with the New Jersey Department of Banking and Insurance dated December 29, 1992.

The authorized capital stock of the Company is Two Million Dollars (\$2,000,000.00) consisting of Two Hundred Thousand (200,000) shares of common stock with a par value of Ten Dollars (\$10.00) each.

An amendment to the Certificate of Incorporation dated June 30, 1995 and filed on August 10, 1995 with the New Jersey Department of Banking and Insurance increased the capital stock of said Company to Two Million Six Hundred Thousand Dollars (\$2,600,000) consisting of Two Hundred Sixty Thousand (260,000) shares of common stock with a par value of Ten Dollars (\$10.00) each.

The Company is authorized through its Certificate of Incorporation to transact the business of insurance as specified in paragraphs "a", "b", "c", "f", "j", "k", "l", "o-1" and "o-3" of N.J.S.A. 17:17-1.

An amendment to the Certificate of Incorporation dated May 2, 1996 and filed on June 28, 1996 with the Department of Banking and Insurance, effective said date, changed the place where said Company is to be

located and its general business conducted to 95 Route 17 South, Paramus, New Jersey 07653. The name of the agent upon whom process may be served shall be that of the Company.

DIVIDENDS TO STOCKHOLDERS

No dividends to stockholders were paid during the examination period.

MANAGEMENT

Stockholders

The by-laws of the Company state that the annual meeting of the stockholders of the Corporation shall be held within or without the State of New Jersey, at such time and on such date (between March 1 and July 1 of each year) as may be fixed by the Board of Directors and shall be designated in the notice of said meeting, for the purpose of electing directors and for the transaction of such other business as may properly be brought before the meeting.

Board of Directors

The by-laws of the Company, as amended through March 31, 1994, vest the management and corporate powers of the Company in a Board of Directors that shall consist of not more than 25 directors nor less than 5 directors.

The members of the Board of Directors elected and serving at December 31, 2004 were as follows:

<u>Name</u>	<u>Home Address</u>	<u>Principal Occupation</u>
1. Archer McWhorter	2311 Fairway Circle Pearland, Texas 77581	Chairman of the Board of Directors, Preserver Group, Inc.
2. Stephen A. Gilbert	8909 Francis Place North Bergen, NJ 07047	Vice Chairman of the Board and Directors, Preserver Group, Inc.
3. Patrick J. Haveron	147 Fernwood Drive Old Tappan, NJ 07675	President and Chief Executive Officer, Treasurer of Preserver Insurance Company.
4. Robert S. Fried	12 Luddington Terrace West Orange, NJ 07052	Director
5. Russell Keith Jarrett	800 Tete L'Ours Dr. Mandeville, LA 70471	Attorney-at-Law
6. William E. Lobeck, Jr.	2811 S. Columbia Pl. Tulsa, OK 74114	Director of Preserver Group, Inc.; CEO of the Vanguard Car Rental USA, Inc. Ft. Lauderdale from 2003 to Present; President of the Numbered Car Co. Tulsa, OK from 1998 to Present.
7. Alvin E. Swanner	28 Chateau Haut Brion Kenner, Louisiana 70065	Vice Chairman of Board & Director of Preserver Group, Inc.; President of Chateau Development Company, Inc. from 1992 to Present.

8. Archer McWhorter, Jr. 13803 Pinerock Road Associate Professor at University of Houston
Houston, Texas 77709 since 1979

The Company is in compliance with the N.J.S.A. 17:27A-4d(3) which provides that "Not less than one-third of the members of a domestic insurer shall be persons who are not officers or employees of that insurer...". It was noted that Robert Fried is considered an outside Director of the Company but is a retired past employee.

Committees

The by-laws provide that the Board of Directors may appoint an Executive Committee and such other Committees, which shall have and may exercise such powers, in conformity with the laws of the State of New Jersey.

Members of the Finance Committee at December 31, 2004 were as follows:

Patrick J. Haveron, Chairman
Stephen A. Gilbert
Robert S. Fried

The primary function of the Finance Committee is to oversee the investment policies and activities of the Company, including approval of all investment transactions, compliance with regulation, monitoring of performance and related activities.

Members of the Audit Committee at December 31, 2004 were as follows:

Robert S. Fried, Chairman
Archer McWhorter, Jr.
Russell Keith Jarrett

It was noted that William E. Lobeck, Peter K. Barbano, Stephen A. Gilbert, Patrick J. Haveron and Francis Fenwick are not members of the Audit Committee but attend Audit Committee meetings.

The primary functions of the Audit Committee are to assess the Company's risk of fraudulent financial reporting and management's program to monitor compliance with the code of corporate conduct, participate in the recommendation of independent public accountants and review the audit plans of the internal auditor and independent public accountants.

Members of the Compensation and Evaluation Committee at December 31, 2004 were as follows:

Robert S. Fried
Archer McWhorter, Jr.
Russell Keith Jarrett

The functions of the Compensation and Evaluation Committee include nominating candidates for director for election by shareholders, evaluating the performance of officers deemed to be principal officers of the Company, and recommending to the Board the salary and compensation, including bonuses or other special payments to the principal officers.

Officers

The by-laws provide that the Board of Directors as soon as may be after the annual meeting of stockholders, shall elect a Chairman of the Board, a President, one or more Executive Vice Presidents, one or more Senior Vice Presidents and Vice Presidents, a Secretary and a Treasurer.

The elected officers of the Company at December 31, 2004 follows:

Chairman of the Board	Archer McWhorter
Vice Chairman of the Board	Stephen A. Gilbert
President, Chief Executive Officer and Treasurer	Patrick J. Haveron
Vice President Marketing	George Bruce Patterson
Vice President Information Technology	Charles Joseph Pelosi
Vice President Underwriting	Myron Rogow
Vice President & Secretary	Peter Kevin Barbano
Vice President Regional Operations	Ronald Arthur Libby
Vice President Claims & Operations	Betty Kim Martin
Vice President Finance	Francis James Fenwick
Vice President Corporate & Technology Planning	Lawrence Cowen

CORPORATE RECORDS

The minutes of the meetings of stockholders, directors, and committees were reviewed. The minutes adequately approved and supported Company transactions and events. Signed affidavits were obtained from each Director indicating that the prior examination report comments and recommendations were reviewed.

The director's meetings were well attended for the period under examination.

CONFLICT OF INTEREST

Conflict of interest questionnaires are signed by directors and officers on an annual basis. A review of the conflict of interest questionnaires for the examination period did not disclose the existence of any conflicts or irregularities.

AFFILIATED COMPANIES

A review indicated that holding company filings were made for the period under examination by Preserver Insurance Company as registrant to the requirements and standards under N.J.S.A. 17:27A-3.

Motor Club on December 31, 1992 formed Preserver Insurance Company (Preserver) as its wholly owned subsidiary with an initial capital and surplus of \$3,000,000. An additional \$500,000 and \$1,700,000 was contributed to Preserver by Motor Club on December 30, 1993 and November 15, 1994, respectively.

On November 22, 1994, Motor Club sold 51 percent of the outstanding shares of Preserver to an affiliate, Motor Club of America Enterprises, Inc. ("Enterprises") for cash and certain marketable fixed income securities held by Enterprises for a total amount of \$2,021,207.

Motor Club received an Order No. A94-209 dated November 24, 1994 from the New Jersey Department of Banking and Insurance granting the Company's request for an exemption from the filing and hearing requirements of the Insurance Holding Company Systems Act. The exemption was based on the finding that the sale of 51% in Preserver between the Company and Enterprises involves an intrasystem reorganization that has no effect on the ultimate control or ownership of Preserver.

The New Jersey Department of Banking and Insurance issued an Order No. A96-155 dated November 1, 1996, granting the request for an exemption from the filing and hearing requirements of the Insurance Holding Company Systems Act. On November 27, 1996, the 51 percent stock interest of Preserver Insurance Company was dividdened from Motor of America Enterprises, Inc. to Motor Club of America (Holding).

On December 2, 1996, Motor Club of America (Holding) sold Motor Club of America Enterprises, Inc. to JVL Holding Properties, Inc., a non-affiliated Oklahoma corporation.

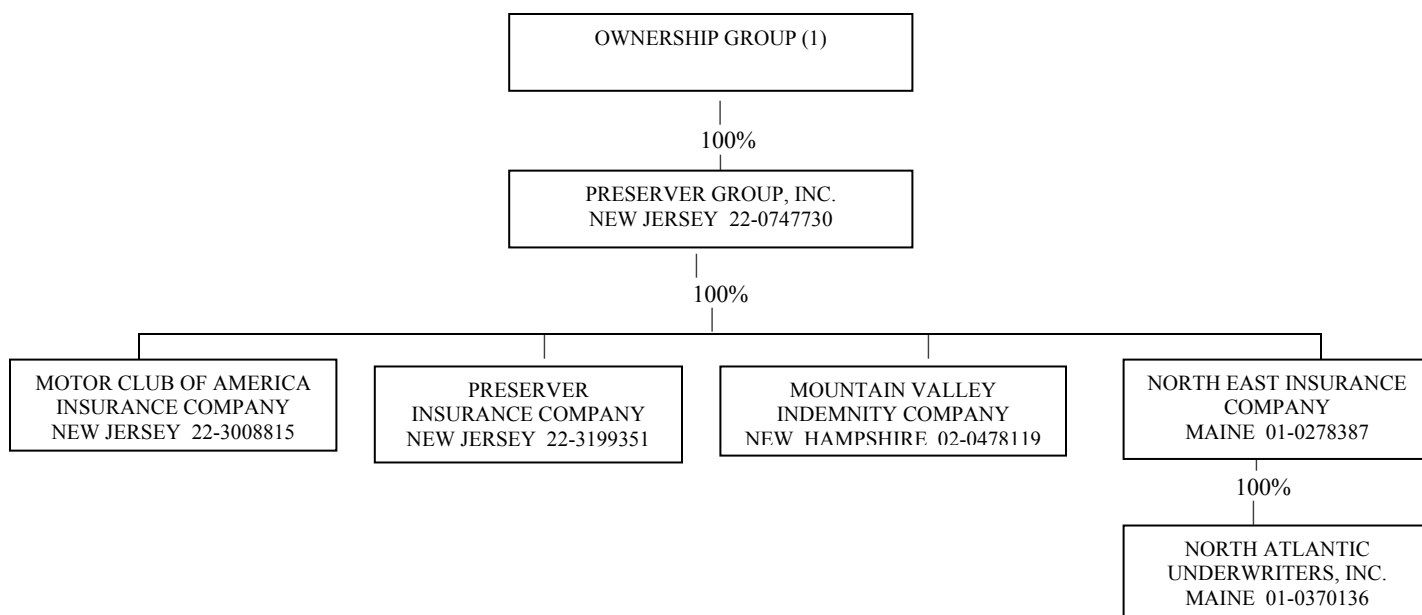
On September 30, 1998, Motor Club of America Insurance Company sold its 49% interest in Preserver Insurance Company (“Preserver”), a property-casualty insurance company domiciled in the State of New Jersey to Holding for \$2,837,579 in cash. The Company’s investment in Preserver at that date had a statement value of \$3,430,000. A realized loss of \$592,421 was recognized by Motor Club at that date, with a corresponding adjustment to unrealized losses. Preserver has no other transactions with affiliates which require disclosure.

In 2001 Motor Club of America (Holding) changed its name to Preserver Group, Inc. (PGI).

The Company had no subsidiaries at December 31, 2004.

The following organizational chart displays the chain of ownership of subsidiary and affiliated companies which members are members of the Preserver Insurance Group at December 31, 2004:

ORGANIZATIONAL CHART



(1) The ownership group consists of Archer McWhorter, William Earl Lobeck, Jr. and Alvin Ernest Swanner, all directors of the company. Of Mr. McWhorter’s 1,744,706 shares (43.5% of total common voting stock outstanding), 301,635 are owned by a family trust of which he is a trustee; upon conversion in full of Preserver Group, Inc.’s 8.44% unsecured subordinated debentures issued September 23, 1999, due September 23, 2009 (“Debentures”) and floating rate unsecured senior debentures issued October 30, 2003, due October 30, 2023 (“Senior Debentures”) held of record by Sleepy Lagoon, Ltd., a Texas partnership of which Mr. McWhorter is the general partner, 201,189 shares and 645,161 shares, respectively, would be acquired; 594,091 shares are owned by Sleepy Lagoon, Ltd.; and 2,000 shares are owned by his wife.

Of Mr. Lobeck’s 524,701 shares (13.1% of total common voting stock outstanding), 11,150 shares are owned by him, 193,767 shares would be acquired upon conversion of his Debentures; 298,119 shares are owned by a family trust of which he is a trustee; and 21,665 shares are owned by his wife’s family trust of which she is a trustee. Of Mr. Swanner’s 1,742,700 shares (43.4% of total common voting stock outstanding), 301,635 shares are owned by him; upon conversion in full of the Debentures and Senior Debentures issued in the name of Brion Properties, a Louisiana partnership of which Mr. Swanner is the general partner, 201,818 shares and 645,161 shares, respectively, would be acquired; and 594,086 shares are owned by Brion Properties.

Intercompany Agreements

The Company utilizes certain employees of Preserver Group, Inc. (PGI) under a management agreement.

The Company has filed Form D, Prior Notice of a Transaction, with the Department of Banking and Insurance, State of New Jersey, identifying affiliated parties to the transactions, as follows:

(A) – Management and Cost Sharing Agreement was entered into by Preserver Group, Inc. (Holding) and Preserver Insurance Company effective January 1, 2002. The main features of the Agreement are the following:

“1. (a) Holding agrees to provide management services to Preserver including but not limited to conducting the business of Preserver, issuing policies of insurance, collecting premiums, paying commissions, adjusting claims, establishing and managing bank accounts, supervising and handling investments and generally doing all other acts and things incidental to such management in the name of and on behalf of Preserver.

“Holding will pay Preserver premiums collected hereunder within forty-five (45) days from the date of the date of receipt of such premiums”.

“Holding agrees to pay:

- (a) Holding Subject Costs, and
- (b) on behalf of Preserver, commissions, claims and return premiums, specifically attributable to Preserver.

“Preserver agrees to pay Holding:

- (a) Preserver’s proportionate share of Holding Subject Costs;
- (b) An amount equal to five percent (5%) of the amount to be paid in (a) above; and
- (c) all amounts described in (b) above paid by Holding.

(B) – Tax Sharing Agreement was entered into by Motor Club of America (Parent) and its subsidiaries, including the Company, effective January 1, 1995. The parties to the Agreement agree that:

“A U.S. consolidated federal income tax return shall be filed by the Parent for the taxable year ending December 31, 1995 and for each subsequent taxable year in respect of which this Agreement is in effect and for which the Affiliated Group is required or permitted to file a consolidated federal income tax return. The Parent and each Subsidiary shall execute and file such consents, elections, and other documents that may be required or appropriate for the proper filing of such returns.”

At December 31, 2004 the Company did not have in place an executed tax allocation agreement. The Company subsequently executed a tax allocation agreement effective January 11, 2006.

Insurance Pooling Agreement

On March 1, 2000 the Company started a new pooling agreement with Mountain Valley Indemnity Company. Under the pooling agreement the Company as the lead participant shares 75% of the pooled business while Mountain Valley's share is 25%. The pooling agreement applies to losses and expenses occurring after March 1, 2000 and all premiums as of and subsequent to March 1, 2000.

FIDELITY BOND AND OTHER INSURANCE

The Company, in conjunction with its parent and other subsidiaries, is protected against loss or damage by various insurance coverages in amounts deemed sufficient to protect the interest of the Companies. The major insurance coverages at December 31, 2004 are as follows:

A - Fidelity Bond Coverage

Insurer: Travelers Casualty and Surety Company of America

Financial Institution Bond - insures the Company against possible losses from dishonesty or fraudulent acts committed by an employee. Coverage includes forgery or alteration of Company records, securities or computer systems - limit \$1,000,000 with a \$25,000 deductible per each single occurrence.

The current limit of the Company's fidelity coverage complies with the NAIC suggested minimum requirement.

B - The Company had the following additional insurance coverages through its parent, Preserver Group, Inc. at December 31, 2004:

- 1- Workers' Compensation and Employers' Liability.
- 2- Property Choice - Premises.
- 3- Umbrella Liability.
- 4- Commercial Automobile.
- 5- Directors and Officers Liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company utilizes the employees of the parent company, Preserver Group, Inc. under a Management agreement. Under the terms of this agreement employees are offered the following benefits:

401K Plan, Group Health and Related Benefits

The Company provides certain retirement and welfare benefits for all full-time employees and part-time employees working thirty (30) hours or more in a work week.

Life Insurance

The Company provides all full-time employees with life insurance, at no cost to the employee, on the first day of the month following successful completion of a full calendar month of employment. Part-time employees are entitled to life insurance benefits upon completion of 1000 hours in the calendar year.

Temporary Disability Insurance

The Short-Term Disability Earnings Continuation Plan becomes effective after five (5) consecutive days of absence. An employee is charged PTO (Personal Time Off) days for the first five days of absence.

The amount of income that can be received during a temporary disability is based on length of service and salary.

Workers' Compensation

Preserver provides workers' compensation insurance coverage for all employees in the event a job-related injury or illness renders the employee unable to work.

STATUTORY DEPOSITS

The Company had statutory deposits with the State of New Jersey with a book value of \$101,823 at December 31, 2001 and was comprised of the following:

	<u>Book Value</u>
U.S. Treasury Notes 3.875% 2/15/2013	\$101,823

The deposit is for the benefit and security of the policyholders of the Company.

INSURANCE PRODUCTS AND RELATED SERVICES

TERRITORY AND PLAN OF OPERATION

At December 31, 2004, the Company was licensed to conduct the business of insurance in the states of New Jersey, New Hampshire and Pennsylvania.

The Company commenced business on July 1, 1993, by assuming all in force business except private passenger automobile policies from Motor Club, then its immediate parent. The Company also assumed the corresponding outstanding losses, loss adjustment expenses and unearned premiums as of that date. This was accomplished through the execution of an Assumption Reinsurance and Administration agreement.

The Company wrote \$39,281,370 of direct premiums in 2004 on the following coverages:

<u>Type of Coverage</u>	<u>Direct Premiums Written</u>
Fire	\$ 274,095
Allied Lines	165,977
Homeowners' multiple peril	6,757,108
Commercial multiple peril	17,496,069
Inland marine	158,343
Workers' compensation	3,557,215
Other liability-occurrence	83,169
Other liability-claims made	808,387
Commercial auto liability	8,112,656
Auto physical damage	<u>1,868,351</u>
Total	<u>\$39,281,370</u>

The Company uses ESIS, Inc. as a third party administrator to manage workers' compensation claims. This agreement has been in effect since August 1, 2001.

At December 31, 2004 the Company was represented by 126 independent insurance agents in New Jersey and 28 agents in New Hampshire. The Company has been admitted to begin writing business in Pennsylvania and subsequent to the examination date in Delaware, but presently does not have any appointed agents in these states.

Claim servicing is performed at the Home Office. The Company utilizes certain employees of the Holding company under a Management Agreement.

POLICY FORMS AND UNDERWRITING

All policy forms used by the Company were ISO forms and were approved by the New Jersey Department of Banking and Insurance.

ADVERTISING

The Company did very limited advertising during the examination period. Preserver Insurance Company provides its independent agents with sales promotion materials to promote its commercial lines products and services.

TREATMENT OF POLICYHOLDERS

The complaint register maintained by the Company was reviewed and was determined to be in compliance with N.J.S.A. 17:29B-4(10).

REINSURANCE

The following ceded reinsurance agreements were in effect at December 31, 2004:

<u>LOB Covered</u>	<u>Reinsurance Type</u>	<u>Reinsurer Limit</u>	<u>Company Retention</u>	<u>Reinsurer Limit per Occurrence</u>	<u>Reinsurer</u>
<u>Workers Compensation:</u>					
1st XOL	Excess of Loss	\$350,000	\$150,000	\$350,000	American Re
2nd XOL	Excess of Loss	4,500,000	500,000	4,500,000	American Re
3rd XOL	Excess of Loss	10,000,000	5,000,000	5,000,000	American Re
	Excess of Loss	10,000,000	10,000,000	10,000,000	ACE P&C
<u>Personal Umbrella:</u>					
	Quota Share	1,000,000	5.0%	950,000	Employers
	Excess of Loss	2,000,000	1,000,000	1,000,000	Employers
<u>Commercial Umbrella:</u>					
	Quota Share	1,000,000	5.0%	950,000	Employers
	Excess of Loss	5,000,000	1,000,000	4,000,000	Employers
<u>Casualty Lines (excluding umbrella & workers compensation):</u>					
1st XOL	Multiline XOL	700,000	300,000	-	Employers
2nd XOL	Liability XOL	4,000,000	1,000,000	-	Employers

Auto Comprehensive:

1st XOL	Catastrophe	4,000,000	1,000,000	-	various
2nd XOL	Catastrophe	7,500,000	5,000,000	-	various
3rd XOL	Catastrophe	12,500,000	12,500,000	-	various
4th XOL	Catastrophe	17,500,000	25,000,000	-	various

Property Lines (excluding auto):

1st XOL	Multiline XOL	700,000	300,000	-	Employers
1st XOL	Property XOL	2,000,000	1,000,000	-	Employers
2nd XOL	Property XOL	2,000,000	3,000,000	-	Employers
1st XOL	Catastrophe	4,000,000	1,000,000	-	various
2nd XOL	Catastrophe	7,500,000	5,000,000	-	various
3rd XOL	Catastrophe	12,500,000	12,500,000	-	various
4th XOL	Catastrophe	17,500,000	25,000,000	-	various

Boiler & Machinery:

Quota Share 100%	-	-	25,000,000	Employers
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The Company uses the reinsurance intermediary of Guy Carpenter & Company, Inc. of Philadelphia, Pennsylvania for their property catastrophe excess of loss contract. The Company uses Towers Perrin Reinsurance as the reinsurance intermediary for a workers compensation excess of loss contract. The contracts contained the required intermediary clauses and complied with N.J.S.A. 17:22E-6.

The New Jersey Department of Banking and Insurance requires that when two or more affiliated companies are named in a reinsurance contract there should be a written reinsurance allocation agreement among the Companies. The Company did not have an agreement effective at December 31, 2004. A written allocation agreement was subsequently issued to the New Jersey Department of Banking and Insurance but is still under review.

It was noted that the multiple line excess of loss contract was executed and signed by the reinsurer beyond the nine month limit date of the effective date of the contract. The contract was effective January 1, 2004 and was signed on December 2, 2004. It is recommended, as in the last examination report, that the Company execute all reinsurance contracts in a timely manner.

Intercompany Pooling Arrangements

The Company was a member of an intercompany pooling arrangement with Motor Club of America Insurance Company. Under the pooling agreement, Motor Club shared in 70% of the pooled business while Preserver shared 30%. The pooling agreement applied to losses and expenses occurring between January 1, 1996 and December 31, 1997 and all premiums in force as of January 1, 1996 and written from that date through December 31, 1997. On December 31, 1998 the New Jersey Department of Banking and Insurance approved the termination of the pooling agreement on a run-off basis effective January 1, 1998. The Companies have no further liability to each under the pooling agreement on losses occurring after December 31, 1997.

On March 1, 2000 the Company started a new pooling agreement with Mountain Valley Indemnity Company. Mountain Valley Indemnity Company became authorized and accredited with the State of New Jersey on December 31, 2002. Under the pooling agreement the Company as the lead participant shares 75% of the pooled business while Mountain Valley's share is 25%. The pooling agreement applies to losses and expenses occurring after March 1, 2000 and all premiums as of and subsequent to March 1, 2000.

ACCOUNTS AND RECORDS

The general books of account and subsidiary records are maintained at the Company's administrative office located at 95 Route 17 South, Paramus, New Jersey. The Company utilizes an IBM AS 400 mainframe computer which runs Policy Management Systems Corporation's Point software for Premium Processing and Claims Processing.

The general ledger system utilized by the Company is Freedom Financial Series General Ledger software. The accounts payable system utilized by the Company is Freedom Financial Series Accounts Payable software.

Effective January 1, 1998, the Company outsources its investment accounting function to Conning Asset Management. The Company maintains a manual Reinsurance Accounting process.

A review of the information system and business continuity plan was performed by Thomas Walker of the New Jersey Department of Banking and Insurance. As a result of this review it is recommended that the Company fully populate the business continuity plan provided to them by their BCP consultant. Further, it is recommended that the Company establish a regular and rigorous test regime to help ensure that the plan will function as designed in the event it is needed.

An annual audit by an independent certified public accountant, BDO Seidman, LLP, was performed and a report was filed with the New Jersey Department of Banking and Insurance.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Financial statements and other exhibits are presented as listed below:

- | | |
|-----------|--|
| Exhibit A | Comparative Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2001 and December 31, 2004 |
| Exhibit B | Underwriting and Investment Exhibit for the Three Year Examination Period Ended December 31, 2004 |
| Exhibit C | Capital and Surplus Account for the Period Ended December 31, 2004 |

EXHIBIT A

COMPARATIVE STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AT
DECEMBER 31, 2001 AND DECEMBER 31, 2004

<u>Assets</u>	<u>12/31/2001</u>	<u>12/31/2004</u>	<u>Note</u> <u>Number</u>
Bonds	\$33,679,043	\$64,694,152	1
Common Stocks	0	0	1
Cash and Short - Term Investments	7,709,089	2,592,366	
Investment Income Due and Accrued	450,550	677,324	
Premiums and Agents' Balances in Course of Collection	1,557,007	2,265,203	
Not Yet Due	13,461,243	12,561,515	
Reinsurance Recoverable	175,433	3,329,966	
Federal Income Taxes Recoverable	2,111,096	0	
Net Deferred Tax Asset		2,780,526	
Receivable from Parent, Subsidiaries, and Affiliates	0	5,048,790	
Aggregate Write-Ins for Other Than Invested Assets	<u>0</u>	<u>0</u>	
Total Admitted Assets	<u><u>\$59,143,461</u></u>	<u><u>\$93,949,842</u></u>	
 <u>Liabilities, Surplus and Other Funds</u>			
Losses	\$16,463,732	\$36,848,465	2
Reinsurance Payable	0	56,239	
Loss Adjustment Expenses	4,205,821	7,736,429	2
Commissions Payable	155,436	577,930	
Other Expenses	475,920	92,441	
Taxes, Licenses and Fees	192,732	266,485	
Federal and Foreign Income Taxes	143,105	554,839	
Unearned Premiums	23,543,606	23,551,535	
Ceded Reinsurance Premiums Payable	(2,128,220)	604,029	
Amounts Withheld or Retained by Company For Account of Others	83,869	228,987	
Provision for Reinsurance	28,157	135,453	
Drafts Outstanding	497,272	0	
Payable to Parent, Subsidiaries and Affiliates	362,966	0	
Payable for Securities	<u>639,461</u>	<u>0</u>	
Total Liabilities	<u><u>\$44,663,857</u></u>	<u><u>\$70,652,832</u></u>	
Common Capital Stock	2,600,000	2,600,000	3
Gross Paid in and Contributed Surplus	12,400,000	19,900,000	3
Unassigned Funds	<u>(520,396)</u>	<u>797,010</u>	3
Surplus as Regards Policyholders	<u><u>\$14,479,604</u></u>	<u><u>\$23,297,010</u></u>	
Total Liabilities and Surplus	<u><u>\$59,143,461</u></u>	<u><u>\$93,949,842</u></u>	

UNDERWRITING AND INVESTMENT EXHIBIT FOR THE THREE YEAR
EXAMINATION PERIOD ENDED DECEMBER 31, 2004

	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>UNDERWRITING INCOME</u>			
Premiums Earned	<u>\$40,158,650</u>	<u>\$46,642,625</u>	<u>\$47,599,000</u>
<u>DEDUCTIONS</u>			
Losses Incurred	\$21,125,825	\$26,621,991	\$23,242,687
Loss Expenses Incurred	5,219,186	6,070,973	7,365,438
Other Underwriting Expenses Incurred	<u>14,875,886</u>	<u>17,726,611</u>	<u>18,113,016</u>
Total Underwriting Deductions	<u>\$41,220,897</u>	<u>\$50,419,575</u>	<u>\$48,721,141</u>
Net Underwriting Gain or (Loss)	(\$1,062,247)	(\$3,776,950)	(\$1,122,141)
<u>INVESTMENT INCOME</u>			
Net Investment Income Earned	\$2,608,999	\$2,033,813	\$2,275,617
Net Realized Capital Gains or (Losses)	<u>222,821</u>	<u>3,310,506</u>	<u>333,115</u>
Net Investment Gain or (Loss)	<u>\$2,831,820</u>	<u>\$5,344,319</u>	<u>\$2,608,732</u>
<u>OTHER INCOME</u>			
Net Gain or (Loss) From Agents' or Premium Balances Charged Off Finance and Service Charges Not Included In Premiums	(\$544,670)	(\$578,856)	(\$1,149,129)
Miscellaneous Income	<u>106,054</u>	<u>192,301</u>	<u>283,249</u>
	250	0	0
Total Other Income	<u>(\$438,366)</u>	<u>(\$386,555)</u>	<u>(\$865,880)</u>
Net Income Before Federal and Foreign Income Taxes Incurred	\$1,331,207	\$1,180,814	\$620,711
Federal and Foreign Income Taxes Incurred	<u>733,677</u>	<u>849,776</u>	<u>871,913</u>
Net Income	<u>\$597,530</u>	<u>\$331,038</u>	<u>(\$251,202)</u>

CAPITAL AND SURPLUS ACCOUNT FOR THE PERIOD ENDED
DECEMBER 31, 2004

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Surplus As Regards Policyholders, December 31, Prior Year	\$14,479,609	\$13,927,500	\$23,077,607
Net Income or (Losses)	597,530	331,038	(251,202)
Change in Net Unrealized Capital Gains or Losses	0	0	0
Change in Net Deferred Income Tax	496,929	548,022	758,099
Change in Non-Admitted Assets	(1,639,724)	827,218	(243,212)
Change in Provision for Reinsurance	(6,843)	(56,172)	(44,281)
Cumulative Effect of Changes in Accounting Principles	0	0	0
Surplus Adjustments - Paid In	<u>0</u>	<u>7,500,000</u>	<u>0</u>
Surplus As Regards Policyholders, December 31, Current Year	<u>\$13,927,501</u>	<u>\$23,077,606</u>	<u>\$23,297,011</u>

NOTES TO FINANCIAL STATEMENTS

BONDS

Note 1

The Company reported \$64,694,152 for bonds at December 31, 2004. The Company's securities held at Bank of America were verified by direct confirmation.

It was noted that the custodian agreement does not contain a provision regarding the obligation of the custodian, as provided for in the NAIC guidelines as follows:

"..That the bank as custodian is obligated to indemnify the Company for any loss of its securities in the bank's custody, as a result of the negligence or dishonesty of the bank's officers or employees or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction;

That in the event that there is a loss of securities for which the bank is obligated to indemnify the Company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced."

It is recommended, as in the last examination report, that the Company update its custodian agreement with Bank of America and include a provision stating the obligation of the custodian in accordance with the NAIC guidelines.

LOSSES AND LOSS ADJUSTMENT EXPENSES

Note 2

The Company's estimated liabilities at December 31, 2004 for unpaid losses, net of reinsurance, and unpaid loss adjustment expenses amounted to \$36,848,465 and \$7,736,429 respectively. The unpaid loss reserve included \$25,105,980 for reported losses and a provision for incurred but not reported losses of \$11,742,485.

A summary of the net losses and loss adjustment expense reserves by lines of business are shown below:

<u>Line of Business</u>	<u>Reported Losses</u>	<u>Net Incurred But Not Reported</u>	<u>Net Loss Reserves</u>	<u>Net LAE</u>
Fire	\$ 116,275	\$ -0-	\$ 116,275	\$ 5,709
Allied Lines	390,044	(7,500)	382,544	18,846
Homeowners Multiple Peril	1,953,772	142,418	2,096,190	639,233
Commercial Multiple Peril	7,887,523	3,765,000	11,652,523	3,300,442
Inland Marine	36,895	-0-	36,895	2,615
Workers' Compensation	3,375,365	2,926,277	6,301,642	1,038,981
Other Liability - Occurrence	7,184,635	2,197,500	9,382,135	1,319,765
Other Liability - Claims made	11,269	-0-	11,269	8,157
Private Passenger				
Auto Liability	16,779	-0-	16,779	-0-
Commercial Auto				
Liability	4,106,455	2,437,540	6,543,995	1,352,157
Auto Physical Damage	17,593	56,250	73,843	50,022
Aircraft	-0-	225,000	225,000	-0-
Burglary and Theft	9,375	-0-	9,375	339
Boiler and Machinery	-0-	-0-	-0-	163
Totals	<u>\$ 25,105,980</u>	<u>\$11,742,485</u>	<u>\$36,848,465</u>	<u>\$7,736,429</u>

A review and evaluation of the actuarial report prepared by the Company's outside actuary was performed by the Actuarial Unit of the New Jersey Department of Banking and Insurance Office of Solvency Regulation. The review indicated the report was performed using acceptable actuarial methodology and the reserve established by the Company's actuary has been accepted for examination purposes. The Department will contract with a consulting actuary to perform an independent analysis of the Company's reported reserves at December 31, 2005.

Differences were noted when loss triangles were reconciled to the Annual Statement Schedule P. The Company responded that the differences were the result of misallocation and "recasting" of losses by lines of business in 2002 and 2003. It is recommended that Schedule P be done correctly so that losses are classified in the correct lines of business in future Annual Statements.

It was noted that in 2002 the Company revised the allocation procedures for ULAE versus Other Expenses.

Outstanding reserves were verified by a review of claim files and an examination of Schedule P.

The statement of actuarial opinion, dated March 3, 2005 and prepared by Huggins Actuarial, Inc., states that the loss reserves are reasonably stated in the aggregate.

CAPITAL AND SURPLUS

Note 3

Common Capital Stock

The outstanding common capital stock of the Company at December 31, 2004 amounted to \$2,600,000 and consisted of 260,000 shares having a par value of \$10.00 per share.

Gross Paid in and Contributed Surplus

Gross paid in and contributed surplus at December 31, 2004 amounted to \$19,900,000. There was an addition of \$7,500,000 of paid in surplus made in 2003.

Unassigned Funds (Surplus)

The Company reported unassigned funds in the amount of \$797,010 at December 31, 2004. Some examination differences were noted but were below the materiality amount of \$1,164,851.

SUBSEQUENT EVENTS

The Company obtained a new Chief Financial Officer named Michael C. Haines in March of 2005.

Motor Club of America Insurance Company merged into Preserver Insurance Company effective May 7, 2005.

In 2005 the Company obtained a license to write business in the state of Delaware. The Company began to write its first policies in Pennsylvania in December of 2005. The Company is in the process of obtaining a license to write business in the states of Maryland, and Connecticut.

The Company executed a new Tax Allocation Agreement with the other members of the affiliated group effective January 11, 2006.

SUMMARY OF RECOMMENDATIONS

Page

Reinsurance

- 14 It was noted that the multiple line excess of loss contract was executed and signed by the reinsurer beyond the nine month limit date of the effective date of the contract. The contract was effective January 1, 2004 and was signed on December 2, 2004. It is recommended, as in the last examination report, that the Company execute all reinsurance contracts in a timely manner.

Accounts and Records

- 15 A review of the information system and business continuity plan was performed by Thomas Walker of the New Jersey Department of Banking and Insurance. As a result of this review it is recommended that the Company fully populate the business continuity plan provided to them by their BCP consultant. Further, it is recommended that the Company establish a regular and rigorous test regime to help ensure that the plan will function as designed in the event it is needed.

Bonds

- 19 It is recommended, as in the last examination report, that the Company update its custodian agreement with Bank of America and include a provision stating the obligation of the Custodian in accordance with the NAIC guidelines.

Loss and Loss Adjustment Expenses

- 20 Differences were noted when loss triangles were reconciled to the Annual Schedule P. The Company responded that the differences were the result of misallocation and "recasting" of losses by lines of business in 2002 and 2003. It is recommended that Schedule P be done correctly so that losses are classified in the correct lines of business in future Annual Statements.

CONCLUSION

The examination of Preserver Insurance Company was conducted by the undersigned with the assistance of Vinod Manchanda, Barnabas Jean Baptiste and the Actuarial Unit of the New Jersey Department of Banking and Insurance Office of Solvency Regulation.

I would like to take this opportunity to acknowledge the courtesy and assistance extended to the examiners by the officers and personnel of the Company throughout the course of this examination.

Respectfully Submitted,

/S/

Daniel J. Fialkowski

Daniel J. Fialkowski CFE, AIE, CPM, FLMI
Supervising Insurance Examiner

Preserver Insurance Company

I, Daniel J. Fialkowski, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as at December 31, 2004, to the best of my information, knowledge and belief.

Respectfully Submitted,

/S/

Daniel J. Fialkowski

Daniel J. Fialkowski CFE, AIE, CPM, FLMI
Examiner-In-Charge
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me.
On this 29th day of June, 2006.

/S/

Catherine M. Liptak

Notary Public of New Jersey
My commission expires January 21st, 2008