REPORT ON EXAMINATION

AS TO THE CONDITION OF

PRESERVER INSURANCE COMPANY

JERSEY CITY, NEW JERSEY

AS OF DECEMBER 31, 2013

NAIC GROUP CODE 3703

NAIC COMPANY CODE 15586

Filed

June 29, 2015

Commissioner
Department of Banking & Insurance

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SALUTATION

June 11, 2015

Honorable Kenneth E. Kobylowski
Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625-0325

Commissioner:

Pursuant to instructions and in accordance with **N.J.S.A.** 17:23-22, an examination as of December 31, 2013 was made of the financial condition and affairs of

PRESERVER INSURANCE COMPANY
NAIC GROUP CODE 3703 NAIC COMPANY CODE 15586

Hereinafter referred to as the "Company".

SCOPE OF THE EXAMINATION

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey ("NJDOBI") pursuant to the authority granted by N.J.S.A. 17:23-22. The examination was a full scope comprehensive examination and was conducted at the Company's main administrative office located at 120 Broadway, New York, 10271. The New York State Department of Financial Services – Property Bureau ("NYDFS") conducted a concurrent examination of the Tower Insurance Company of New York ("TICNY"), a New York domiciled insurer who is the lead State in the Tower Pool. (see Reinsurance Section in this report) Other States that participated were: California, Florida, Illinois, Maine, Massachusetts, New Hampshire and New Jersey.

The Company was last examined as of December 31, 2009. The current examination covers the period from January 1, 2010 through December 31, 2013 and was conducted under the NAIC's Lead State approach.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook ("The Handbook"). The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identification and assessment of inherent risks within the company and evaluation of system controls and procedures used to mitigate those risks. An examination also includes assessment of the principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations. The general procedure of the examination followed the rules established by the Financial Condition, Examination and Reporting Committee of the NAIC, and included such other examination procedures as were deemed necessary.

During the course of this examination, consideration was given to work performed by both the Company's Internal Audit Department ("IAD") as regards to their oversight of compliance with Sarbanes-Oxley ("SOX"), risk analysis, documentation, test work, remediation efforts over weaknesses identified, and by the Company's external accounting firm. Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

In addition to the review of the Company's operations during the four-year period ending December 31, 2013, and a determination of its financial condition as of the later date, transactions occurring subsequent to the examination date were reviewed and incorporated herein when deemed appropriate. A review was made of the following matters to ascertain the Company's financial condition and its conformity with the insurance laws of the various jurisdictions in which it operates:

History and Kind of Business
Territory and Plan of Operation
Management and Control
Corporate Records
Policy on Conflict of Interest
Affiliated Companies
Holding Company System
Inter-company Agreements
Fidelity Bond and Other Insurance Coverages
Policy Forms and Underwriting, Advertising, and Treatment of Policyholders
Reinsurance
Accounts and Records

No market conduct examination activities were undertaken. This report is confined to financial statements and comments on matters, which involve departures from law, regulations, rules, or any other matters, which are deemed to require special explanation or description.

Surplus as regards policyholders determined by the examination, at the examination date, consisted of the following:

Special Surplus from retroactive reinsurance (2013)	$1,285,602
Common Capital Stock	$4,850,000
Gross Paid in and Contributed Surplus	34,166,257
Unassigned Funds	(30,337,029)
Surplus as Regards Policyholders	$9,964,830

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

No written comments or recommendations were made as a result of the prior examination. Some recommendations were made in the Exit Conference Memo.

HISTORY AND KIND OF BUSINESS

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 NJDOBI dated December 29, 1992. The authorized capital stock of the Company is $2,000,000 consisting of 200,000 shares of common stock with a par value of $10.

A June 30, 1995 amendment to the Certificate of Incorporation, filed with the NJDOBI on August 10,1995, increased the capital stock of said Company to $2,600,000 consisting of 260,000 shares of common stock with a par value of Ten Dollars $10 each.

The Company is authorized through its Certificate of Incorporation to transact the business of insurance as specified in paragraphs “a”, “b”, “e”, “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 NJDOBI, 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.

On April 10, 2007, Preserver Group, Inc. (“PGI”), the parent company of the Company, was purchased by Tower Group, Inc. (“Tower Group”). The purchase included the Company and its subsidiaries, North East Insurance Company (“NEIC”), Mountain Valley Indemnity Company (“MVIC”), and North Atlantic Underwriters, Inc. (“NAUI”). On July 31, 2007, the Company amended its certificate of incorporation to add lines "g", "m" and "o", plus Health Insurance, and increased its authorized capital stock to $4,850,000.00 consisting of 485,000 shares of common stock with a par value of $10 each.

The Company's current statutory home office is located at 800 Plaza Two, Jersey City, NJ 07311-1104. The examination was conducted at the Tower Group, Inc., home office located at 120 Broadway, New York, NY 10271.

Adam B. Perri is the registered agent upon whom process may be served in accordance with N.J.S.A. 17:50-4.

TERRITORY AND PLAN OF OPERATION

At December 31, 2013, the Company was licensed to conduct the business of insurance in 44 states and the District of Columbia.

The Company wrote $50,336,759 of direct premiums in 2013 on the following coverages:

Types of Coverage		Direct Premiums Written
Fire	$	48,656
Allied Lines		53,575
Commercial Multiple Peril		7,101,019
Inland Marine		13,563
Earthquake		1,498
Workers' Compensation		28,544,135
Other Liability - Occurrence		393,277
Products Liability - Occurrence		354
Private Passenger Auto Liability		(17,367)
Commercial Auto Liability		13,759,827
Auto Physical Damage		432,833
Fidelity		1,265
Burglary and Theft		870
Boiler and Machinery		3,255
Total	$	50,336,759

The Company's direct written business is produced through independent retail, wholesale and program underwriting agents and consists of commercial insurance lines with a primary focus on commercial package policies in New Jersey and California.

DIVIDENDS TO STOCKHOLDERS

During the examination period, dividends to stockholders of $4,000,000 were paid in 2012.

MANAGEMENT AND CONTROL

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 twenty-five (25) directors nor less than five (5) directors.

The members of the Board of Directors elected and serving at December 31, 2013 were as follows:

Name	Title, Principal Business Affiliation
William F. Dove	Chief Actuary, Tower Group International, Ltd.
William E. Hitselberger	CFO, Tower Group International, Ltd.
Elliott S. Orol	General Counsel, Tower Insurance Company of New York
Bruce W. Sanderson	President, Hermitage Insurance Company
Catherine M. Wragg	SVP Human Resources, Tower Insurance Company of New York

The Company was found compliant with all applicable Statutes as regards corporate governance.

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.

The Company’s ultimate parent, Tower Group International, Ltd., has the following committees:

Audit Committee
Compensation Committee
Corporate Governance and Nominating Committee, and
Investment Committee

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, 2013:

Bruce W. Sanderson, President and Chief Executive Officer
William E. Hitselberger, Executive Vice President, Chief Financial Officer, and Treasurer
Elliot S. Orol, Senior Vice President, General Counsel, and Secretary

It was determined that the entity controlling the Company, Tower Group, Inc. does have a Board of Directors and committees thereof that satisfies the requirements of N.J.S.A. 17:27A-4d(3) and 17:27A-4d(4).

CORPORATE RECORDS

The minutes of the meetings of the Board of Directors were reviewed and found to support adequately the Company transactions and events. There are several key management committees at the parent level which provide governance and serve each company in the Tower Group.

POLICY ON CONFLICTS OF INTEREST

The Company has adopted a Code of Business Conduct and Ethics ("the Code"). This policy states that every employee, officer and director read and understands the Code and its application to the performance of his or her business responsibilities. All employees must sign an acknowledgement that they have received and read a copy of the Code as a condition of employment and may be asked to reaffirm their receipt of the document at the discretion of the Company.

AFFILIATED COMPANIES

On April 10, 2007, PGI, was purchased by Tower Group Inc. and Tower Insurance Company of New York. The purchase included the Company and its affiliates North East Insurance Company, Mountain Valley Indemnity Company and Northern Atlantic Underwriters, Inc. On December 19, 2012, the Company purchased 2,813 shares of the common stock of York Insurance Company of Maine ("YIC") constituting nine percent of the issued and outstanding shares of the common stock of YIC, from CastlePoint National Insurance Company ("CPNIC"), an affiliate, for the purchase price of $4,246,308. The Company had no other investments in subsidiaries at December 31, 2013.

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

HOLDING COMPANY SYSTEM

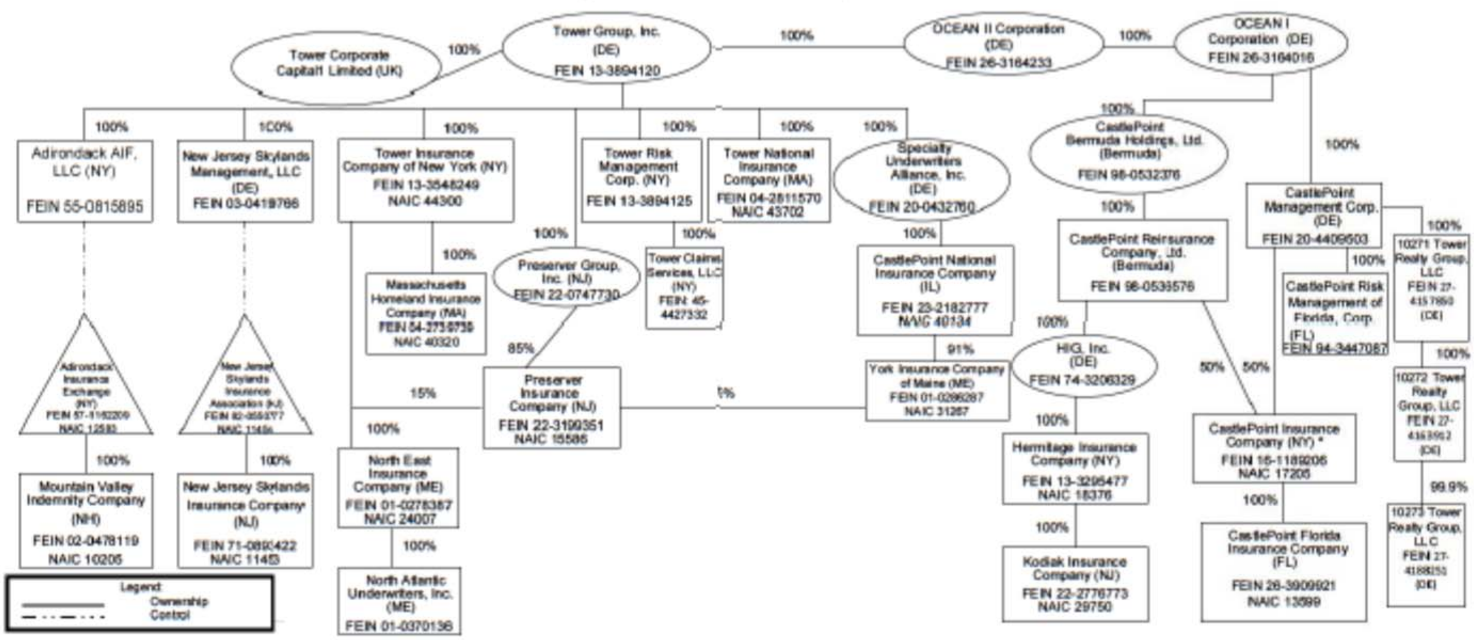
The Company is a wholly owned subsidiary of Tower Group, Inc., a publicly traded holding company based in the State of New York.

There is no person or entity which owns more than 10% of the Tower Group International, Ltd. ("TGIL).

Tower, through its subsidiaries, offers a range of general commercial, specialty commercial and personal property and casualty insurance products and services to businesses in various industries and to individuals throughout the United States. These products are provided on both an admitted and an excess and surplus lines basis

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

Organizational Chart of Tower Group, Inc.



* All outstanding shares of CastlePoint Insurance Company ("CPIC") are owned 50% by CastlePoint Management Corp. ("CPM") and 50% by CastlePoint Reinsurance Company, Ltd. ("CPRe"). With respect to the ownership of CPIC, there are no voting rights preferences assigned to either CPM or CPRe.

INTER-COMPANY AGREEMENTS

The Company has the following significant operating agreements with its affiliates:

Pooling Agreement Tower Insurance Company of New York is lead insurance company (See the "Reinsurance – Intercompany" section in this report.)

Tax Allocation Agreement with all Tower Companies

A tax allocation agreement dated September 12, 2008 between Tower Group and its subsidiaries allows the Company to compute and pay Federal income taxes on a consolidated basis. At the end of each consolidated return year, each entity must compute and pay to the Holding Company its share of the Federal income tax liability primarily based on separate return calculations. The tax allocation agreement allows the Holding Company to make certain IRS Code ("Code") elections in the consolidated Federal tax return. In the event such Code elections are made, any benefit or liability is accrued or paid by each entity. If a unitary or combined state income tax return is filed, each entity's share of the liability is based on the methodology required or established by state income tax law or, if none, the percentage equal to each entity's separate income or tax divided by the total separate income or tax reported on the return.

Service and Expense Sharing Agreement with Tower Insurance Company of New York

Effective May 1, 2009, the company entered into a Service & Expense Sharing Agreement with TICNY. Under the terms of this agreement, TICNY performs all functions related to the conduct of property and casualty business.

1. Underwriting and marketing;
2. Policy issuance, billing, and collection;
3. State filing and regulatory compliance;
4. Loss prevention, premium audit;
5. Claims services; and
6. Administrative services (i.e., Human Resources, IT, and facilities).

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company, in conjunction with its parent and other subsidiaries, is protected against loss or damage by various insurance coverages. The major insurance coverages at December 31, 2013, are:

Fidelity Bond Coverage

Insurer: St. Paul Fire and Marine Insurance Company
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, counterfeit currency, servicing contractors/third party administrators or computer systems - limit $5,000,000 with a $250,000 deductible per each single occurrence.

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

Other Insurance Coverages

Additional insurance coverages through TGIL at December 31, 2013:

Commercial Package Policy
Business Auto
Workers Compensation
Umbrella
Directors and Officers and Company Securities Liability

STATUTORY & SPECIAL DEPOSITS

Statutory deposits held for the benefit of all policyholders, and all other special deposits held by various States as of December 31, 2013 were $3,460,803 and $32,933,775 respectively.

POLICY FORMS AND UNDERWRITING, ADVERTISING, AND TREATMENT OF POLICYHOLDERS

These matters are monitored and reviewed by the responsible sections of the NJDOBI. There were no significant issues pending communication to the examiners for the period under review.

REINSURANCE

Reinsurance - Intercompany

Effective January 1, 2008, the TICNY ("Pool Manager"), entered into a pooling agreement with its affiliates CastlePoint Insurance Company ("CPIC"), CPNIC, Hermitage Insurance Company ("HIC"), NEIC, and MVIC, collectively referred to as "the Participants".

The pooling participants and each of their percentage participations in the pooled results are as follows:

		Pooling Percentage as of 12/31/XXXX			
Name of Insurer	**State of Domicile**	**2010**	**2011**	**2012**	**2013**
TICNY **(**)**	New York	37%	37%	37%	22%
CPIC	New York	16%	16%	19%	22%
CPNIC	Illinois	18%	18%	18%	21%
HIC	New York	13%	13%	13%	21%
Preserver Ins. Co.	New Jersey	7%	7%	7%	8%
NEIC	Maine	4%	4%	4%	4%
TNIC	Massachusetts	2%	2%	2%	2%
MVIC **(***)**	New Hampshire	3%	3%	0%	0%

(**) Lead company and pool manager.

(***) MVIC exited the pool on January 1, 2012 as a result of its sale to Adirondack AIF, LLC ("AIE"), an affiliate. CPIC assumed the 3% participation percentage of MVIC.

Pool participants other than TICNY cede 100% of gross business (direct and assumed) to TICNY, and TICNY assumes 100% of gross business with respect to policies issued and assumed by the pool participants other than TICNY. All lines of business are subject to the pooling arrangement. TICNY cedes to the pool participants their respective share of the pool including business written net of cessions on its own account.

At the end of each quarter, the pool participants report relevant results to TICNY. In turn, TICNY reports similar information to each pool participant based upon their respective pooling percentage. Balances are to be settled within 15 days after the preparation and receipt of the account reports.

TICNY is responsible for securing reinsurance on the pool premiums from non-affiliated reinsurers and its affiliated reinsurer, CastlePoint Reinsurance Company, Ltd. ("CPRe"). Notwithstanding this process, each pool participant has a contractual right of direct recovery from its own facultative re-insurers per the terms of the reinsurance agreement.

<u>Quota Share Reinsurance Agreement with CastlePoint Reinsurance Company</u>

Effective July 1, 2009, the Company, TICNY, TNIC, NEIC, MVIC, CPIC and HIC, (collectively "the Companies") entered into a 50% net quota share reinsurance agreement with CPRe, whereby the Companies cede 50% of their net retained liability to CPRe. Net retained liability means the liability for losses and loss adjustment expenses which the company retains net for its own account and unreinsured after recoveries from inuring reinsurance. The Agreement was revised on January 1, 2010, to include Specialty Underwriters Alliance, Inc. ("SUA").

Reinsurance Assumed

The Company directly assumes involuntary business only through the National Workers' Compensation Reinsurance Pool, New Jersey Commercial Auto Insurance Procedure, and the New Jersey Fair Plan.

Reinsurance Ceded

Reinsurance ceded contracts in force as of December 31, 2013, of the Pool Manager (TICNY) were reviewed as part of the examination. The agreements contained all requisite provisions and clauses.

ACCOUNTS AND RECORDS

The general books of account and subsidiary records are maintained at the Tower Group, Inc., offices located at 120 Broadway, New York, NY, 10271. Tower Group, Inc., utilizes the SunGard General Ledger and Accounts Payable System software.

Policy administration, claim reserves and claim payments are processed with various software systems that feed into the SunGard General Ledger System.

Investment transactions are recorded in the general ledger on a monthly basis via CAMRA software system upload files.

Independent Auditor

The Company's GAAP financial statements were audited by the firm of PriceWaterhouseCoopers ("PwC"), of New York, New York. The examiners reviewed the audited GAAP financial statements for the years ended 2010 through 2013. The examiners also reviewed the audited statutory financial statements for the years ended 2010 through 2012, prepared by PwC (Note: At the date of this Report of Examination, the audited statutory financial statements for the year ended 2013 were not yet made available by BDO USA, the Company's new independent auditor.) For these years, the Company was issued an unqualified opinion.

As noted in the "Scope of Examination" section of this report, the examiners reviewed PwC's 2013 work papers, and incorporated their work and findings into our examination documentation where applicable.

Effective Q1 2014 the Company retained the services of BDO USA to perform the independent audit of its financial statements. The change in auditor was made as a result of the anticipated agreement and plan of merger with ACP Re Ltd., which was approved by regulators on September 15, 2014.

Actuarial Opinion

The Company’s loss reserves and related actuarial items were reviewed by Towers Watson. The opinion noted that the reserves were computed in accordance with accepted loss reserving standards and principles, which meet the requirements of the insurance laws of the state of New Jersey.

The loss reserving review was performed by the NYDFS.

Information Systems Control Review

The NYDFS contracted with Risk & Regulatory Consulting, LLC (“RRC”) to perform a review of Information Technology General Controls (“ITGCs”) and application controls of as part of the financial examination. On an overall basis, the IT examination concluded that Tower Insurance Group, Inc. had generally strong ITGCs.

Based on the results of application controls testing, it was determined that certain applications were ineffective. The examination testing plans considered this in the design of the risk matrices.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Financial statements and other exhibits are presented as listed below:

Exhibit A - Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2013 and 2009

Exhibit B - Underwriting and Investment Exhibit for the four year examination periods ended December 31, 2013

Exhibit C – Capital and Surplus Account for the periods ended December 31, 2010 through 2013

Statement of Assets, Liabilities, Surplus and Other Funds as of 12/31/13 - Exhibit A

ASSETS	Balance per Examination	Balance per Company as of: 12/31/13	Examination Change	Note Number
Bonds	$ 41,910,355	$ 41,910,355		
Preferred and Common Stocks	9,857,734	9,857,734		
Cash & short term	72,440,501	72,440,501		
Other invested assets	11,423,776	11,423,776		
Investment income due and accrued	955,505	955,505		
Uncollected premiums and agents' balances in the course of collection	6,793,251	6,793,251		
Deferred premiums, agents' balances	12,492,127	12,492,127		
Accrued retrospective premiums	81,690	81,690		
Amounts recoverable from reinsurers	2,139,624	2,139,624		
Funds held by or deposited with reinsured companies	2,397,773	2,397,773		
Current federal and foreign income tax recoverable	1,760,098	1,760,098		
Aggregate write-ins for other than invested assets	7,567,797	7,567,797		
Total Assets	$ 169,820,231	$ 169,820,231	$ -	
LIABILITIES:				
Losses	73,080,283	73,080,283		1
Reinsurance payable on paid losses and LAE	171,269	171,269		
Loss adjustment expense	13,146,349	13,146,349		1
Commissions payable	333,133	333,133		
Other expenses	3,769,145	3,769,145		
Unearned premiums	23,026,088	23,026,088		
Advance premiums	938,964	938,964		
Ceded reinsurance premiums payable	14,187,020	14,187,020		
Funds held by company under reinsurance treaties	8,273,754	8,273,754		
Amounts withheld or retained by company for account of others	82,740	82,740		
Payable to parent, subsidiaries and affiliates	20,197,946	20,197,946		
Aggregate write-ins for liabilities	2,588,526	2,588,526		
Total Liabilities	$ 159,855,401	$ 159,855,401	$ -	
SURPLUS AND OTHER FUNDS:				
Aggregate write-ins for special surplus funds	$ 1,285,602	$ 1,285,602		
Common capital stock	4,850,000	4,850,000		
Gross paid in and contributed surplus	34,166,257	34,166,257		
Unassigned funds (surplus)	(30,337,029)	(30,337,029)		
Surplus as regards policyholders	9,964,830	9,964,830		
Total Liabilities, Surplus and Other Funds	$ 169,820,231	$ 169,820,231	$ -	

Underwriting and Investment Exhibit for the four year period ending December 31, 2013 – Exhibit B

	2013	2012	2011	2010
Underwriting Income				
Premiums earned	$ 66,174,542	$ 72,639,456	$ 65,488,554	49,115,867
Deductions:				
Losses incurred	54,881,352	42,692,868	39,670,797	25,401,339
Loss adjustment expenses incurred	15,159,524	12,020,813	6,117,895	5,054,025
Other underwriting expenses incurred	26,179,682	27,885,840	23,257,098	18,754,830
Aggregate write-ins for underwriting deductions	-	-	-	-
Total underwriting deductions	96,220,558	82,599,521	69,045,790	49,210,194
Net underwriting gain or (loss)	(30,046,016)	(9,960,065)	(3,557,236)	(94,327)
Investment Income				
Net investment income earned	4,446,055	4,554,178	4,874,203	4,503,794
Net realized capital gains (losses)	2,676,758	1,961,487	1,511,201	3,144,256
Net investment gain or (loss)	7,122,813	6,515,665	6,385,404	7,648,050
Other Income				
Net gain (loss) from agents' or premium balances charged off	(420,542)	(365,695)	(355,354)	(282,989)
Finance and service charges not included in premiums	786,171	649,694	586,962	359,812
Aggregate write-ins for miscellaneous income	(4,601,610)	(271,059)	(254,372)	(189,610)
Total other income	(4,235,981)	12,940	(22,764)	(112,787)
Net income before dividends to policyholders and before federal and foreign income taxes	(27,159,184)	(3,431,460)	2,805,404	7,440,936
Less: Federal & foreign income taxes incurred	(1,654,399)	(1,314,248)	(311,215)	2,486,570
Net income/(loss)	$ (25,504,785)	$ (2,117,212)	$ 3,116,619	$ 4,954,366

Capital and Surplus for the four year period ending December 31, 2013 – Exhibit C

	2013	2012	2011	2010
Net income	(25,504,785)	(2,117,212)	3,116,619	4,954,366
Change in net unrealized capital gains of (losses)	519,095	772,261	(593,044)	2,172,247
Change in net deferred income tax	(10,329,967)	154,872	(670,890)	(696,111)
Change in nonadmitted assets	3,506,265	1,747,203	9,396	479,484
Surplus adjustments: Paid in	1,005,749	-	-	-
Dividends to stockholders		(4,000,000)		
Aggregate write-in for gains and losses in surplus	(653,367)	(1,781,410)	468,699	214,154
Change in Surplus as regards to policyholders for the year	(31,457,010)	(5,224,286)	2,330,780	7,124,140
Surplus December 31 previous year	$ 41,421,840	$ 46,646,126	$ 44,315,346	$ 37,191,206
Surplus December 31 current year	$ 9,964,830	$ 41,421,840	$ 46,646,126	$ 44,315,346

NOTES TO FINANCIAL STATEMENTS

Note 1 Losses

A review was conducted by Milliman of the reserves for losses and loss adjustment expenses carried by the Tower Pool at December 31, 2013. The review noted significance deficiencies in the reserves for loss and loss adjustment expenses carried by the Tower Group. These deficiencies were due primarily to adverse development in prior year's within the casualty related lines of business, including workers compensation, commercial multi-peril, other liability and commercial automobile liability lines. No adjustment was made in this report related to the deficiencies noted by Milliman due to the events related to the Agreement and Plan of Merger which took place on January 3, 2014 between the Tower Group, ACP Re Ltd. ("ACP Re") and a wholly owned subsidiary of ACP Re. These events are described with in the Subsequent Event section of this report.

SUBSEQUENT EVENTS

The following is a description of subsequent events related to the Merger Agreement between the Tower Group and ACP Re. This summary is provided by the Company.

In order to address the significant problems Tower Group faced in 2013, on January 3, 2014, Tower Group, ACP Re Ltd. ("ACP Re"), and a wholly-owned subsidiary of ACP Re entered into an Agreement and Plan of Merger (the "Merger Agreement"), by which ACP Re would acquire Tower Group. The controlling shareholder of ACP Re is a trust established by the founder of AmTrust Financial Services, Inc. ("AmTrust"), National General Holdings Corporation ("NGHC") and Maiden Holdings, Ltd. In connection with ACP Re's acquisition of Tower Group, AmTrust and NGHC agreed to: (i) acquire, resepectively, Tower Group's on-going commercial lines business and on-going personal lines business; (ii) administer the run-off of the pre-closing Tower Group business; (iii) provide stop-loss coverage in the amount of $250 million in connection with the run-off of the pre-closing Tower Group business and (iv) hire the majority of Tower Group's employees to both administer the run-off of Tower Group's pre-closing business and the on-going Tower Group business acquired by AmTrust and NGHC.

In connection with the execution of the Merger Agreement, Tower Group and subsidiaries of AmTrust and NGHC, effective January 1, 2014, entered into two 100% Cut-Through Reinsurance Agreements, such that subsidiaries of AmTrust and NGHC reinsured, respectively, 100% of all new and renewal commercial lines business and personal lines business written by the Tower Group, and 100% of the unearned premium with respect to at least 60% of the Tower Group business which was in-force at January 1, 2014.

Throughout 2014, Tower Group’s financial condition continued to deteriorate resulting in A.M. Best downgrading the financial strength rating of Tower Group and its operating subsidiaries from a “B (Fair)” to a financial strength rating of “C (Weak)” on August 28, 2014.

Following the receipt of all required regulatory approvals, including [DOBI’s] order approving the Form A application, ACP Re closed on its acquisition of Tower Group on September 15, 2014.

Effective September 15, 2014, CastlePoint Reinsurance Company, Ltd. ("CPRe"), Tower Group’s Bermuda reinsurer and the Tower Group’s U.S. Insurers entered into a loss portfolio transfer agreement, in which CPRe assumed all insurance liabilities and unearned premiums for business written prior to September 15, 2014. AmTrust and NGHC provide $250 million in stop-loss reinsurance coverage for these liabilities, which will attach in the event claim payments exceed Tower Group’s reserves as of September 30, 2014.

Effective September 15, 2014, AmTrust and NGHC, on behalf of CPRe and the Tower Group’s U.S. insurers are the administrators of the run-off of Tower Group’s legacy business and, pursuant to managing general agency agreements and 100% quota share reinsurance agreements, manage and reinsure all post-September 15, 2014 business written by Tower Group’s U.S. insurers, for which they retain no risk and receive a net 2% commission.

Effective November 1, 2014, Tower Group’s U.S. Insurers entered into a Quota Share Reinsurance Agreement with ACP Re, which covers all business, if any, which is not otherwise reinsured by CPRe, AmTrust or NGHC.

As of September 15, 2014, Tower Group’s U.S. insurers retain no net insurance risk.

On December 4, 2014, A.M. Best upgraded the financial strength rating of the Company and the Tower U.S. Insurers to "A- (Excellent)" with a stable outlook.

In early 2015, Tower Group management engaged Huggins Actuarial Services, Inc. ("Huggins") to complete an assessment of Tower U.S. Insurers reserves as of September 31, 2014 and December 31, 2014. As of December 31, 2014, on both a gross and net basis, Huggins determined that the Tower U.S. Insurers reserves are within Huggins’ low and high estimate of reserves, but below the central estimate by $98.5 million on a gross basis, and $54.4 million on a net basis. Further, after considering the $250 million stop-loss reinsurance coverage from AmTrust and NGHC, December 31, 2014 reserves are effectively reported at the Huggins central estimate on both a gross and net basis.

SUMMARY OF RECOMMENDATIONS

There were no specific recommendations as a result of this examination. Any recommendations have been made in the Exit Conference Memo.

CONCLUSION

The December 31, 2013 examination of the Preserver Insurance Company was conducted by the undersigned under the direction of the State of New Jersey Department of Banking and Insurance.

The courteous cooperation and assistance extended during the course of this examination by the Officers of the Company and members of the office staff are hereby acknowledged.

Respectfully submitted,

/S/

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Shawn L. Hernandez, CFE
Risk & Regulatory Consultants LLC
Examiner-in-Charge
Representing the New Jersey Department of Banking and Insurance

Under the supervision of,

/S/

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Robert Redden
CFE Reviewer
Office of Solvency Regulation
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me,__Shawn L. Hernandez & Robert Redden____
On this ___12th__ day of ____June__, 2015

/S/

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Sheila M. Tkacs
Notary Public of New Jersey
My commission expires: ____July, 2015