

REPORT ON EXAMINATION AS TO THE CONDITION OF

NEW JERSEY MANUFACTURERS INSURANCE COMPANY

TOWNSHIP OF EWING, NEW JERSEY 08628

AS OF DECEMBER 31, 2009



N.A.I.C. GROUP CODE 708

N.A.I.C. COMPANY CODE 12122

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
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Governor

THOMAS B. CONSIDINE
Commissioner

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Kim Guadagno
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November 23, 2010

Honorable Thomas B. Considine
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 MANUFACTURERS INSURANCE COMPANY
TOWNSHIP OF EWING, NEW JERSEY
N.A.I.C. GROUP CODE 708
N.A.I.C. COMPANY CODE 12122

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

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 subsidiaries, New Jersey Re-Insurance Company (NJRE), New Jersey Casualty Insurance Company (NJC) and New Jersey Indemnity Insurance Company (NJI).

The examination was made as of December 31, 2009, and addressed the five-year period from December 31, 2004, the date of the last Financial Condition Examination. During this five-year period under examination, the Company's assets increased from \$4,009,259,106 to \$5,715,594,699. Liabilities increased from \$2,211,893,692 to \$3,424,295,825 and its surplus to policyholders increased from \$1,887,365,414 to \$2,291,298,874.

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 performed under the risk focused approach.

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
Uncollected Premiums	Medium
Net Deferred Tax Asset	Medium
Investments	Medium

Many other accounts were determined to have lower emphasis level. The other areas reviewed during this examination included:

- Reinsurance
- History and Kind of Business
- Management and Control
- Territory and Plan of Operation
- Accounts and Records
- Fidelity Bond and Other Insurance Coverages
- Treatment of Policyholders

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 Contracted IT Specialist 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 intended reliance on the Company's control environment has been determined to be moderate to high.

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 Manufacturers Insurance Company is the surviving corporation of a merger at January 1, 1965 of the former New Jersey Manufacturers Indemnity Insurance Company (which had been incorporated December 6, 1921 under the laws of the State of New Jersey as "New Jersey Manufacturers Association Fire Insurance Company") with and into New Jersey Manufacturers Casualty Insurance Company (incorporated under that name on June 7, 1913 pursuant to the laws of the State of New Jersey). The name of the New Jersey Manufacturers Association Fire Insurance Company had been changed to New Jersey Manufacturers Indemnity Insurance Company with the filing of an amended charter with the State of New Jersey on December 31, 1951.

The aforesaid merger was accomplished in accordance with an Agreement of Merger dated April 24, 1964, pursuant to the provisions of Section 17:27-1 et. seq. of the Revised Statutes of New Jersey with the approval of the Commissioner of Insurance given on October 28, 1964. Simultaneously, by operation of the merger, the name of the surviving company was changed to its present form, "New Jersey Manufacturers Insurance Company."

On May 4, 2004, a surplus contribution of \$ 25,000,000 was made by the Company to its subsidiary, New Jersey Casualty Insurance Company.

In 2009, the NJM Group commuted all intercompany Casualty Excess of Loss Reinsurance Contracts retroactive to January 1, 2009. The objective of the commutation is to simplify the overall book of underlying business and the business structure of the financial holding company. The commutation of the intercompany contracts will liberate the respective reinsurer from all liabilities to the ceding company for all losses and allocated loss expenses not settled by the ceding company. In consideration, the reinsurer will pay to the ceding company all amounts of loss and allocated loss expenses due for claims not yet settled for the present value. In addition, NJM received extraordinary dividends of \$642 million from New Jersey Re-Insurance Company and \$37 million from New Jersey Indemnity Insurance Company which completed the capital restructuring executed following the commutation transaction. Additionally, NJM made a capital contribution of \$61 million as an investment in New Jersey Casualty Insurance Company.

The Company is a domestic property and casualty insurance company and is authorized to transact the kinds of insurance authorized by paragraphs "a", "b", "d", "e", "f", "g", "i", "j", "k", "l", "m", "n" and "o", against all physical loss to buildings and structures, including consequential loss, and loss or damage to property of others caused by an insured except as provided in paragraphs "a" to "n", inclusive of Section 17:17-1 of the Revised Statutes of New Jersey; being the kinds of insurance permitted to be written by the Company's Charter.

The capital stock of the Company is six million dollars (\$6,000,000) divided into fifteen thousand (15,000) shares having a par value of four hundred dollars (\$400) each.

The Company is the parent company of New Jersey Re-Insurance Company (NJRE) owning 499,972 shares of the 500,000 issued and outstanding shares of \$12 par value capital stock of its subsidiary. The remaining 28 shares are issued and held one each by the Directors of the New Jersey Re-Insurance Company. Additionally, in 1999 the Company financed the formation of three subsidiaries; New Jersey Casualty Insurance Company, New Jersey Indemnity Insurance Company and NJM Bank FSB at an

amount of \$33.5 million, \$33.5 million and \$15 million respectively. NJM owns 499,972 shares of the 500,000 issued and outstanding shares of \$10 for both NJC and NJI. The remaining 28 shares, for both NJC and NJI, are issued and held one each by the Directors of each Company. NJM owns 1,000 shares of the 1,000 issued and outstanding shares of \$1 for NJM Bank FSB.

During the period under examination, the Company has written and issued policies for the following lines of business: residential fire and allied lines, homeowners multiple peril, workers' compensation, other liability, surety, private passenger and commercial auto liability and auto physical damage.

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 Robert H. Zetterstrom, Senior Vice-President and General Counsel.

TERRITORY AND PLAN OF OPERATION

At December 31, 2009 the Company was licensed to transact the business of insurance in the States of New Jersey, Connecticut, Delaware, Maine, New York, Pennsylvania and Rhode Island. During the five-year period under review, the majority of the total premium writings were on risks located in New Jersey. In 2009 New Jersey premium comprised 97.6% of direct written premium.

The Company specializes in a limited number of lines of insurance under a plan of operation where eligibility for insurance includes, in addition to underwriting criteria, a requirement that the applicant be a member of the New Jersey Business and Industry Association, an employee or a spouse of an employee of an Association member, an employee of the State of New Jersey or an individual previously insured under a NJM auto or homeowners policy. In addition, the Company participates in various organizations on a voluntary basis or non-voluntarily as required by statute.

The New Jersey Manufacturers Insurance Company is a direct writer and all business, except risks required to be accepted by statute or regulation, is processed by salaried representatives who are duly licensed insurance agents of the Company. Premiums are billed and remitted directly to the Company on a full or installment basis without finance charges, but subject to a nominal service fee. A minor portion of the Company's business is written under a payroll deduction program, with administration costs absorbed by the employer with no service or finance charges to the employees.

The New Jersey Manufacturers Insurance Company conducts its business operations from its Home Office on Sullivan Way in Ewing Township, New Jersey. At December 31, 2009 the New Jersey Manufacturers Group had a total of 2,486 full time employees located in the West Trenton home office, the northern New Jersey Branch office in Parsippany and the southern New Jersey branch office in Hammonton. Additionally, 52 NJM employees work for New Jersey Manufacturers Bank FSB. The northern branch office in Parsippany and the southern branch office in Hammonton, both provide call centers, claim services and sales operations subject to the full control and supervision of officers at the Home Office.

COMPLIANCE WITH PRIOR EXAM FINDINGS

2004 Examination Recommendation Comments:

Reinsurance

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.

Company Response:

The reinsurance treaties referred to by the department contain provisions setting forth the allocation of ceded premium costs among companies. This allocation is based on direct premium written for the lines covered under the contract during a particular policy period. Proportionate shares of premiums due by each of the companies named in the treaty will be a direct result of the amount of premium written by each respective company. We do not see the need to file a form D with revised language.

2009 Examination Review:

The DOBI did not disagree with the Company response.

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.

Company Response:

The Company has written contracts in place with our core brokers, Thomas E. Sears, Inc. and Holborn Corporation. In addition, a reinsurance intermediary contract has been forwarded to our foreign intermediary, Aon Jauch & Hubener in Germany, for review and execution.

2009 Examination Review:

The DOBI did not disagree with the Company response.

Accounts and Records

It is recommended the Company continues work on its Business Continuity Plan (BCP) and that it begins scheduled, periodic testing of the plan.

Company Response:

The Company has been committed to maintaining necessary disaster recovery procedures to respond to a catastrophic event. The Company will continue to work on its business continuity plan and schedule appropriate periodic testing.

2009 Examination Review:

There were no noted deficiencies in the review of the disaster recovery plan in place at December 31, 2009.

Bonds and Stocks

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.

Company Response:

The Company will be seeking bids on our custodial accounts in the fall of 2006. The contract of the successful bidder will be required to contain an appropriate indemnification clause.

2009 Examination Review:

The new agreement containing the appropriate indemnification clause to protect the company from loss is in place.

Taxes, Licenses and Fees

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

Company Response:

Exam fees will be accrued for in the future.

2009 Examination Review:

The Company's response is accepted. Exam fees were accrued at December 31, 2009.

GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Direct Premiums Written</u>	<u>Net Premium Earned</u>	<u>Net Underwriting Net Gain/(Loss)</u>	<u>Net Investment Net Gain/(Loss)</u>	<u>Admitted Assets</u>	<u>Surplus As Regards Policyholders</u>
2005	\$1,212,994,127	\$1,143,175,258	\$ 65,098,966	\$ 110,325,505	\$ 4,337,173,041	\$ 1,920,041,307
2006	1,285,120,818	1,204,769,706	183,363,545	137,090,674	4,645,243,628	2,114,819,280
2007	1,317,200,944	1,261,481,367	155,021,344	149,893,782	4,911,798,429	2,241,016,657
2008	1,310,706,505	1,265,185,017	102,406,696	117,558,646	4,947,885,884	2,140,274,150
2009	1,290,906,991	1,256,353,777	(112,417,431)	773,380,763	5,715,594,699	2,291,298,874

CORPORATE RECORDS

A review of the minutes of all meetings of the Board and various Committees of the Board held during the examination period, indicated they were held and conducted in accordance with 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.

The Company's charter, dated April 24, 1964, was filed with the Insurance Commissioner of the State of New Jersey. Additionally, the Company acts as its own stock registrar.

MANAGEMENT AND CONTROL

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

At December 31, 2009 the Company had 28 directors of whom only 6 are officers or retired employees of the Company as denoted by *. 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, 2009 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Lee J. Bellarmino *	President & CEO – NJM Bank; Sr. Vice President – NJM Insurance
Vincent C. Bonica	Retired President, CEO & Chairman L.A. Dreyfus; Retired Vice President, Worldwide Gum Base Operations, William Wrigley Jr. Company
Christopher J. Colavita *	Sr. Vice President – NJM Insurance
Anthony G. Dickson *	Retired President & CEO - NJM Insurance
Bernard M. Flynn *	President & CEO - NJM Insurance; Chairman, NJM Bank
James J. Gallagher	President – Campbell's Express
Glenn A. Gerber	Chairman & CEO – Gerber Metal Supply Company
Edward J. Graham	Chairman, Pres. & CEO – South Jersey Industries, Inc.
Vaughan S. Grundy, III	President & CEO – IEW Construction Group
Patricia A. Heller-Jackson	CEO – Champion Container Corp
Steven B. Kalafer	Chairman – Flemington Car & Truck Country
Douglas R. Kuiken	President - Kuiken Brothers Company, Inc.
Clifford F. Lindholm, III	President & CEO – Falstrom Company
J. Barton Luedeke	President Emeritus – Rider University
Thomas S. Marotta	Chairman & CEO – Marotta Controls, Inc.
Alexander M. McWilliams, II	President – Forge View Partners, Inc.
James W. Milton	Retired Director – BWAY Corp
Brian F. Neuwirth	President – Unex Manufacturing, Inc.
Celestina S. Quintana	Owner/Operator – McDonald's Restaurants

David D. Rand	Director – Tingley Rubber Corporation
Harry T. Rose	Chairman & CEO – The Rose Group
Lisa Hirsh Schlossman	President & CEO – Accurate Box Company, Inc.
J. Michael Schweder	President – AT&T New Jersey
Robert J. Staudinger	President & CEO – National Manufacturing Company, Inc.
Stanford L. Stevenson, Jr.*	Retired Exec VP & CFO – NJM Insurance
Anthony M. Stonis	President – Cardolite Corporation
Matthew L. Wright	President – Apgar Bros, Inc.
Robert H. Zetterstom *	Senior VP & General Counsel – NJM Insurance

The Company had various committees of the Board of Directors including an Audit Committee of which 11 members were outside directors and 2 Audit Committee members were former employees. Thus, the Company was in compliance with N.J.S.A. 17:27-4d (4). Members of the various Committees as of December 31, 2009 were as follows:

Executive Committee

Vincent C. Bonica
Anthony G. Dickson
Glenn A. Gerber
Steven B. Kalafer
Douglas R. Kuiken
J. Barton Luedeke
Thomas S. Marotta
Alexander M. McWilliams, II
James W. Milton
David D. Rand
Harry T. Rose
Lisa Hirsh Schlossman
Anthony M. Stonis
Matthew L. Wright

Investment Committee

Vincent C. Bonica
Anthony G. Dickson
James J. Gallagher
Edward J. Graham
Vaughan S. Grundy, III
Patricia A. Heller-Jackson
Douglas R. Kuiken
Clifford F. Lindholm, III
J. Barton Luedeke
James W. Milton
Brian F. Neuwirth
David D. Rand
J. Michael Schweder
Anthony M. Stonis

Nominating Committee

Vincent C. Bonica
Anthony G. Dickson
J. Barton Luedeke
Alexander M. McWilliams, II
James W. Milton
Anthony M. Stonis

Audit Committee

Vincent C. Bonica
Anthony G. Dickson
Edward J. Graham
Vaughan S. Grundy, III
J. Barton Luedeke
Alexander M. McWilliams, II
James W. Milton
Celestina S. Quintana
Harry T. Rose
Robert J. Staudinger
Stanford L. Stevenson, Jr.

Trust Committee

Lee J. Bellarmino
Vincent C. Bonica
Christopher J. Colavita
Anthony G. Dickson
Bernard M. Flynn
Steven B. Kalafer
Douglas R. Kuiken
J. Barton Luedeke
Alexander M. McWilliams, II
James W. Milton
David D. Rand
Stanford L. Stevenson, Jr.
Anthony M. Stonis
Matthew L. Wright
Robert H. Zetterstrom

Compensation & Benefits Committee

Vincent C. Bonica
Anthony G. Dickson
Douglas R. Kuiken
J. Barton Luedeke
Alexander M. McWilliams, II
James W. Milton
Anthony M. Stonis

The Executive Officers serving and the positions they held at December 31, 2009 were as follows:

<u>Name</u>	<u>Office</u>
Bernard M. Flynn	President & Chief Executive Officer
Robert H. Zetterstrom	Senior Vice President & General Counsel
Lee J. Bellarmino	Senior Vice President
Christopher J. Colavita	Senior Vice President
Thomas J. DeFalco	Vice President & Chief Actuary
Charles A. Prall	Treasurer
Karen A. Hogan	Secretary

REINSURANCE

The Company had reinsurance agreements and treaties in force at December 31, 2009, 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>
First Layer	\$100,000,000	\$ 50,000,000	60.000%
Second Layer	150,000,000	100,000,000	76.975
Third Layer	250,000,000	150,000,000	57.000

Workers' Compensation (Per Occurrence)

Second Layer	\$ 20,000,000	\$ 20,000,000	75%
Third Layer	40,000,000	40,000,000	100
Fourth Layer	80,000,000	50,000,000	100

Obligatory Property First Surplus (Pro-Rata)

\$ 600,000	\$ 6,500,000	100 %
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Assumed Coverages included:

Aggregate Excess of Loss Ratio:

The assumed treaty covers NJ Casualty Insurance Company for all business written. It provides reinsurance for 100% of \$ 63,000,000 excess 93.0% of subject Gross Net Earned Premium for all property, casualty and surety business written.

Aggregate Excess of Loss Ratio:

The assumed treaty covers NJ Indemnity Insurance Company for all business written. It provides reinsurance for 100% of \$ 2,250,000 excess 75.0% of subject Gross Net Earned Premium for all property, casualty and surety business written.

Aggregate Excess of Loss Ratio:

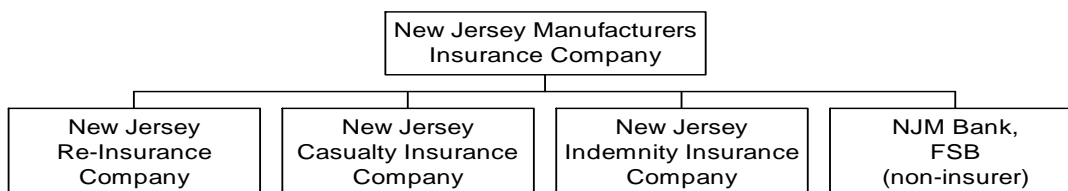
The assumed treaty covers NJ Re-Insurance Company for all business written. It provides reinsurance for 100% of \$ 68,500,000 excess 87.5% of subject Gross Net Earned Premium for all property, casualty and surety business written.

The Company maintained separate reinsurance intermediary-broker agreements with Holborn Corporation and Thomas E. Sears, Inc. These agreements were noted to be 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.

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

The New Jersey Manufacturers 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 on behalf of itself and its subsidiaries.

The Company and its subsidiaries, known as NJM Insurance Group, consists of the Parent, New Jersey Manufacturers Insurance Company, three insurer subsidiaries and one banking subsidiary as of December 31, 2009. The organizational chart for this group is as follows:



INTER-COMPANY AGREEMENTS

At December 31, 2009, NJM participated in inter-company agreements with its subsidiaries, NJRE, NJC, NJI 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. Allocations of salaries, payroll taxes and employee relations and welfare are based on annual time studies conducted or applicable operational statistics. NJM and each subsidiary agree to maintain books, accounts and records to all transactions in which costs and payments are allocated as stipulated in this agreement. The insurance subsidiaries do not have employees and thus NJM initially pays certain salary, employee benefits and other overhead costs that are charged back to each subsidiary as operating expenses. These allocated operating expenses are settled on a monthly basis by NJM affiliates.

Additionally, NJM participated in a tax allocation agreement with NJRE, NJC, NJI, NJMB and its' subsidiary, NJM Investment Company, Inc. NJM and each subsidiary agree to continue the election made in 1989 by NJM to allocate its consolidated tax liability 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

NJM has entered into equalization agreements with its affiliates, NJC and NJI, 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.

In addition to the agreements listed above, the NJM has entered into lease agreements and a privacy protection agreement with its affiliate, NJMB. The separate lease agreements are for office space at the NJM's offices in Trenton and Parsippany, New Jersey, with monthly rent due which was considered reasonable. Under the terms of the privacy protection agreement, the NJM and NJMB agree that any customer information that is shared among NJM and NJMB shall remain confidential information and shall be protected according to each company's privacy policy. NJMB is to pay the Company on a monthly basis for the use of said office space, with the monthly rent considered reasonable.

POLICY ON CONFLICTS OF INTEREST

The New Jersey Manufacturers 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 Manufacturers Insurance Company provides several benefit programs for its employees. A list of the various plans available to the Company's employees is as follows:

- Retirement Plan
- Savings Fund Plan
- Group Life Insurance Plan
- Disability Benefits Plan
- Dental Benefits Plan
- 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
Commercial Package Policy:	
Bldg., Boiler & Machinery, Builders' Risk	135,200,000
Blanket Personal Property	22,610,000
EDP	18,390,000
Blanket Extra Expense	5,770,000
Loss of Utilities	632,000
Valuable Papers	1,060,000
Account/Rev	235,000
Flood	25,000,000
Earthquake	25,000,000
Blanket Limit of Insurance	1,000,000

Workers' Compensation	Statutory
Directors & Officers Travel	300,000
Pension Coverage	Statutory
Comprehensive Liability	2,000,000
Commercial Umbrella	15,000,000
Builders Risk	36,000,000

The Company's insurance coverages were verified on a consolidated basis in conjunction with the other members of the Group. As of December 31, 2009 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

The Company's writings are restricted to a few lines of insurance with the largest amount of its direct premium volume (97.6%) attributable to risks written within the state of New Jersey. The Company's total direct written premiums for 2009 included 60.5% for its automobile business and 26.8% for workers' compensation. The Company maintains its underwriting department at the home office.

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

The largest net amount insured by the Company in any one risk (excluding workers' compensation) was \$ 600,000 at December 31, 2009. 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 is 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.

TREATMENT OF POLICYHOLDERS

The NJM's 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, 2009 and December 31, 2004

Exhibit B Summary of Operations for the Five-Year Period Ending
December 31, 2009

Exhibit C Capital and Surplus Account for the Five-Year Period Ended December 31,
2009

NEW JERSEY MANUFACTURERS INSURANCE COMPANY
BALANCE SHEET AT DECEMBER 31, 2009 AND DECEMBER 31, 2004

EXHIBIT A

	Current <u>Examination</u>	Company <u>12-31-09</u>	Examination <u>Change</u>	Note <u>Number</u>	Previous Examination <u>12-31-04</u>
Assets					
Bonds	\$3,996,998,429	\$3,996,998,429	\$0	1	\$2,620,083,229
Stocks:					
Common	963,857,153	963,857,153	0	1	1,035,886,590
Real Estate - Properties Occupied by the Company	65,095,165	65,095,165	0		76,126,817
Other Properties	0	0	0		214,825
Cash and Short-Term Investments	211,796,952	211,796,952	0	1	18,734,502
Other Invested Assets	15,562,430	15,562,430	0		10,377,045
Agents' Balances or Uncollected Premiums:					
Premiums and agents' balances in course of collection	31,942,148	31,942,148	0		29,224,618
Premiums, agents' balances and installments booked but deferred and not yet due	180,828,485	180,828,485	0		170,283,901
Accrued Retrospective Premiums	286,290	286,290	0		733,607
Reinsurance Recoverable on Loss and LAE Payments	12,396,556	12,396,556	0		22,261,726
Current Federal and Foreign Income Tax Recoverable	43,961,350	43,961,350	0		
Net Deferred Taxes	111,940,628	111,940,628	0		65,502,128
Electronic Data Processing Equipment	4,634,690	4,634,690	0		2,780,079
Interest, Dividends and Real Estate Income due and accrued	46,971,660	46,971,660	0		32,042,393
Receivable from Parent, Subsidiaries and Affiliates	4,829,706	4,829,706	0		6,133,092
Equities and Deposits in Pools and Associations	2,331,456	2,331,456	0		3,014,415
Aggregate Write-ins for Other Than Invested Assets	22,161,601	22,161,601	0		5,860,139
Total Admitted Assets	\$5,715,594,699	\$5,715,594,699	\$0		\$4,099,259,106
Liabilities					
Losses	\$2,104,754,102	\$2,104,754,102	\$0	2	\$1,259,666,315
Loss Adjustment Expenses	559,778,944	559,778,944	0	2	401,748,672
Commissions Payable	0	0	0		51,500
Other Expenses	80,717,816	80,717,816	0		50,402,900
Taxes, Licenses and Fees	14,990,566	14,990,566	0		6,608,400
Federal and Foreign Income Taxes	0	0	0		582,712
Unearned Premiums	477,131,278	477,131,278	0		421,734,168
Advanced Premiums	6,512,323	6,512,323	0		6,085,239
Dividends Declared and Unpaid - Policyholders	51,172,905	51,172,905	0		31,289,963
Ceded Reinsurance Premiums Payable	7,615,464	7,615,464	0		5,861,727
Amounts Withheld or Retained by Company for Account of Others	25,521,111	25,521,111	0		19,680,992
Remittances and Items Not Allocated	783,882	783,882	0		0
Provision for Reinsurance	1,736,000	1,736,000	0		1,101,000
Aggregate Write-ins for Liabilities	93,581,434	93,581,434	0		7,080,104
Total Liabilities	\$3,424,295,825	\$3,424,295,825	\$0		\$2,211,893,692
Surplus and Other Funds					
Aggregate Write-ins for Special Surplus Funds	\$171,312,272	\$171,312,272	\$0	3	\$101,022,310
Common Capital Stock	6,000,000	6,000,000	0	3	6,000,000
Gross Paid-in and Contributed Surplus	150,000	150,000	0	3	150,000
Unassigned Funds (Surplus)	2,113,836,602	2,113,836,602	0	3	1,780,193,104
Surplus as Regards Policyholders	\$2,291,298,874	\$2,291,298,874	\$0		\$1,887,365,414
Total Liabilities, Surplus and Other Funds	\$5,715,594,699	\$5,715,594,699	\$0		\$4,099,259,106

NEW JERSEY MANUFACTURERS INSURANCE COMPANY
SUMMARY OF OPERATIONS FOR THE
FIVE YEAR PERIOD ENDING DECEMBER 31, 2009

<u>UNDERWRITING INCOME</u>	2005	2006	2007	2008	2009
Premiums Earned	\$1,143,175,258	\$1,204,769,706	\$1,261,481,367	\$1,265,185,017	\$1,256,353,777
Deductions:					
Losses Incurred	\$756,981,012	\$695,162,437	\$726,027,710	\$769,350,577	\$931,298,496
Loss Expenses Incurred	193,769,909	192,038,014	237,399,550	244,359,503	276,400,076
Other Underwriting Expenses Incurred	127,325,371	134,205,710	143,032,763	149,068,241	161,072,636
Aggregate Write-ins for Underwriting Deductions	0	0	0	0	0
Total Deductions	\$1,078,076,292	\$1,021,406,161	\$1,106,460,023	\$1,162,778,321	\$1,368,771,208
Net Underwriting gain or (Loss)	\$65,098,966	\$183,363,545	\$155,021,344	\$102,406,696	(\$112,417,431)
<u>INVESTMENT INCOME</u>					
Net Investment Income Earned	\$106,493,959	\$124,826,309	\$144,855,688	\$145,811,866	\$815,108,020
Net Realized Capital Gains or (-) Losses	3,831,546	12,264,365	5,038,094	(28,253,220)	(41,727,257)
Net Investment Gain	\$110,325,505	\$137,090,674	\$149,893,782	\$117,558,646	\$773,380,763
<u>OTHER INCOME</u>					
Net Gain or Loss (-) From Agents' Balances Charged Off	(\$153,387)	(\$520,325)	(\$632,696)	(\$332,833)	(\$3,007,433)
Aggregate Write-ins for Miscellaneous Income	564	79,547	93,478	4,024	267,805
Total Other Income	(\$152,823)	(\$440,778)	(\$539,218)	(\$328,809)	(\$2,739,628)
Net Income Before Dividends to Policyholders and Before Federal and Foreign Income Taxes	\$175,271,648	\$320,013,441	\$304,375,908	\$219,636,533	\$658,223,704
Dividends To Policyholders	135,914,496	163,950,566	234,750,304	178,818,942	174,790,908
Net Income, After Dividends to Policyholder but Before Federal and Foreign Income Taxes	39,357,152	156,062,875	69,625,604	40,817,591	483,432,796
Federal and Foreign Income Taxes Incurred	9,014,490	28,640,076	16,491,454	17,912,436	(31,955,663)
Net Income	\$30,342,662	\$127,422,799	\$53,134,150	\$22,905,155	\$515,388,459

EXHIBIT C

NEW JERSEY MANUFACTURERS INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT FOR
THE FIVE YEAR PERIOD ENDING DECEMBER 31, 2009

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net Income	<u>\$30,342,662</u>	<u>\$127,422,799</u>	<u>\$53,134,150</u>	<u>\$22,905,155</u>	<u>\$515,388,459</u>
<u>Other Surplus Gains or (Losses)</u>					
Net Unrealized Capital Gains or (-) Losses	\$883,343	\$50,991,828	\$62,075,616	(\$81,734,795)	(\$421,802,572)
Change in Net Deffered Income Tax	10,376,784	490,793	10,473,180	22,906,351	61,927,008
Change in Non Admitted Assets	(9,014,896)	15,793,553	595,431	(65,080,218)	(35,578,728)
Change in Provision for Reinsurance	88,000	79,000	(81,000)	261,000	(982,000)
Change in Foreign Exchange Adjustment					
Cummulative Effects of Changes in Acc. Prin.	0	0	0	0	0
Change in Excess of Statutory/Stmt. Reserves	0	0	0	0	0
Change in Surplus Notes	0	0	0	0	0
Capital Changes:					
Paid In	0	0	0	0	0
Surplus Adjustments:					
Paid In	0	0	0	0	0
Dividends to Stockholders - Cash	0	0	0	0	0
Aggregate Write-ins for Gains/Losses					
In Surplus	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>32,072,557</u>
Total Other Surplus Gains or (-) Losses	<u>\$2,333,231</u>	<u>\$67,355,174</u>	<u>\$73,063,227</u>	<u>(\$123,647,662)</u>	<u>(\$364,363,735)</u>
Change In Surplus as Regards Policyholders for the year	\$32,675,893	\$194,777,973	\$126,197,377	(\$100,742,507)	\$151,024,724
Surplus as Regards Policyholders December 31, Previous Year	<u>\$1,887,365,414</u>	<u>\$1,920,041,307</u>	<u>\$2,114,819,280</u>	<u>\$2,241,016,657</u>	<u>\$2,140,274,150</u>
Surplus as Regards Policyholders December 31, Current Year	<u>\$1,920,041,307</u>	<u>\$2,114,819,280</u>	<u>\$2,241,016,657</u>	<u>\$2,140,274,150</u>	<u>\$2,291,298,874</u>

NOTE 1: INVESTMENTS

At December 31, 2009 the Company reported assets for bonds of \$3,996,998,429 common stock of \$963,857,153 and short term investments of \$ 195,581,951. The assets were accepted as stated.

Statutory Deposits

At December 31, 2009 the Company held a U.S. Treasury Bond with a par value of \$ 355,000 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 Manufacturers Insurance Company. The certificate was held at TD Bank as required by the State of New Jersey. Additionally, the Company held a U.S. Treasury Bond of \$100,000 with the Commissioner of Insurance of the State of Delaware in trust for the benefit and security of the policyholders of the New Jersey Manufacturers Insurance Company. The certificate was held at Wilmington Trust Company as required by the State of Delaware.

NOTE 2: LOSS AND LOSS ADJUSTMENT EXPENSES

At December 31, 2009 the Company reported a net liability for Losses and Loss Adjustment Expenses of \$2,664,533,096.

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.

The liabilities consisted of Net Loss Reserves, as reported by the Company and as determined by this examination, totaled \$ 2,104,754,102. Net Loss Adjustment Expense Reserves, as reported by the Company and as determined by this examination, totaled \$ 559,778,944.

NOTE 3: SURPLUS AS REGARDS POLICYHOLDERS

Common Capital Stock

The capital stock of the Company consists of \$6,000,000 divided into 15,000 authorized and outstanding shares of common stock having a par value per share of \$400 each.

Gross Paid In and Contributed Surplus

At December 31, 2009 the Company reported \$150,000 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, 2009 the Company reported \$ 171,312,272 for Special Surplus Funds. The balance consisted of a contingency reserve of \$39,000,000 for undeclared dividends to policyholders, a catastrophe reserve of \$ 100,239,715 and special surplus funds related to SSAP 10R of \$32,072,557.

Unassigned Funds (Surplus)

The Company reported an amount for unassigned funds at December 31, 2009 of \$2,113,836,602. This balance has been accepted by this examination as stated.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

SUBSEQUENT EVENTS

On June 1, 2010, the Company deployed an end to end Workers' Compensation Claims Solution.

STATEMENT OF NEW JERSEY DEPARTMENT OF BANKING AND INSURANCE PROPERTY AND CASUALTY ACTUARY

New Jersey Manufacturers Insurance Company

I, Boris Privman, Managing Property and Casualty Actuary for the New Jersey Department of Banking and Insurance, performed an actuarial analyses of the 12/31/2009 reported loss and loss adjustment expense reserves for the aforementioned insurer.

Actuarial results and findings contained within this examination report are the sole responsibility of Actuarial Unit of Office of Solvency Regulation, New Jersey Department of Banking and Insurance.

/S/

Boris Privman – FCAS, MAAA

CONCLUSION

A regular statutory condition examination was conducted by the undersigned with the assistance of contract examiners of Examination Resources, LLC.

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.
Supervising Insurance Examiner

NEW JERSEY MANUFACTURERS 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, 2009 to the best of my information, knowledge and belief.

Respectfully Submitted,

/S/

**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 9th day of December 2010.**

/S/

**Sheila M. Tkacs
Notary Public of New Jersey**

My commission expires: July 2015