

**REPORT ON EXAMINATION AS TO THE CONDITION OF
HARLEYSVILLE INSURANCE COMPANY OF NEW JERSEY**

MOORESTOWN, NEW JERSEY 08057

AT DECEMBER 31, 2021

NAIC COMPANY CODE 42900

NAIC GROUP CODE 0140

FILED

June 14, 2023

COMMISSIONER

NEW JERSEY DEPARTMENT

OF

BANKING AND INSURANCE

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PHIL MURPHY
Governor

State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION
PO Box 325
TRENTON, NJ 08625-0325

MARLENE CARIDE
Commissioner

SHEILA OLIVER
Lt. Governor

TEL (609) 292-7272
FAX (609) 292-6765

May 31, 2023

Honorable Marlene Caride
Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
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:

Harleysville Insurance Company of New Jersey
304 Harper Drive, Suite 202
Moorestown, NJ 08057
NAIC Company Code 42900
NAIC Group Code 0140
Examination Warrant P&C 4

a domestic insurer authorized to transact business in the State of New Jersey, and hereafter referred to in this report as "Harleysville," "HICNJ" or "Company."

SCOPE OF EXAMINATION

This comprehensive financial condition examination was called by the Commissioner of the New Jersey Department of Banking and Insurance (hereafter "NJDOBI" or "the Department") pursuant to the authority granted by Section 17:23-22 of the New Jersey Annotated Revised Statutes.

The examination was conducted using a risk-focused examination approach and covered the five-year period from December 31, 2016, the date of the last examination, to December 31, 2021, including material transactions and/or significant events occurring after the examination date. The examination followed procedures formulated by the National Association of Insurance Commissioners ("NAIC") as permitted by the Department.

The examination of the Company was conducted concurrently with the examination of 37 affiliates, which, together with the ultimate parent, comprise and is hereafter referred to as "the Group." Seven other states participated in the coordinated exam including the **Ohio Department of Insurance ("ODI")**, which acted as the Lead State.

Examiners relied on work performed by ODI with respect to the review of specified areas and processes that are systemic to the Company such as the organization's Information Technology ("IT") infrastructure, actuarial functions, corporate governance, and overall effectiveness of risk mitigating strategies. Examiners also leveraged off the audit work prepared by **KPMG US LLP ("KPMG")**, the Company's certified public accountants, where appropriate. During the five-year exam period, the Company's assets decreased \$26,316,164 from \$87,708,334 to \$61,392,170; liabilities decreased \$4,143,080 from \$40,701,755 to \$36,558,675 and policyholder surplus decreased \$22,173,084 from \$47,006,579 to \$24,833,495. Test procedures encompassed the following objectives:

- Identification of significant deviations from New Jersey insurance laws, regulations, and directives.
- Compliance with the guidelines outlined in the 2021 edition of the NAIC Financial Condition Examiners Handbook, NAIC Annual Statement Instructions, NAIC accreditation/codification standards, Statements of Statutory Accounting Principles, and NJDOBI policies and procedures.
- Assessment of the Company's surplus and that it is not materially misstated.
- Provision of a foundation for a profile of the Company's operations, risks, and results to be utilized by regulatory authorities.

Only significant findings of fact, statutory deviations and general information about the Company and its financial condition are included in this examination report. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

COMPANY HISTORY

The Company was incorporated under the laws of the State of New Jersey on May 27, 1983 and commenced operations on May 18, 1984. The Company's amended Certificate of Authority dated October 2, 2018 authorizes Harleysville to transact the kinds of insurance specified under paragraphs "a," "b," "d," "e," "f," "g," "j," "k," "l," "m," "n," "o-1," and "o-3" of N.J.S.A. 17:17-1 et seq., except that authority granted under paragraph "d" shall not include authority to write policies of individual or group health insurance as defined in the Life and Health Insurance Code, N.J.S.A. 17B:17-1 et seq.

Pursuant to the terms of a Merger Agreement ("Merger"), on May 1, 2012, Harleysville Mutual was merged with and into **Nationwide Mutual Insurance Company ("NMIC")** with NMIC continuing as the surviving company. Under the terms of the Merger, Harleysville Mutual policyholders became policyholders of NMIC. In conjunction with the merger, NMIC acquired all the publicly held shares of common stock of **Harleysville Group Inc. ("HGI")** for \$60 per share in cash, making HGI a wholly owned subsidiary of NMIC. The merger of Harleysville Mutual into NMIC was accounted for as a statutory merger. NMIC's acquisition of all the publicly held shares of common stock of HGI was accounted for as a statutory purchase. Both the statutory merger and the statutory purchase qualified as tax-free transactions.

Effective November 1, 2013, NMIC contributed its holdings of all the issued and outstanding common stock of HGI to **Allied Holdings (Delaware), Inc. ("AHDI")**, a wholly owned subsidiary of NMIC. Subsequently on October 1, 2022, the Company was again subject to an organizational restructuring. See additional commentary herein under the section *Subsequent Events*.

On August 27, 2018, the Company's Secretary executed a Certificate of Amendment ("Certificate") to change the Second Article of the Certificate of Incorporation facilitating the move of its statutory office originally located in Mount Laurel, NJ to Bridgewater, NJ. The Certificate was officially accepted by the Department on October 12, 2018. The Company again filed a notice with the Department on June 17, 2021, informing NJDOBI of its new home office having an address at 304 Harper Drive, Suite 202, Moorestown, NJ 08057. The Company executed a Certificate amending its Certificate of Incorporation to reflect the new business location. On September 15, 2021, the Office of the New Jersey Attorney General ("OAG") had declined to approve the Certificate on procedural grounds. Subsequent to the examination date, the Company revised the Certificate and refiled it with the OAG on April 28, 2023. The OAG acknowledged receipt of the amendment on May 9, 2023, and indicated that the filing was acceptable. Documentation of official approval is pending as of the date of this examination report.

TERRITORY AND PLAN OF OPERATION

A review of the Company's Schedule T indicated the Company is licensed and authorized to write business in the states of Pennsylvania and New Jersey, with New Jersey historically producing most of the premiums. The Company is also licensed in the state of Massachusetts as a qualified reinsurer as of December 31, 2021.

The Company underwrites insurance products and services through independent agents, general agents and brokers, as well as direct sales to the consumer. The Company writes the bulk of its business in commercial lines with an emphasis on commercial multiple peril, commercial automobile liability and workers' compensation. The Company utilizes agency agreements and has no MGA relationships.

The Company utilizes the Nationwide P&C claims organization and shared Nationwide claims technology and relies on Nationwide to provide administrative and support functions such as executive, financial systems, data processing, customer service, underwriting, equipment, supplies and human resources. The registered agent upon whom process may be served is **Corporation Service Company** located at Princeton South Corporate Ctr., Suite 160, 100 Charles Ewing Blvd, Ewing, New Jersey 08628.

Policy Forms and Underwriting Practices

The Company filed its rates, rules and forms filings with the NJDOBI for their Standard W/C, Commercial Auto, Other CMP, Commercial General Liability, Commercial Property (Fire and Allied Lines), Business Auto, Commercial Inland Marine, and Business Owners lines. The Company also filed and had approved rates, rules and forms for Private Passenger Auto, Home/Condo/Tenant, Personal Umbrella, Dwelling Fire, Powersports and Personal Inland Marine. However, the Company no longer offers Powersports, Standalone Inland Marine and Dwelling Fire policies, although it did during the exam period. All commercial line filings for rates, rules and forms have been approved by the Department and have been determined to be in compliance with N.J.S.A. 17:29AA-1 et seq. and N.J.A.C. 11:13-2.1.

Treatment of Policyholders

The Company registered 39 written complaints during the examination period. The review of the Company's complaint log indicated that it was in compliance with N.J.S.A. 17:29B-4(10), which requires the maintenance of a complete record of all written grievances.

Statutory Deposit

As of December 31, 2021, the Company had on deposit with the State of New Jersey, its domiciliary state, cash and securities with a total par value of \$100,000, in compliance with N.J.S.A. 17:20-1c. The Company also had a deposit of the same value with the State of Massachusetts. These deposits are held for the benefit and security of the Harleysville's policyholders.

HOLDING COMPANY SYSTEM

Affiliated Parties

The Company is a member of a holding company system as defined by N.J.S.A. 17:27A-1. The holding company system consists of over 70 entities, which are managed at the top by two sister mutual insurance companies, NMIC and **Nationwide Mutual Fire Insurance Company**

("NMFIC"), and that are jointly identified as the ultimate controlling person within the holding company system. Both companies (collectively "Nationwide") are organized under the laws of the State of Ohio for the purpose of transacting general insurance and reinsurance business, except life insurance. Nationwide filed holding company registration statements with the Department on behalf of the Company in compliance with N.J.S.A. 17:27A-3.

The following is an abridged organizational diagram illustrating the interrelationship of the companies within the holding company system as of December 31, 2021. Bolded companies are the focus of the present examination showing the line of ownership down to HICNJ.

Nationwide

Allied Holdings (Delaware), Inc. (DE)

Harleysville Group Inc. (DE)

Harleysville Insurance Company of New Jersey (NJ)

Harleysville Insurance Company of New York (OH)

Harleysville Lake States Insurance Company (MI)

Harleysville Worcester Insurance Company (OH)

Harleysville Preferred Insurance Company (OH)

Harleysville Insurance Company (OH)

Inter-Company Agreements

In addition to the Pool and reinsurance agreements described under the Reinsurance section, the Company is also a party to the following affiliated agreements in force at December 31, 2021:

Third Amended Cost Sharing Agreement

Effective January 1, 2014, the Company became a party to an amended Cost Sharing Agreement between Nationwide and its respective direct and indirect subsidiaries and affiliates. The agreement was approved by the Department on October 17, 2013.

According to the contract the parties desire to have each other perform certain operational services and certain administrative services, on behalf of one another. Pursuant to the terms of the agreement, services provided to various parties can include: Operational Services (field acquisition services, policy processing and administration services, claims adjustment, claims administration and other loss adjustment services, data processing service, accounting services, actuarial services, investment services and other necessary operational services), and Administrative Services (payroll administration, benefit administration, investment management administration, legal administration, human resources administration, communications administration, financial administration, including treasury services, financial reporting, financial planning, budgeting, tax planning, consulting and reporting, cash administration services and other administrative services).

Costs associated with the services provided shall be allocated based on standard allocation techniques and procedures that shall be in conformity with NAIC statutory accounting principles.

The following methods or some combination thereof, may be used as appropriate to allocate expenses to the Receiving Party:

- a. Special Cost Studies
- b. Individual Time Estimates
- c. Claims Costs
- d. Policies in Force
- e. Direct Written Premiums
- f. Paid Losses
- g. Pro rata share of the Providing Party's employees, or their salaries, and or
- h. Any other method agreed to by the Parties that are in conformity with NAIC statutory accounting principles

Some expenses can be allocated 100% to a specific party. The CFO of Nationwide or the CFO's duly authorized representative shall be responsible for allocation of expenses. Inter-company expenses shall be settled within 60 days of the end of the month in which benefit has been delivered.

Amended and Restated Tax Sharing Agreement

Effective January 1, 2021, NMIC and its direct or indirect incorporated subsidiaries replaced the previous tax sharing agreement and became members of the consolidated federal income tax return of which NMIC is the parent. The purpose of the agreement is to establish the terms for the fair allocation among the parties of the federal, state and local tax liabilities, credits, refunds, benefits and similar items related to the consolidated federal income tax return or consolidated or combined state and local income and franchise tax returns for the tax year ended December 31, 2021, and subsequent years. Payment of tax liability, including tax refunds, shall be made within 90 days following the filing of the Tax Return of the Group or the payment of tax or receipt of a refund resulting from the conclusion of an audit, the filing of an amended return, or the filing of a quick refund claim. Per the agreement for each calendar year each subsidiary shall remit to NMIC an amount equal to the federal income tax liability attributable to such subsidiary. The amended agreement was approved by the Department on August 19, 2021.

MANAGEMENT AND CONTROL

Board of Directors

The management, conduct and affairs of the Company have been vested in a Board of Directors (hereafter "the Board") who are elected and vested with the authority by the shareholders of the Company. A listing of the board members serving the Company at December 31, 2021 is as follows:

Name and Address

Mark A. Berven
Dublin, OH

Principal Occupation

President and COO
Nationwide Property & Casualty

Gary A. Douglas
Columbus, OH

Senior Vice President
Nationwide National Partners

Oscar Guerrero
Collegeville, PA

Senior Vice President, CFO
Nationwide Property & Casualty

Elizabeth M. Riczko
Fairfield Twp., OH

Senior Vice President
Property and Casualty Sales and Distribution

Eric E. Smith
Granville, OH

Senior Vice President
Property and Casualty Commercial Lines

N.J.S.A. 17:27A-4d, paragraph (3), requires that at least one-third of the membership (exclusive of the Audit Committee) be made up of outside directors only. Additionally, paragraph (4) of the same statute requires a domestic insurer domiciled in the state of New Jersey to create one or more committees comprised solely of outside directors which are charged with "recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation, including bonuses or other special payments, of the principal officers."

However, in accordance with N.J.S.A. 17:27A-4d, paragraph (5), the above statutory provisions shall not apply if the insurer is controlled by an entity that has a board of directors and committees thereof that substantially meet the requirements of paragraphs (3) and (4). The Company has satisfied the requirements of these statutory provisions through its ultimate parent, NMIC, which has a board of directors and one or more committees that substantially meet the requirements of those paragraphs.

The following are members of the statutorily required committee as of December 31, 2021:

Audit Committee

Suku Radia (Chair)

Pamela Beall

Frank Burkett III

Diane Koken

Debora Plunkett

Paul Wenger

The Board's location for all correspondence and meetings is the ultimate parent's home office located at One West Nationwide Blvd., 1-14-301, Columbus, Ohio 43215.

Officers

The Company's by-laws indicate that at the Annual Meeting, the Board may elect a President from among their number, one or more Vice Presidents, a Secretary, a Treasurer, and such Assistant Secretaries, Assistant Treasurers, and other officers as the Board may deem necessary. Any two or more offices may be held by the same person except that the President shall not also serve as Secretary, Assistant, Secretary, Treasurer or Assistant Treasurer.

The officers serving the Company as of December 31, 2021, were as follows:

<u>Name</u>	<u>Title</u>
Mark A. Berven	President and COO
Denise L. Skingle	Senior Vice President and Secretary
Elizabeth Huan Song Kitto	Vice President and Treasurer
Pamela Ann Biesecker	Senior Vice President – Head of Taxation

Corporate Records

The Company's Articles of Incorporation and by-laws were amended in 2018 and 2020. The Company's minutes come through its parent, Nationwide. A review of the minutes of the Board's meetings noted that meetings were well attended and that the proceedings were done in compliance with the Company's State Charter and by-laws. The corporate minutes also indicated that the Company's overall transactions and events were adequately supported and approved.

Policy on Conflicts of Interest

The Company, through its parent Nationwide, requires its directors, officers, and assistant officers to annually complete and submit a questionnaire that gives them an opportunity to disclose potential conflicts of interest and/or violations of the Group's Code of Conduct. The examination team reviewed questionnaires executed by the Company's officers and directors for the period under examination and noted that there were no apparent or potential conflicts of interest.

Fidelity Bond Coverage

The Company maintains fidelity coverage on a group basis through Nationwide affording protection against employee dishonesty. The aggregate limit of liability is \$30,000,000 subject to a single loss limit of \$15,000,000 and a single loss deductible of \$10,000,000. The amount of fidelity coverage is in excess of the suggested amount of coverage as measured by the NAIC formula and exposure index.

Other management insurance coverages included the following:

Directors and Officers
Errors and Omissions
Computer Crime
Fiduciary

REINSURANCE

The Company participates in an intercompany pooling arrangement ("the Pool"), in which NMIC is the lead company. Effective January 1, 2021, the Company assumes zero percent and cedes 100% of its underwriting results, net of any external reinsurance, to the Pool.

As of December 31, 2021, the companies assuming a proportionate share of the Pool consisted of the following:

Nationwide Mutual Insurance Company	71.0%
Nationwide Mutual Fire Insurance Company	23.0%
Nationwide Agribusiness Insurance Company	3.0%
Nationwide Insurance Company of America	1.0%
National Casualty Company	1.0%
Nationwide General Insurance Company	1.0%

Effective January 1, 2021, Nationwide Indemnity Company ("NIC") was added to the Pool with zero percent retrocession. All other companies in the Pool had a zero percent retrocession. As of December 31, 2021, the Company had a receivable of \$3,848,745 and payable of \$35,948,676 as a result of the Pool with the parent and other participants.

In addition to the Pool, the Company had other reinsurance agreements in effect at the examination date, summarized as follows:

Agreements marked with an asterisk (*) are intercompany agreements between NIC, Nationwide and HICNJ along with other affiliates.

- (1) Nationwide Sexual Molestation Losses and Liabilities *
Effective 6/1/16 continuous | 100% QS; no limitation

Nationwide Commercial General Liability *
Effective 7/1/18 continuous | 100% QS; no limitation

- (2) Quota Share Reinsurance Agreement *
Effective August 1, 2017, NIC agreed to provide 100% reinsurance coverage to NMIC and certain of its subsidiaries and affiliates (including HICNJ) for their respective asbestos claims arising from general liability policies originally written on the paper of these ceding companies or their predecessor companies.

- (3) Nationwide Enterprise Property Catastrophe - National Tower
Effective 6/1/21 - 6/1/22 | \$3.150B xs \$500M; 10% retention

- (4) Nationwide Enterprise Property Catastrophe – Occurrence CAT Bond (Caelus 2020
Effective 3/1/20 - 5/31/23 (A-1) plus Effective 3/1/20 - 5/31/24 (B-1) – ILS
\$400M xs \$1.95B; 25% retention \$300M limit

- (5) Nationwide Enterprise Property Catastrophe - Aggregate CAT Bond (Caelus 2020-2)
Effective 6/1/20 - 5/31/23 ILS | Varying placements between \$1.261B and \$1.804B;
\$190M limit; retention subject to change given loss development from the prior treaty year
- (6) Nationwide Enterprise Property Per Risk
Effective 7/1/21 - 7/1/22 | \$115M xs \$10M; 25% retention in \$20M xs \$10M layer
- (7) Private Client – Flood
Effective 1/1/21 - 12/31/21 | 100% QS; \$1.3M limit per policy

The following "legacy" reinsurance agreements were also noted:

- (8) Harleysville Hartford Steam Boiler Equipment Breakdown
Effective 1/1/11 continuous | 100% QS; \$125M limit any one accident, any one policy

Steam Boiler Data Compromise

Effective 11/15/14 continuous | 100% QS; \$1M annual aggregate limit

Steam Boiler Cyber Attack

Effective 11/15/14 continuous | 100% QS; \$1M annual aggregate limit

- (9) Harleysville General Re Employment Practices Liability
Effective 10/1/09 continuous | 30% QS of first \$250K of net loss each claim plus 30% QS of next \$900K of net loss each claim xs \$100K

Reinsurance agreements were reviewed to ensure contracts had acceptable clauses and conditions.

ACCOUNTS AND RECORDS

Financial information needed in conjunction with the verification of assets and determination of liabilities was made available in detail and summary form. The Company's accounting books and records are maintained at the ultimate parent home address One West Nationwide Blvd. 1-04-701, Columbus, Ohio 43215. The Company's parent is responsible for the maintenance of HICNJ's general ledger. The general ledger system was tested and reconciled to the annual statement.

The Company records losses through its in-house computerized system. Losses are received and paid by NMIC and settled through intercompany accounts. The Company has a direct billing system for premiums. Most of the premium receipts are processed through a Lock Box with PNC Bank. Like losses, the premium payables/receivables are settled through intercompany accounts.

The recording of any of the above type items affecting NMIC and its subsidiary involves a comparable journal entry, that is, the item is booked to the proper subsidiary and a reciprocal entry is automatically booked to NMIC. This activity is reflected in the intercompany accounts that are settled monthly through the Custodial Accounts at Bank of New York Mellon.

Each subsidiary owns and controls its funds via their respective custodial accounts at Bank of New York Mellon. Balances in these accounts reflect monthly intercompany settlements between NMIC and its subsidiaries.

Independent Audit

Pursuant to N.J.A.C. 11:2-26.4 an annual audit was performed by KPMG, based in Columbus, Ohio, and a financial statutory audit report for fiscal years 2021 and 2020 was filed with the Commissioner. The auditors concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company.

Continuity of Operations

The Company, on a group basis through the ultimate parent, maintains a formal disaster recovery and business continuity (DR/BC) plan to meet its needs in the event of a disaster and or catastrophe. The DR/BC plan addresses and provides for the restoration of the Company's IT systems as well as critical and non-critical business functions.

IT Specialists from **Noble Consulting**, engaged by ODI, reviewed the DR/BC plan and confirmed that Nationwide performs periodic data restoration tests in compliance with NAIC standards. Additionally, examiners confirmed that the Company has also made provisions for the succession of officers in its by-laws.

COVID-19 Economic Impact

On March 11, 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. On March 13, 2020, the U.S. President declared the coronavirus pandemic a national emergency in the United States. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the Company will take time to assess and will be specific to the class and mix of business they underwrite. The Department will continue to monitor how the pandemic might impact the Company.

FINANCIAL STATEMENTS

Financial Exhibits have been prepared based on the annual statutory financial statements filed by HICNJ with the NJDOBI. These are summarized below and furnished fully in the next three pages.

- | | |
|-----------|--|
| Exhibit-A | Statement of Financial Position
as of December 31, 2021 |
| Exhibit-B | Statement of Operating Results
for the Five-Year Period ended December 31, 2021 |
| Exhibit-C | Capital and Surplus Account
for the Five-Year Period ended December 31, 2021 |

EXHIBIT-A: Statement of Financial Position

As of December 31, 2021

	<u>Balance</u> <u>Per Examination</u> <u>12/31/21</u>	<u>Balance</u> <u>Per Company</u> <u>12/31/21</u>	<u>Examination</u> <u>Change</u>	<u>Note</u>
<u>Assets</u>				
Bonds	\$ 20,116,576	\$ 20,116,576	\$ -	
Cash and Short Term Investments	5,237,623	5,237,623	-	
Investment Income Due and Accrued	113,706	113,706	-	
Uncollected Premiums	5,394,361	5,394,361	-	
Deferred Premiums	22,403,469	22,403,469	-	
Amounts Recoverable from Reinsurers	4,894,874	4,894,874	-	
Other Amounts Receivable from Reinsurers	1,523,856	1,523,856	-	
Receivables from Parent, Subs and Affiliates	1,707,705	1,707,705	-	
Total Net Admitted Assets	\$ 61,392,170	\$ 61,392,170	\$ -	
<u>Liabilities</u>				
Reinsurance Payable on Paid Losses	\$ 1	\$ 1	\$ -	
Current Federal Income Taxes	140,078	140,078	-	
Net Deferred Tax Liability	299,518	299,518	-	
Ceded Reinsurance Premiums Payable	35,901,107	35,901,107	-	
Provision for Reinsurance	191,000	191,000	-	
Payable to Parent, Subs and Affiliates	26,971	26,971	-	
Total Liabilities	\$ 36,558,675	\$ 36,558,675	\$ -	
<u>Surplus</u>				
Common Capital Stock	\$ 9,000,000	\$ 9,000,000	\$ -	
Gross Paid-in and Contributed Surplus	18,604,165	18,604,165	-	
Unassigned Funds (Surplus)	(2,770,670)	(2,770,670)	-	
Surplus as Regards Policyholders	\$ 24,833,495	\$ 24,833,495	\$ -	1
Total Liabilities and Surplus	\$ 61,392,170	\$ 61,392,170	\$ -	

EXHIBIT-B: Statement of Operating Results
For the Five-Year Period Ended December 31, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Underwriting Income</u>					
Premiums Earned	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Deductions</u>					
Losses Incurred	-	-	-	-	-
Loss Adjustment Expenses Incurred	-	-	-	-	-
Other Underwriting Expenses Incurred	-	-	-	-	-
Total Deductions	-	-	-	-	-
Net Underwriting Gain	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Investment Income</u>					
Net Investment Income Earned	537,632	606,676	624,759	708,344	1,371,554
Net Realized Capital Losses	(5,392)	(72,029)	(688,536)	(588,717)	(494,336)
Net Investment Gain/(Loss)	532,240	534,647	(63,777)	119,627	877,218
<u>Other Income</u>					
Net Loss from Premium Bal Charged Off	-	-	-	-	-
Finance and Service Charges	-	-	-	-	-
Agg Write-ins for Miscellaneous Income	(1,333)	5,841	(78)	18,567	9,823
Total Other Income	(1,333)	5,841	(78)	18,567	9,823
Net Income Before Fed Income Taxes	\$ 530,907	\$ 540,488	\$ (63,855)	\$ 138,194	\$ 887,041
Federal and Foreign Income Taxes Incurred	134,686	153,402	161,021	111,596	(2,921,675)
Net Income	\$ 396,221	\$ 387,086	\$ (224,876)	\$ 26,598	\$ 3,808,716

EXHIBIT-C: Capital and Surplus Account
For the Five-Year Period Ended December 31, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Surplus as Regards Policyholders December 31, Previous Year	\$ 24,346,593	\$ 23,617,811	\$ 23,077,996	\$ 21,991,262	\$ 47,006,579
Net Income	396,221	387,086	(224,876)	26,598	3,808,716
<u>Other Surplus Adjustments</u>					
Change in Net Deferred Income Tax	35,681	148,696	791,691	325,405	(844,908)
Change in Nonadmitted Assets	101,496	(87,198)	(6,624)	(69,940)	75,025
Change in Provision for Reinsurance	55,000	193,000	(27,000)	734,210	20,725
Dividends to Stockholders	-	-			(28,000,000)
Aggregate Write-ins for Gains/(Losses)	(101,496)	87,198	6,624	70,462	(74,875)
Total Other Surplus Gains/(Losses)	\$ 90,681	\$ 341,696	\$ 764,691	\$ 1,060,136	\$ (28,824,033)
Change in Surplus as Regards Policyholders for the Year	486,902	728,782	539,815	1,086,734	(25,015,317)
Surplus as Regards Policyholders December 31, Current Year	\$ 24,833,495	\$ 24,346,593	\$ 23,617,811	\$ 23,077,996	\$ 21,991,262

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Capital and Surplus

Common Capital Stock

HICNJ's equity structure at year-end 2021 consisted of 5,000 authorized, issued, and outstanding shares of common stock with a par value of \$1,800 per share for a total capital of \$9,000,000. The Company had no preferred stock authorized. The Company paid dividends only in 2017 during the exam period, totaling \$28,000,000, which were approved by the Department.

Gross Paid-in and Contributed Surplus

No capital contributions were made during the examination period. The balance under this account has, therefore, remained unchanged since the last exam.

Unassigned Funds

Total Unassigned Funds, as per the current examination review, amounted to \$(2,770,670), which is \$22,173,084 less than the balance reported in the last examination, reflecting a decrease of 114.28%.

Surplus as Regards Policyholders

The cumulative changes in surplus and other funds during the five-year examination period are reflected and summarized below:

Policyholder Surplus, December 31, 2016		\$ 47,006,579
Net Cumulative Income		4,393,745
Change in Net Deferred Income Tax	456,565	
Change in Nonadmitted Assets	12,759	
Change in Provision for Reinsurance	975,935	
Dividends to Stockholders	(28,000,000)	
Aggregate Write-ins for Gains/(Losses)	(12,088)	
Surplus Adjustments: Examination Change	-0-	
Net Adjustments During Five-Year Period		<u>(26,566,829)</u>
Policyholder Surplus, December 31, 2021		<u>\$ 24,833,495</u>

In compliance with N.J.S.A. 17:17-6, the Company meets the statutorily required minimum capital and surplus benchmark of \$6,250,000, an excess of \$18,583,495 remaining in surplus.

SUBSEQUENT EVENTS

Change of Control

On July 18, 2022, NMIC submitted a Form A exemption filing on behalf of the Company seeking to remove AHDI and HGI as parent companies of HICNJ and thence acquire direct control of the Company. The proposed acquisition was approved on September 29, 2022, through Department Order No. A22-07 and was completed on October 1, 2022. As a result of this transaction, HICNJ became a direct, wholly owned subsidiary of NMIC, and NMIC became a direct parent of the Company. As a direct result of the merger of NMFIC with and into NMIC on January 1, 2023, NMIC became the only ultimate controlling person in the Nationwide holding company system.

SUMMARY OF RECOMMENDATIONS

The full scope risk-focused examination of the Company did not yield any reportable recommendations.

CONCLUSION

The statutory condition examination was conducted by the undersigned with the assistance of the NJDOBI field and office staff.

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,



Juan P. Collado
Examiner-In-Charge
NJ Department of Banking and Insurance

Examination oversight by,



Nancy Lee Chice, CFE
CFE Reviewer
NJ Department of Banking and Insurance

HARLEYSVILLE INSURANCE COMPANY OF NEW JERSEY
EXAMINER-IN-CHARGE AFFIDAVIT

I, Juan P. Collado, Examiner-in-Charge, in accordance with N.J.S.A. 17:23-24 5.b., 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, 2021, to the best of my information, knowledge and belief and that the examination was performed in a manner consistent with the standards and procedures required by the State of New Jersey as per N.J.S.A. 17:23-23 4.a.

Respectfully submitted,



Juan P. Collado
Insurance Examiner I
NJ Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me on this 20th day of May, 2023



Notary Public of the State of New Jersey

My commission expires: July 2025