

REPORT ON EXAMINATION AS TO THE CONDITION OF

NEW JERSEY RE-INSURANCE COMPANY

TOWNSHIP OF EWING, NEW JERSEY 08628

AS AT DECEMBER 31, 2004

N.A.I.C. GROUP CODE 708

N.A.I.C. COMPANY CODE 35432

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
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JON S. CORZINE
Governor

STEVEN M. GOLDMAN
Commissioner

June 15, 2006

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

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

NEW JERSEY RE-INSURANCE COMPANY
TOWNSHIP OF EWING, NEW JERSEY
N.A.I.C. GROUP CODE 708
N.A.I.C. COMPANY CODE 35432

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the New Jersey Re-Insurance Company will be referred to in this report as the "Company" or "NJRE".

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 Section 17:23-22 of the New Jersey Revised Statutes. The examination was made concurrently with a financial condition examination of the Company's parent, New Jersey Manufacturers Insurance Company (NJM) and its affiliates, New Jersey Casualty Insurance Company (NJC) and New Jersey Indemnity Insurance Company (NJI).

The examination was made as at December 31, 2004, and addressed the five-year period from December 31, 1999, the date of the last Financial Condition Examination. During this five-year period under examination, the Company's assets increased from \$ 1,010,234,658 to \$1,366,830,606. Liabilities increased from \$ 622,009,283 to \$ 745,101,532 and its surplus to policyholders increased from \$ 388,225,375 to \$ 621,729,074.

The conduct of the examination was governed by the procedures outlined in the NAIC Financial Condition 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, the results of the analytical reviews performed within the New Jersey Department of Banking and Insurance and by the examination staff.

The material balance sheet accounts specific to the Company and the emphasis placed on each account for this examination are as follows:

Loss and Loss Adjustment Expenses	Medium
Unearned Premiums	Medium
Investments	Medium
Reinsurance	Medium

The control risk level will ultimately determine the amount of emphasis placed on each account. Based on our review of Exhibit B, discussions with the Department's EDP Consultant concerning the completion of Exhibit C by the Company, a review of the cycle questions and verification of Company responses to these questions on a test basis, the control risk will be high and the intended reliance on the Company's control environment has been determined to be low.

Among other areas reviewed during this examination included:

- History and Kind of Business
- Management and Control
- Territory and Plan of Operation
- Accounts and Records
- Employees' Welfare and Pension Plans
- Fidelity Bond and Other Insurance Coverages
- Treatment of Policyholders

The examination report, contained herein, will address significant balance sheet accounts and, if necessary, comments on those accounts which involve departures from laws, regulations or rules, or which are deemed to require special explanation or description. The examination has chosen an NAIC

recommended program called "Teammate" which allows the examiners to complete a strictly computerized examination of the Company.

HISTORY AND KIND OF BUSINESS

The New Jersey Re-Insurance Company was formed for the purpose of transacting the business of reinsurance and such other insurance business as the laws of New Jersey may authorize, pursuant to the provisions of Title 17 (N.J.S.A. 17:17-1 to 17:17-33) of the New Jersey Revised Statutes. The Company's Certificate of Incorporation was examined and approved by the Attorney General of the State of New Jersey on November 21, 1977, recorded in the office of the Clerk of Mercer County on November 22, 1977 and filed with the Department of Insurance on December 2, 1977.

On December 15, 1992 New Jersey Manufacturers Insurance Company transferred \$ 50,000,000 of securities to NJRE in the form of a capital contribution. On May 10, 1994 the Company amended its Certificate of Incorporation to provide for capital stock of \$ 6,000,000 divided into 500,000 shares with a par value of \$12 each. From this, 499,972 shares were issued and outstanding to the New Jersey Manufacturers Insurance Company at December 31, 1995, with the remaining 28 shares issued one share each to 28 Directors of NJRE.

The Company is a domestic property and casualty insurance company and was issued a Certificate of Authority on December 21, 1977 by the New Jersey Commissioner of Insurance. It is authorized to transact the business of making insurance (reinsurance) against the various risks and perils named in Title 17, Chapter 17 of the "Revised Statutes "a", "b", "e", "f", "g", "i", "j", "k", "l", "m", "n" and specifically, as provided for in paragraph "o", against all physical loss to buildings and structures, including consequential loss, and loss or damage to property of others except as provided for in paragraphs "a" to "n" inclusive of Section 17:17-1 of the Revised Statutes of New Jersey, being the kind of insurance (reinsurance) permitted to be written by the Company's Certificate of Incorporation.

The Company amended its Certificate of Incorporation on October 31, 1997, modifying Paragraph "Third" as follows:

Third: The kinds of insurance and reinsurance which may be transacted by the corporation are those kinds of insurance authorized by paragraphs, "a", "b", "e", "f", "g", "i", "j", "k", "l", "m", "n" and specifically "o". Against all physical loss to buildings and structures, including consequential loss; and loss or damage to property of others, except as provided in paragraphs "a" to "n" inclusive of R.S. 17:17-1, under N.J.S.A. 17:17-1 and "Health Insurance" as defined in N.J.S.A. 17B:17:4.

Additionally, NJRE amended its by-laws on April 24, 1998 formally acknowledging that the Company may issue both participating and non-participating policies.

The New Jersey Re-Insurance Company is a wholly owned subsidiary of the New Jersey Manufacturers Insurance Company and was formed with the specific intent of complementing the parent company's insurance operations. During the period under review reinsurance coverage has been provided primarily to its parent involving property and casualty risks with a concentration on automobile and workers' compensation risks.

The principal office of the Company is located at Sullivan Way, Ewing Township, New Jersey and its mailing address is 301 Sullivan Way, West Trenton, New Jersey 08628. The agent therein and in charge

thereof, upon whom process may be served against the company is Bernard M. Flynn, Senior Vice President and General Counsel of the Company.

TERRITORY AND PLAN OF OPERATION

At December 31, 2004 the New Jersey Re-Insurance Company was licensed to transact the business of insurance and reinsurance in the States of Delaware, New Jersey and Pennsylvania.

Initially, the Company's underwriting was voluntarily limited to reinsurance and then extended to include the writing of direct workers' compensation insurance in 1984 and direct automobile insurance in 1991.

The Company's direct insurance business is comprised of automobile, workers' compensation, umbrella liability, homeowners, surety and residence coverage and flood policies written through the Federal Emergency Management Agency's "Write Your Own" program.

NJRE has no employees of its own and its operation and work are shared with those of its parent company. The Company annually reimburses New Jersey Manufacturers Insurance Company for the allocated value of salaries, benefits and payroll taxes attributable to the work performed on behalf of NJRE.

COMPLIANCE WITH PRIOR EXAMINATION FINDINGS

Accounts and Records

1999 Examination Recommendation Comment:

Arthur Andersen (AA) was empowered by the Department to review the Information System (IS) controls of all Companies within the NJM Insurance Group for the period January 1, 1997 through December 31, 1999.

AA recommended to the Department that the examination be conducted with a minimal reliance on IS controls. Upon review of Systematic Controls, it is recommended reliance on key people be supported by systematic enforcement of software development lifecycle standards and appropriate levels of access to critical processing environments. Upon review of monitoring, it is recommended that regular reviews of financial and MIS reports would assist Company management in gaining comfort that the system processing is in line with their expectations. Finally, upon review of file security, it is recommended the Company implement security controls that address risk to potential inappropriate access to data.

Company Response:

Arthur Andersen relative to their initial review identified information systems issues, which were later acknowledged by Andersen as having been addressed.

2004 Examination Review:

The Company has implemented much stricter general control policies across all systems and applications with attendant supporting procedures and has addressed the concerns contained in the 1999 Report.

Bonds

1999 Examination Recommendation Comment:

It was recommended the Company file all securities with the Securities Valuation Office in order to comply with NAIC Valuation of Securities procedures, which are set forth in the Valuation of Securities manual.

Company Response:

This issue has become moot because the requirements that raised the subject were eliminated by the NAIC beginning January 1, 2000.

2004 Examination Review:

The Company response is correct.

GROWTH OF THE COMPANY

The following exhibit shows the results of the Company's operation during the current five-year examination period:

Year	Direct Premiums <u>Written</u>	Net Premium <u>Earned</u>	Net Underwriting <u>Net Gain/(Loss)</u>	Net Investment <u>Net Gain/(Loss)</u>	Admitted <u>Assets</u>	Surplus As Regards <u>Policyholders</u>
2000	\$ 60,477,203	\$ 94,402,904	\$ 26,259,952	\$ 56,065,158	\$ 1,027,948,357	\$ 450,607,660
2001	73,454,864	107,385,959	(8,156,057)	56,678,608	1,086,264,108	495,514,842
2002	104,455,139	136,660,926	22,130,858	57,515,241	1,164,968,217	563,956,439
2003	132,693,059	181,930,411	(258,427)	56,143,481	1,261,322,836	606,134,549
2004	141,558,431	202,185,072	(35,724,422)	54,913,219	1,366,830,606	621,729,074

CORPORATE RECORDS

A review of the minutes of the meetings of the stockholders, board of directors, and executive and investment committees of the board held during the examination period indicated they were held and conducted in accordance with the Company by-laws.

The Company's Secretary is required to maintain records of all meetings of the stockholders, the board of directors and of the various board committees. The Secretary is responsible for the giving and serving of all notices of meetings and has custody of the corporate seal of the Company, which she is required to affix to any proper instrument on behalf of the Company. The Secretary also has charge of the stock certificate

books, transfer books, stock ledgers, and such other books and papers (other than books of financial accounts) as the board of directors may prescribe and shall perform all other acts normally and properly incident to the office of the Secretary.

MANAGEMENT AND CONTROL

The business and property of the New Jersey Re-Insurance Company is managed and controlled by the Board of Directors, except as otherwise provided by the by-laws.

At December 31, 2004 the Company had 28 directors of whom only 6 are officers or retired employees of the Company. Hence, the Company was in compliance with N.J.S.A. 17:27A-4d (3). Upon review of all meetings held it was determined by the examination that the meetings were well attended. The members of the board of directors elected and serving at December 31, 2004 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Fred D. Barre	Chairman of the Board, President & Chief Executive Officer The Barre Company
Vincent C. Bonica	Vice-President, Worldwide Gum Base Operations, William Wrigley Jr. Company
Anthony G. Dickson	President & Chief Executive Officer, NJM Insurance Group
Bernard M. Flynn	Senior Vice-President & General Counsel, NJM Insurance Group
John W. Galiardo	Retired Vice-Chairman of the Board, Becton Dickinson & Company
James J. Gallagher	President , Campbell's Express
Glenn A. Gerber	Chairman & Chief Executive Officer, Gerber Metal Supply Company
Oleta J. Harden	Senior Vice-President, General Counsel & Secretary, New Jersey Resources Corporation
John E. Hart	Retired Executive Vice-President, NJM Insurance Group
Patricia A. Heller-Jackson	President, Champion Container Corporation
Steven B. Kalafer	Chairman of the Board, Flemington Car & Truck Country
Douglas R. Kuiken	President, Kuiken Brothers Company, Inc.
J. Barton Luedeke	President Emeritus, Rider University

Thomas S. Marotta	Chairman & Chief Executive Officer, Marotta Controls, Inc.
Alexander M. McWilliams, II	President, McWilliams Forge Company, Inc.
Thomas A. Meyers	Senior Vice-President & Chief Financial Officer, NJM Insurance Group
Thomas E. Mills, IV	President & Chief Executive Officer, Gichner Systems Group, Inc.
James W. Milton	Retired Director, BWAY Corporation
David D. Rand	Director, Tingley Rubber Corporation, Chief Executive Officer, La Bonbonniere of Nixon
Harold T. Rose	Chairman & Chief Executive Officer, The Rose Group
Peter T. Sapnar	Retired Senior Vice-President, NJM Insurance Group
Lisa Hirsh-Schlossman	President & Chief Executive Officer, Accurate Box Company, Inc.
J. Michael Schweder	President, AT&T New Jersey
James M. Seabrook	Chairman, Seabrook Brothers & Sons, Inc.
Frank J. Semcer	President, Micro Stamping Corporation
Stanford L. Stevenson, Jr.	Retired Executive Vice-President & Chief Financial Officer, NJM Insurance Group
Anthony M. Stonis	President, Cardolite Corporation
Matthew L. Wright	President, Apgar Brothers, Inc.

The Company had various committees of the Board of Directors including an Audit Committee of which all 8 members were outside directors. Thus, the Company was in compliance with N.J.S.A 17:27-4d (4). Members of the various Committees as of December 31, 2004 were as follows:

<u>Executive Committee</u>	<u>Investment Committee</u>
J. Barton Luedeke - Chairman	James M. Seabrook - Chairman
Vincent C. Bonica	Fred D. Baré
Glenn A. Gerber	Vincent C. Bonica
Steven B. Kalafer	John W. Galiardo
Thomas S. Marotta	James J. Gallagher
Alexander M. McWilliams, II	Frank J. Semcer
James W. Milton	Oleta J. Harden
David D. Rand	Patricia A. Heller-Jackson

James M. Seabrook
Anthony M. Stonis
Matthew L. Wright

J. Barton Luedeke
James W. Milton
David D. Rand
Harry T. Rose
Lisa Hirsh-Schlossman

Nominating Committee

Alexander M. McWilliams, II - Chairman
Vincent C. Bonica
J. Barton Luedeke
James W. Milton
James M. Seabrook

Audit Committee

Vincent C. Bonica - Chairman
Fred D. Barre
Douglas R. Kuiken
Alexander M. McWilliams, II
Thomas E. Mills, IV
James W. Milton
J. Michael Schweder
James M. Seabrook

Trust Committee

J. Barton Luedeke - Chairman
Vincent C. Bonica
Anthony G. Dickson
Bernard M. Flynn
John E. Hart
Steven B. Kalafer
Alexander M. McWilliams, II
Thomas A. Meyers
James W. Milton
David D. Rand
Peter T. Sapnar
James M. Seabrook
Stanford L. Stevenson, Jr.
Anthony M. Stonis
Mathew L. Wright

Compensation & Benefits Committee

Vincent C. Bonica – Chairman
J. Barton Luedeke
Alexander M. McWilliams, II
James W. Milton
James M. Seabrook
Anthony M. Stonis

The Officers serving and the positions they held at December 31, 2004 were as follows:

<u>Name</u>	<u>Office</u>
J. Barton Luedeke	Chairman of the Board of Directors
Vincent C. Bonica	Vice-Chairman of the Board of Directors
Anthony G. Dickson, Esq.	President & Chief Executive Officer
Karen A. Hogan	Secretary
Charles A. Prall, CPA	Treasurer
Thomas A. Meyers, CPA, CFA, CPCU	Senior Vice-President & Chief Financial Officer
Bernard M. Flynn, Esq., CPCU	Senior Vice-President & General Counsel
Edward R. Palsho, Esq.	Senior Vice-President
Thomas J. DeFalco, FCAS, MAAA	Vice-President & Chief Actuary
Paul Beiger, Jr.	Vice-President
Christopher J. Colavita, CPCU, ARM	Vice-President
Thomas M. Curry, Esq.	Vice-President

Edward J. Daley	Vice-President
Robert H. deFlesco, Jr. PE	Vice-President
John E. Jackson, Jr.	Vice-President
Edward M. Kerner	Vice-President
Mark R. Lynch, CFA	Vice-President
John S. Sass	Vice-President
Diane T. Taylor, CCM	Vice-President
Michael J. Van Wagner, Are	Vice-President
Robert H. Zetterstrom, Esq., CPCU	Assistant Vice-President & Corporate Counsel
Jeffrey A. Bartolino, Esq.	Assistant Vice-President
Larry B. Bissey	Assistant Vice-President
Howard W. Crusey, Jr., Esq.	Assistant Vice-President
David A. Hart	Assistant Vice-President
Patricia A. Hartpence, CPCU, AIM	Assistant Vice-President
Florence V. Hughes, Esq.	Assistant Vice-President
Brian R. Hunt	Assistant Vice-President
Tracy A. McManimon	Assistant Vice-President
Michael P. O'Neil	Assistant Vice-President
Henry R. Van Slooten	Assistant Vice-President
George P. Bradley, FCAS, MAAA	Actuary
Anne Marie DeWan, AIAF	Controller
Connie F. Calisti	Director of Government Affairs
Robert J. Campbell, CFSA	Internal Auditor
Maurice E. Goldman, MD	Medical Director
William J. Barrett, Esq.	Assistant Secretary
Patrick W. Breslin	Assistant Secretary
Neil J. Delaney	Assistant Secretary
Edwin J. Dougherty	Assistant Secretary
Harold J. Fink, III, CPCU	Assistant Secretary
John F. Fink	Assistant Secretary
Frank H. Galloway, III	Assistant Secretary
Lorene C. Hartigan	Assistant Secretary
Christopher J. Jones, CIDM, CPCU	Assistant Secretary
Fern Leventhal, RN, BSN, CHCQM	Assistant Secretary
William D. Morici	Assistant Secretary
Robert J. Murray, CPCU	Assistant Secretary
Stephen M. Schwarz	Assistant Secretary
James F. Suell, Esq.	Assistant Secretary
Blanche D. Vilade, Esq.	Assistant Secretary
Peter F. Bogart, CFA	Assistant Treasurer
Richard A. Micklovic, ARM, AIM	Assistant Treasurer

REINSURANCE

The Company had reinsurance agreements and treaties in force at December 31, 2004 providing excess, catastrophe and pro rata reinsurance for various lines of business written. The various reinsurance treaties and contracts in effect and the maximum limits of reinsurance are summarized below. Ceded coverages included:

Property Catastrophe Excess

	<u>Retention</u>	<u>Maximum Limits</u>	<u>Placement</u>
Fifth Layer	\$ 25,000,000	\$ 27,500,000	50%
Sixth Layer	52,500,000	35,000,000	75
Seventh Layer	87,500,000	20,000,000	95
Eighth Layer	107,500,000	30,000,000	95
Ninth Layer	137,500,000	20,000,000	95

Casualty Excess

First Layer	\$ 250,000	\$ 750,000	100 %
Second Layer	1,000,000	9,000,000	100
Third Layer (Sect. I)	10,000,000	10,000,000	100
Third Layer (Sect. II)	10,000,000	10,000,000	100

Workers' Compensation Excess of Loss

Second Layer	\$ 20,000,000	\$ 20,000,000	100%
Third Layer	40,000,000	25,000,000	100
Fourth Layer	65,000,000	25,000,000	100

Workers' Compensation (Per Person)

	\$ 10,000,000	\$ 10,000,000	50 %
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Obligatory First Surplus

	\$ 400,000	\$ 6,000,000	100 %
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Retrocessional Property Catastrophe Excess

Section I	\$ 500,000	\$ 1,500,000	95%
Section II	500,000	1,500,000	95

Retrocessional Quota Share:

This assumed treaty provides retrocessional quota-share protection for NJRE concerning specific lines of business assumed by NJRE under specific treaties and cession abstracts. Ceded liability to New Jersey Manufacturers is based on the individual cession treaty pertaining to the risk reinsured per the Cession Guide, which is part of the contract.

It was determined by this examination that the ceded Property and Casualty reinsurance agreements did not allocate contract provisions between New Jersey Manufacturers Insurance Company and its subsidiaries, New Jersey Re-Insurance Company, New Jersey Casualty Insurance Company and New Jersey Indemnity Insurance Company. All are named on each contract. It is recommended by this examination that NJM file a Form D with the New Jersey Department of Banking and Insurance creating a Reinsurance Allocation Intercompany Agreement with its subsidiaries on each reinsurance contract in which they are collectively referred to as the "Company" on the agreements. The contract should state that various

allocations be fair and equitable in dividing reinsurance recoveries and the allocation of premiums among the four Companies by line of business.

Assumed Coverages

The Company also had various reinsurance assumed coverages including:

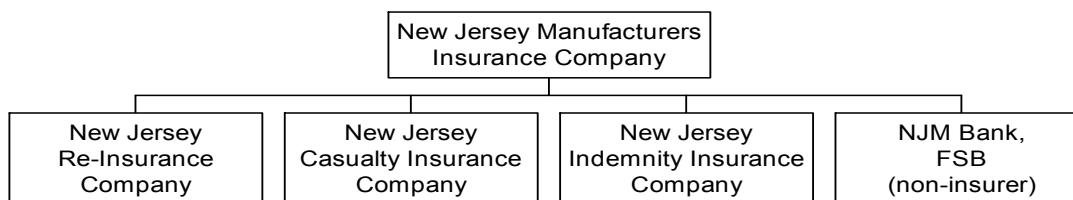
- **Excess of Loss Reinsurance of Property Business and Excess of Loss Reinsurance of Property Business for TRIA Terrorism Only**
- **Quota Share Reinsurance on policies issued by or through the Company during the term of the agreement and classified as Workers' Compensation and Employers' Liability Insurance.**
- **Property Excess of Loss Agreement**
- **First Property Per Risk Excess of Loss Reinsurance Agreement**
- **Per Risk Excess of Loss Reinsurance Agreement**
- **Quota Share reinsurance agreement reinsures business classified by PSIC as Personal Umbrella business, new and renewal.**
- **Excess of Loss reinsurance agreement. A first combination property per risk, Casualty and Workers' Compensation EOL treaty.**
- **Casualty Excess of Loss reinsurance agreement reinsures all business classified as Casualty including Fidelity.**
- **Group Casualty Catastrophe Excess of Loss reinsurance agreement that reinsures all business classified as Casualty including but not limited to Workers' Compensation, Fidelity, and Ocean Marine Protection and Indemnity business.**

Upon review it was determined the Company is not in compliance with N.J.S.A. 17:22E-6 which requires a written contract for transactions between an insurer and a reinsurance intermediary-broker. It is recommended that the Company complies with this statute and enters into a written contract, with its brokers, which contain all the required clauses.

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

The New Jersey Re-Insurance Company is a member of an Insurance Holding Company System as defined in N.J.S.A. 17:27A-1 and is subject to the registration requirements of N.J.S.A. 17:27A-3. The Company files an annual insurance Holding Company Registration Statement with its parent and affiliates.

The Company and its affiliates, known as NJM Insurance Group, consist of the parent, New Jersey Manufacturers Insurance Company, three insurer subsidiaries and one banking subsidiary as of December 31, 2004. The organizational chart for this group is as follows:



INTER-COMPANY AGREEMENTS

At December 31, 2004 NJRE participated in inter-company agreements with its parent, New Jersey Manufacturers Insurance Company, its insurance affiliates, New Jersey Casualty Insurance Company and New Jersey Indemnity Insurance Company and NJMB.

Concerning the insurance companies, the agreement specifies that each Company agrees to allocate the cost of certain salaries, employment benefits and overhead expenses and payments received for expenses which conforms with the methodology of the agreement. NJRE and each Company agree to maintain books, accounts and records to all transactions in which costs and payments are allocated as stipulated in this agreement. NJRE and its insurance affiliates do not have employees and thus NJM initially pays certain salary, employee benefits and other overhead costs that are charged back to each subsidiary Company participants as operating expenses. Charges to each insurance subsidiary for services rendered by NJM employees will be based on the percentage of time an individual NJM employee spends in performing the services on behalf of the subsidiary. Each insurance subsidiary will pay NJM by the end of each month an estimated sum that equals approximately one-twelfth of these operating expenses allocated to each subsidiary for the entire preceding year. At year-end, the actual allocation of costs will be determined according to methodology set forth in the agreement. Each insurance subsidiary will then pay NJM the difference between the actual costs and the amount paid in the preceding year.

Additionally, NJRE participated in a tax allocation agreement with NJM, NJC, NJI and NJMB. NJRE and each Company agree to continue the election made in 1989 by NJM to allocate its consolidated tax liability with each subsidiary pursuant to the method prescribed in Regulation 1.1552-1(a)(2) as authorized by Code Section 1552 and Regulation 1.1552-1(c). NJM will pay on behalf of all subsidiaries quarterly tax deposits based on estimates of the current year tax liability of each Company. The tax liability will be computed on a consolidated tax basis with the allocation to each Company proportionately based on the relationship each individual Company's individual tax bears to the total tax liability of each Company if filed on an individual basis.

The Company has entered into equalization agreements with its affiliates, New Jersey Casualty Insurance Company and New Jersey Indemnity Insurance Company, to transfer assignments from the New Jersey Workers' Compensation Insurance Plan ("WCIP") and New Jersey Personal Automobile Insurance Plan ("PAIP") on behalf of the NJM Insurance Group. The equalization fee is intended to compensate the subsidiaries for assuming the residual market business for the Group, where warranted.

POLICY ON CONFLICTS OF INTEREST

The New Jersey Re-Insurance Company has an established policy on Conflicts of Interest, which is provided for and set forth in Section 5-3 of its by-laws.

Each member of the Board of Directors is required to make an annual disclosure of any material interests or affiliation on their part, which might conflict with their official duties. Each officer, as well as certain employees, is required to complete and file an annual questionnaire. The annual disclosures and questionnaires are submitted to and reviewed by the Company's Counsel. Upon completion of the review, the Counsel reports the results of his inspection to the Board, and a motion is entered and recorded in the minutes of the Board of Directors concerning his report and findings. An examination and review of the procedures followed by the Company indicated the principles and procedures were being met as provided for in the by-laws.

EMPLOYEES WELFARE AND PENSION PLANS

The New Jersey Re-Insurance Company has no staff of its own and shares in a common management with its parent company, New Jersey Manufacturers Insurance Company. The employee benefit plans and programs available to employees of the parent company are shown as follows:

- Retirement Plan
- Savings Fund Plan
- Group Life Insurance Plan
- Disability Benefits Plan
- Dental Benefits Plan
- Employee Physical Examination Program
- NJM Merit Scholarship Program
- Flexible Spending Plan

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The NJM Insurance Group maintains insurance coverages for the protection of its assets from losses arising out of property and casualty risks. The following listing shows the types and amounts of coverages that were in force at the examination date:

<u>Coverages</u>	<u>Limits</u>
Fidelity Bonds	\$ 2,500,000 w/ \$250,000 Retention
Directors & Officers Liability	10,000,000
Director & Officer Business Travel:	
Aggregate Limit	1,500,000
Workers' Compensation	Statutory
Auto (All Vehicles)	1,000,000
Comprehensive Liability	1,000,000
Commercial Umbrella	10,000,000

The Company's insurance coverages were verified on a consolidated basis in conjunction with the other members of the Group. As of December 31, 2004 the Group had fidelity bond coverage of \$2,500,000 with a retention of \$250,000. The coverage was determined to be adequate according to the suggested minimum amounts based on the N.A.I.C. formula and exposure index.

POLICY FORMS AND UNDERWRITING PRACTICES

New Jersey Re-Insurance writings are limited to a few lines of insurance with the largest amount of its direct premium volume (99.9%) attributable to risks written within the state of New Jersey. The Company's total direct written premiums for 2004 included 83.0 % for its automobile business and 9.7 % for workers' compensation.

The Company is a subscriber to the Insurance Services Office and avails itself of the organization's policy forms, rating classes and other related services.

The Parent Company, NJM, maintains an underwriting office at the home office and at its branch office in Parsippany, New Jersey.

At December 31, 2004, the largest net amount insured by the Company in any one risk (excluding workers' compensation) was \$ 10,000,000. The Company is in compliance with N.J.S.A. 17:18-9, which limits the exposure on a single risk to an amount not exceeding 10% of the Company's net assets.

ACCOUNTS AND RECORDS

The Treasurer is responsible for the collection of all items due the Company and for the payment of all obligations when due, and for the maintenance of full and accurate accounts thereof and of the securities of the Company. Additionally, the treasurer will have custody of all money and securities owned by the Company, subject to the direction and approval of the Board of Directors.

The Company's general ledger, investment ledger, general journal (entries), cash receipts and disbursements books, are maintained in the home office. Extensive use is made of electronic data processing in providing the essential underlying accounting and record keeping data necessary to control the insurance operations and other areas including investments, claims and personnel.

The company's general ledger runs on an Open Systems platform under Microsoft Windows. Information processing is performed on systems which are maintained centrally by the company's Information Technology Department and are located in a data center at the home office location. The data center contains an IBM mainframe (z890) for the policy administrative systems, and a number of Intel-based servers running Windows for other administrative functions. Over 2,500 Dell workstations are connected to the data center via private IP networking facilities. Connections to the Internet, as well as the private network, are built with redundancy and fail-over capabilities. Load balancing and clustering are used in the application servers to provide highly reliable systems. The data center has redundant power and HVAC to maintain system availability in the event of utility disruptions.

In the previous examination of December 31, 1999, an assessment was performed of the NJM Group's internal controls. A recommendation was made suggesting reliance on key people be supported by systematic enforcement of software development lifecycle standards and appropriate levels of access to critical processing environments. In 2003, the Group began the process of reviewing and upgrading all major business systems and information technology support systems as well as developing and implementing a full control environment. This process continues to be implemented subsequent to the examination date of December 31, 2004,

The Group went through a comprehensive business impact analysis in 2000 as a preliminary step to a Business Continuity Plan (BCP). As a result, the process was put on hold because it was thought best to

develop an effective BCP in tandem with significant process enhancements which were being initiated throughout the Group to better match to its evolving state. In the interim, a comprehensive Emergency Response Plan was distributed for use by all officers and managers. The Group has engaged the Gartner Group and the Sungard Group to provide consulting services and software support for producing a final BCP. The plan is expected to be complete in July of 2006. It is recommended the Company continue work on its BCP and that it begin scheduled, periodic testing of the plan.

TREATMENT OF POLICYHOLDERS

The NJM Insurance Group's complaint handling procedures as well as its complaint log were reviewed during the examination. The Group does comply with N.J.S.A. 17:29B-4(10), which requires the Company to maintain a complaint handling procedure.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A Balance Sheet as of December 31, 2004 and December 31, 1999

Exhibit B Summary of Operations for the Five-Year Period Ending
December 31, 2004

Exhibit C Capital and Surplus Account for the Five-Year Period Ending
December 31, 2004

EXHIBIT A

NEW JERSEY RE-INSURANCE COMPANY
BALANCE SHEET AS OF DECEMBER 31, 2004 AND DECEMBER 31, 1999

	Current Examination	Company 12/31/2004	Examination Change	Note Number	Previous Examination 12/31/1999
<u>Assets</u>					
Bonds	\$1,281,047,741	\$1,281,047,741	\$0	1	\$971,025,178
Stocks:					
Common	6,386,351	6,386,351	0	1	0
Cash and Short-Term Investments	4,766,523	4,766,523	0		3,033,098
Agents' Balances or Uncollected Premiums:					
Premiums and agents' balances in course of collection	8,799,630	8,799,630	0		5,581,357
Premiums, agents' balances and installments booked but deferred and not yet due	27,060,931	27,060,931	0		13,628,721
Accrued Retrospective Premiums	138,049	138,049	0		0
Reinsurance Recoverable on Loss and LAE Payments	1,652,073	1,652,073	0		1,995,981
Funds Held by or Deposited with Reinsurance Companies	12,686	12,686	0		0
Federal Income Tax Recoverable	5,260,000	5,260,000	0		0
Net Deferred Taxes	14,468,249	14,468,249	0		0
Electronic Data Processing Equipment	0	0	0		3,141
Interest, Dividends and Real Estate Income Due and Accrued	16,496,544	16,496,544	0		14,951,990
Receivable from Parent, Subsidiaries and Affiliates	0	0	0		7,367
Aggregate Write-ins for Other Than Invested Assets	741,829	741,829	0		7,825
Total Admitted Assets	\$1,366,830,606	\$1,366,830,606	\$0		\$1,010,234,658
<u>Liabilities</u>					
Losses	\$595,525,596	\$595,525,596	\$0	2	\$505,354,356
Loss Adjustment Expenses	71,358,266	71,358,266	0	2	77,806,636
Contingent Commissions	707,556	707,556	0		0
Other Expenses	270,200	270,200	0		110,500
Taxes, Licenses and Fees	875,000	875,000	0	3	736,900
Federal and Foreign Income Taxes	0	0	0		980,000
Unearned Premiums	62,317,951	62,317,951	0		31,942,067
Advance Premiums	984,275	984,275	0		0
Dividends Declared and Unpaid - Policyholders	470,300	470,300	0		7,771
Ceded Reinsurance Balances Payable	92,324	92,324	0		0
Funds Held by Company Under Reinsurance Treaties	0	0	0		220,022
Amounts Withheld or Retained by Company for Account of Others	572,911	572,911	0		222,708
Provision for Reinsurance	1,000	1,000	0		431,000
Payable to Parent, Subsidiaries and Affiliates	3,569,920	3,569,920	0		3,570,546
Aggregate Write-ins for Liabilities	8,356,233	8,356,233	0		626,777
Total Liabilities	\$745,101,532	\$745,101,532	\$0		\$622,009,283
<u>Surplus and Other Funds</u>					
Aggregate Write-ins for Special Surplus Funds	\$863,000	\$863,000	\$0	4	\$50,000
Common Capital Stock	6,000,000	6,000,000	0	4	6,000,000
Gross Paid-in and Contributed Surplus	52,500,000	52,500,000	0	4	52,500,000
Unassigned Funds (Surplus)	562,366,074	562,366,074	0	4	329,675,375
Surplus as Regards Policyholders	\$621,729,074	\$621,729,074	\$0		\$388,225,375
Total Liabilities, Surplus and Other Funds	\$1,366,830,606	\$1,366,830,606	\$0		\$1,010,234,658

NEW JERSEY RE-INSURANCE COMPANY
SUMMARY OF OPERATIONS FOR THE
FIVE YEAR PERIOD ENDING DECEMBER 31, 2004

<u>UNDERWRITING INCOME</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Premiums Earned	\$94,402,904	\$107,385,959	\$136,660,926	\$181,930,411	\$202,185,072
Deductions:					
Losses Incurred	\$47,992,353	\$95,467,345	\$82,192,850	\$127,423,514	\$198,047,314
Loss Expenses Incurred	9,509,551	9,268,657	14,620,291	32,293,953	17,362,873
Other Underwriting Expenses Incurred	10,072,500	13,556,575	17,394,440	20,833,067	18,669,307
Aggregate Write-ins for Underwriting Deductions	568,548	(2,750,561)	322,487	1,638,304	3,830,000
Total Deductions	\$68,142,952	\$115,542,016	\$114,530,068	\$182,188,838	\$237,909,494
Net Underwriting gain or (Loss)	\$26,259,952	(\$8,156,057)	\$22,130,858	(\$258,427)	(\$35,724,422)
<u>INVESTMENT INCOME</u>					
Net Investment Income Earned	\$56,050,387	\$56,558,553	\$57,127,353	\$55,435,349	\$54,422,786
Net Realized Capital Gains or (-) Losses	14,771	120,055	387,889	708,132	490,433
Net Investment Gain	\$56,065,158	\$56,678,608	\$57,515,242	\$56,143,481	\$54,913,219
<u>OTHER INCOME</u>					
Net Gain or Loss (-) From Agents' Balances Charged Off	(\$684,172)	(\$373,047)	(\$461,680)	(\$448,996)	(\$386,922)
Finance or Service Charge not Included in Premium	0	0	0	0	0
Aggregate Write-ins for Miscellaneous Income	6,345	21,571	305	9,523	1,638
Total Other Income	(\$677,827)	(\$351,476)	(\$461,375)	(\$439,473)	(\$385,284)
Net Income Before Dividends To Policyholders and Before Federal and Foreign Income Taxes	\$81,647,283	\$48,171,075	\$79,184,725	\$55,445,581	\$18,803,513
Dividends To Policyholders	62,046	185,557	355,799	789,148	791,040
Net Income, After Dividends to Policyholders but Before Federal and Foreign Income Taxes	\$81,585,237	\$47,985,518	\$78,828,925	\$54,656,433	\$18,012,473
Federal and Foreign Income Taxes Incurred	19,287,457	6,306,587	14,088,077	12,498,151	6,508,936
Net Income	\$62,297,780	\$41,678,931	\$64,740,848	\$42,158,282	\$11,503,537

EXHIBIT C

NEW JERSEY RE-INSURANCE COMPANY
 CAPITAL AND SURPLUS ACCOUNT FOR
 THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2004

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Net Income	<u>\$62,297,780</u>	<u>\$41,678,931</u>	<u>\$64,740,848</u>	<u>\$42,158,282</u>	<u>\$11,503,537</u>
<u>Other Surplus Gains or (Losses)</u>					
Net Unrealized Capital Gains or (-) Losses	(\$880,000)	\$510,900	\$61,100	\$0	\$251,128
Change in Non Admitted Assets	796,505	(332,436)	4,612,683	(1,632,748)	(3,513,902)
Change in Provision for Reinsurance	168,000	(111,000)	111,000	260,000	2,000
Change in deferred income taxes	0	(1,037,994)	(1,084,034)	1,392,576	7,351,762
Cumulative effect of changes in accounting principles	<u>0</u>	<u>4,198,781</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Surplus Gains or (-) Losses	<u>\$84,505</u>	<u>\$3,228,251</u>	<u>\$3,700,749</u>	<u>\$19,828</u>	<u>\$4,090,988</u>
Change In Surplus as Regards Policyholders for the Year	\$62,382,285	\$44,907,182	\$68,441,597	\$42,178,110	\$15,594,525
Surplus as Regards Policyholders December 31, Previous Year	<u>388,225,375</u>	<u>450,607,660</u>	<u>495,514,842</u>	<u>563,956,439</u>	<u>606,134,549</u>
Surplus as Regards Policyholders December 31, Current Year	<u><u>\$450,607,660</u></u>	<u><u>\$495,514,842</u></u>	<u><u>\$563,956,439</u></u>	<u><u>\$606,134,549</u></u>	<u><u>\$621,729,074</u></u>

NOTE 1: BONDS

A review of the Company's custodial agreement with Wachovia Bank NA noted that the agreement does not contain the appropriate safeguards and controls, including the proper indemnification clauses, to replace any securities lost by the custodian. It is recommended that the Company obtain a revised custodial agreement that contains the appropriate indemnification clause to protect the insurance company against any loss of securities resulting from negligence, dishonesty or willful misconduct on the part of the custodian.

Statutory Deposits

At December 31, 2004 the Company held two U.S. Treasury Bonds totaling \$ 500,000 with the Commissioner of Banking and Insurance of the State of New Jersey in trust for the benefit and security of the policyholders of the New Jersey Re-Insurance Company. The certificates were held at Commerce Bank as required by the State of New Jersey.

The Company held a U.S. Treasury Note of \$ 110,000 with the Commissioner of Insurance of the State of Delaware in trust for the benefit and security of the policyholders of the New Jersey Re-Insurance Company. The certificate was held at Wilmington Trust Company as required by the State of Delaware.

Additionally, the Company held two U.S. Treasury Notes totaling of \$ 110,000 with the Commissioner of Insurance of the State of Arizona in trust for the benefit and security of the policyholders of the New Jersey Re-Insurance Company. The certificate was held at Wachovia Bank NA as required by the State of Arizona.

NOTE 2: LOSSES AND LOSS ADJUSTMENT EXPENSES

At December 31, 2004 the Company reported a net liability for Losses and Loss Adjustment Expenses of \$ 666,883,862.

A review of the reserves for losses and loss adjustment expenses was completed under the direction of the Property and Casualty Actuarial Division of the New Jersey Department of Banking and Insurance. On the basis of this review, the Company's reserves were determined to be reasonable and the balance will be accepted as stated.

Net loss reserves, as reported by the Company and as determined by this examination, totaled \$ 595,525,596. The loss reserves by line of business as developed and projected in this examination and as reported by the Company is as follows:

<u>Line of Business</u>	<u>Net Loss Reserves Excluding IBNR</u>	<u>Net IBNR Reserves</u>	<u>Total Net Reserves</u>
Fire	\$ 354,963	\$ 556,349	\$ 911,312
Allied Lines	24,507	149,038	173,545
Homeowners Multi-Peril	1,307,130	403,000	1,710,130
Commercial Multi-Peril	117,461	451,000	568,461
Inland Marine	207,922	396,000	603,922
Workers' Compensation	88,184,304	(3,614,000)	84,570,304
Other Liability	156,633	2,833,000	2,989,633
Private Passenger Auto	65,486,002	11,527,000	77,013,002
Commercial Auto Liability	198,295	15,000	213,295
Auto Physical Damage	2,747,439	290,000	3,037,439
Boiler and Machinery	100,794	31,000	131,794
Reinsurance A	3,192,288	8,261,000	11,453,288
Reinsurance B	244,698,520	166,735,000	411,433,520
Reinsurance C	<u>126,951</u>	<u>589,000</u>	<u>715,951</u>
Totals	<u>\$ 406,903,209</u>	<u>\$ 188,622,387</u>	<u>\$ 595,525,596</u>

Net loss adjustment expense reserves, as reported by the Company and as determined by this examination, totaled \$ 71,258,266. Below is a summary by line of business:

<u>Line of Business</u>	<u>Net Loss Adjustment Reserves</u>
Fire	\$ 22,218
Allied Lines	9,032
Homeowners Multi-Peril	359,000
Commercial Multi-Peril	84,262
Inland Marine	12,000
Workers' Compensation	9,743,889
Other Liability	1,474,000
Private Passenger Auto	35,678,000
Commercial Auto Liability	10,000
Auto Physical Damage	794,000
Boiler and Machinery	1,000
Reinsurance A	293,384
Reinsurance B	22,801,804
Reinsurance C	<u>75,677</u>
Totals	<u>\$ 71,358,266</u>

The examination performed reconciliations of case reserves and paid loss totals from Annual Statement page 9 "Losses Paid and Incurred" and page 10 "Unpaid Losses and Loss Adjustment Expenses" to Schedule P of the Company's Annual Statement.

NOTE 3: TAXES, LICENSES AND FEES

At December 31, 2004 the Company reported a liability for Taxes, Licenses and Fees of \$ 875,000. It was determined by this examination that the liability will be accepted as stated.

During the review, it was determined the Company did not accrue for examination fees during this exam period. It is recommended that Company accrue for exam fees in the future.

NOTE 4: SURPLUS AS REGARDS POLICYHOLDERS

Common Capital Stock

The capital stock of the Company consists of \$ 6,000,000 divided into 500,000 authorized and outstanding shares of common stock having a par value per share of \$ 12 each.

Gross Paid In and Contributed Surplus

At December 31, 2004 the Company reported \$ 52,500,000 in paid in and contributed surplus. The contribution to surplus was paid in at the time New Jersey Manufacturers' predecessor companies were formed.

Aggregate Write-Ins for Special Surplus Funds

At December 31, 2004 the Company reported \$ 863,000 for Special Surplus Funds. The balance consisted of a reserve for undeclared dividends to policyholders.

Unassigned Funds (Surplus)

The Company reported an amount for unassigned funds at December 31, 2004 of \$ 621,729,074. This balance has been accepted by this examination as stated.

SUMMARY OF RECOMMENDATIONS

Reinsurance (Page 9)

It is recommended by this examination that NJM file a Form D with the New Jersey Department of Banking and Insurance creating a Reinsurance Allocation Intercompany Agreement with its subsidiaries on each reinsurance contract in which they are collectively referred to as the "Company" on the agreements. The contract should state that various allocations be fair and equitable in dividing reinsurance recoveries and the allocation of premiums among the four Companies by line of business.

Upon review it was determined the Company is not in compliance with N.J.S.A. 17:22E-6 which requires a written contract for transactions between an insurer and a reinsurance intermediary-broker. It is recommended that the Company complies with this statute and procures a written contract, with its brokers.

Accounts and Records (Page 14)

It is recommended the Company continue work on its BCP and that it begin scheduled, periodic testing of the plan.

Bonds and Stocks (Page 19)

It is recommended that the Company obtain a revised custodial agreement that contains the appropriate indemnification clause to protect the insurance company against any loss of securities resulting from negligence, dishonesty or willful misconduct on the part of the custodian.

Taxes, Licenses and Fees (Page 21)

It is recommended that Company accrue for exam fees in the future.

CONCLUSION

A regular statutory condition examination was conducted by the undersigned with the assistance of fellow examiners of the New Jersey Department of Banking and Insurance examination staff.

The examination and audit was conducted at the Company's office in Ewing, New Jersey. The courteous assistance and cooperation of the Company's officers and employees is acknowledged.

Respectfully Submitted,

/S/

William F. Kirgan, Jr.

**William F. Kirgan, Jr.
Supervising Insurance Examiner**

NEW JERSEY RE-INSURANCE COMPANY

I, William Kirgan, 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 of December 31, 2004 to the best of my information, knowledge and belief.

Respectfully Submitted,

*/S/
William F. Kirgan, Jr.*

**William F. Kirgan, Jr.
Examiner-In-Charge
New Jersey Department of Insurance**

State of New Jersey
County of Mercer

Subscribed and sworn to before me.
On this 15th day of June, 2006.

*/S/
Catherine M. Liptak*

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