

REPORT ON EXAMINATION

AS TO THE CONDITION OF THE

ARI MUTUAL INSURANCE COMPANY

LAWRENCEVILLE, NEW JERSEY 08648

AS OF DECEMBER 31, 2007

N.A.I.C. GROUP CODE 0848

N.A.I.C. COMPANY CODE 13900



TABLE OF CONTENTS

	<u>Page</u>
Salutation.....	1
Scope of Examination	1
Compliance With Prior Report Recommendations.....	2
Company History and Kind of Business.....	6
Territory and Plan of Operation	7
Reinsurance and Retention	9
Insurance Holding Company System.....	10
Corporate Records.....	11
Management and Control	11
Policy on Conflict of Interest	13
Fidelity Bond and Other Insurance Coverages.....	13
Accounts and Records	14
Continuity of Operations.....	15
Treatment of Policyholders.....	15
Financial Statements and Other Exhibits.....	15
Exhibit A- Balance Sheet at December 31, 2004 and December 31, 2007	16
Exhibit B- Summary of Operations for the Three Year Period Ending December 31, 2007	17
Exhibit C- Capital and Surplus Account For the Three Year Period Ending December 31, 2007.....	18
Notes to Financial Statements.....	19
Bonds and Stocks.....	19
Losses and Loss Adjustment Expenses.....	19
Other Expenses.....	19
Surplus as Regards Policyholders.....	20
Surplus Notes.....	20
Unassigned Funds.....	20
Report Recommendations.....	20
Subsequent Events	21
Statement of New Jersey Department Property and Casualty Actuary.....	21
Conclusion	22
Certification.....	23



State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION

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Governor

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Commissioner

June 16, 2009

Sir:

In accordance with the authority vested in you by the Revised Statutes of New Jersey (N.J.S.A.) an examination has been made of assets, liabilities, methods of conducting business and other affairs of the

**ARI Mutual Insurance Company
133 Franklin Corner Road
Lawrenceville, NJ 08648
N.A.I.C. Group Code 0848
N.A.I.C. Company Code 13900**

hereinafter referred to as the "Company".

SCOPE OF EXAMINATION

The New Jersey Commissioner of Banking and Insurance called this Examination in compliance with the requirements of N.J.S.A. 17:23-22. The examination was a full scope comprehensive examination and was conducted at the Company's home office located at 133 Franklin Corner Road, Lawrenceville, New Jersey.

The present examination covers the three-year period from January 1, 2005 through December 31, 2007. During the three-year examination period, the Company's reported admitted assets increased from \$38,350,147 to \$71,073,015. Reported liabilities increased from \$26,805,641 to \$41,515,839. Reported surplus as regards to policyholders increased from \$11,544,506 to \$29,557,176.

The conduct of the examination was governed in accordance with the procedures of the National Association of Insurance Commissioners (NAIC) and followed regulatory procedures prescribed or permitted by the New Jersey Department of Banking and Insurance (NJDOBI).

The following criteria were used in determining the emphasis to be placed on each specific account:

- Adequacy of the Company's system of internal control
- Materiality of each account and its relationship to the Company's solvency
- Analytical reviews performed under the review of the Examiner-In-Charge.

The material balance sheet accounts in significant cycles specific to the Company and the emphasis placed on those accounts for this examination are as follows:

Bonds (Medium Emphasis)

Preferred & Common Stocks (Medium Emphasis)

Cash and Short-Term Investments (Medium Emphasis)

Interest, Dividends and Real Estate Income Due and Accrued (Medium Emphasis)

Premiums in Course of Collection (Medium Emphasis)

Receivable from Parent, Subsidiaries and Affiliates (Medium Emphasis)

Deferred Federal Income Taxes (Medium Emphasis)

Reinsurance Recoverable on Loss and Loss Adjustment Expense Payments (Medium Emphasis)

Loss Reserves (Medium Emphasis)

Loss Adjustment Expense Reserves (Medium Emphasis)

Commissions Payable, Contingent Commissions and Other Similar Charges (Medium Emphasis)

Unearned Premiums (Medium Emphasis)

Ceded Reinsurance Premiums Payable (Medium Emphasis)

Amounts Withheld or Retained by Company (Medium Emphasis)

Other Expenses (Medium Emphasis)

All the remaining accounts, which are not mentioned here, are having a Low Emphasis.

In addition to the items hereinafter incorporated as part of the written report, the following items were reviewed and made part of the examination work papers:

Advertising

Policy Forms and Underwriting Practices

Commitments and Contingencies

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

The following is a list of prior report recommendations and a review of the Company's compliance with those recommendations:

Accounts and Records:

Recommendation: It is recommended the Company do a full restore of its systems from time to time on a regularly scheduled basis and test its Business Continuation Plan.

Company Response and Review: The Company is in the process of reviewing back-up and restoration alternatives that will allow the Company automatically back-up business transactions to a remote protected, dedicated and vaulted server. Regularly scheduled restoration testing will be performed on the remote server once the automated back-up is established. Upon review it was determined while there was evidence that the Company has run tests for their most important systems, the Company has not presented a fully tested Business Continuity Plan. It will be recommended that the company continue to work on upgrading the recovery process of all their important systems and that they continue developing and testing a full Business Continuity Plan.

Cash and Short-term Investments:

Recommendation: The Company reported balances in Evergreen Money Mutual Fund as cash rather than short-term investments. Additionally, the Company did not list each bank account separately on Schedule E.

Company Response and Review: The Company has reported the Evergreen Money Mutual Funds as short-term investments and recorded them in Schedule DA in accordance with SSAP 2-10 as of December 31, 2005, and will continue to do so in the future. A review determined this to be properly done.

Bonds and Stocks:

Recommendation: During our examination of bonds and stocks it was noted the Company used the settlement date for recording bond acquisitions. In accordance with SSAP 26-4 all bond acquisitions (other than the acquisition of private placement bonds) are to be recorded on the trade date. It is recommended the Company record all bond acquisitions on the trade date, rather than the settlement date in accordance with SSAP 26-4.

Company Response and Review: The Company has reported all bond acquisitions on the trade date in accordance with SSAP 26-4 as of December 31, 2005, and has also been doing it during the review of this examination.

Recommendation: The Company pledged the use of its investment of an Amboy Certificate of Deposit as collateral in a legal case. Per SSAP 1-17, "For each year that a balance sheet is presented, reporting entities shall disclose information in the financial statements, the amount and nature of any assets pledged to the others as collateral". It is recommended

that the Company disclose in the “Notes to Financials” any assets pledged to others as collateral in all future financial filings in accordance with SSAP 1-17.

Company Response and Review: The Company will disclose all assets pledged to others as collateral in accordance with SSAP 1-17. The Company has been following this as per the review performed in this examination.

Reinsurance and Retention:

Recommendation: The NJDOBI Actuarial Unit determined risk transfer on the multi-line quota share reinsurance contract to be minimal for 2004. Subsequently 2005 and 2006 reinsurance contracts were reviewed and were found to have higher levels of risk transfer. It is recommended the Company continue to assess and document adequate risk transfer on all future reinsurance contracts.

Company Response and Review: The Company annually scrutinizes the transfer of risk in all reinsurance contracts and has worked with the Company's auditors and reinsurers to ensure adequate levels of risk transfer exist in each year's contracts. The multi-line quota share contract was eliminated on December 31, 2005. During this examination, NJDOBI Actuarial Unit determined that all the reinsurance contracts pass “10/10” risk transfer test.

Advance Premiums:

Recommendation: It is recommended the Company report advance premiums as a liability in all future financial filings in accordance with SSAP 53-13.

Company Response and Review: The Company reported all advance premiums collected in accordance with SSAP 53-13 at December 31, 2005, and has continued to do so during the review of this examination.

Ceded Reinsurance Balances Payable:

Recommendation: It is recommended the Company properly segregate all inter-company reinsurance transactions including assumed and ceded reinsurance recoverables and payables on paid loss and loss adjustment expenses and assumed and ceded reinsurance balances payable due to or from its Affiliate ARI Casualty Company in Schedule F in accordance with SSAP 64-3 and NAIC Annual Statement instructions.

Company Response and Review: The Company segregated all reinsurance transactions including assumed and ceded reinsurance recoverables and payables on paid loss and loss

adjustment expenses and assumed and ceded reinsurance balances payable due to or from its affiliate, ARI Casualty Company in Schedule F in accordance with SSAP 64-3 and NAIC annual statement instructions at December 31, 2005 and has continued to do so in this examination.

Net Deferred Tax Asset:

Recommendation: It is recommended the Company limit its deferred tax asset by ten percent of adjusted surplus (as recorded in its most recent financial filing with the NJDOBI Commissioner) as indicated in SSAP 10-10(b)(ii).

Company Response and Review: The Company has again reviewed the requirements of SSAP 10-10(b)(ii) and has applied the requirements to the deferred tax asset limits which was verified during our examination.

Loss and Loss Adjustment Expenses:

Recommendation: Although net reserves were accepted for examination purposes in total, the NJDOBI Actuarial Unit did note that the Company's reserve methodology for ULAE resulted in an understatement of ULAE reserves. Subsequently in 2005 the Company did revise its reserve methodology for ULAE reserves and ULAE reserves appear to be adequate. It is recommended the Company continue to adequately reserve for ULAE reserves.

Company Response and Review: The Company has reviewed the methodology for developing ULAE reserves as the reserves develop and are paid over time. The methodology was reviewed by the NJDOBI Actuarial Unit and no exceptions were noted.

Other Expenses and Taxes, Licenses and Fees:

Recommendation: It is recommended the Company establish accruals for the following liabilities:

- Property Liability Insurance Guaranty Assessment (PLIGA)-This accrual can be offset by the expected recoupment from policyholder surcharges
- Unsatisfied Claim and Judgment Fund (UCJF)
- Motor Vehicle Security Responsibility and Insurance Fraud Assessments

Company Response and Review: The Company has established the accruals for PLIGA, UCJF and the Motor Vehicle Security Responsibility Assessments as of December 31, 2007. However, it appeared that the Company did not set up an accrual for fraud assessments. It will be recommended again that the Company report an accrual for fraud assessment.

COMPANY HISTORY AND KIND OF BUSINESS

The Company was chartered by a special act of the Legislature of the State of New Jersey on December 4, 1879, under the name, "Farmer's Mutual Insurance Company of New Jersey". An amendment to the Certificate of Incorporation, dated July 30, 1984, was filed with the Commissioner of Insurance of the State of New Jersey on November 1, 1984 changing the name of the corporation to the American Reliance Insurance Company.

On June 30, 1993 the Company, in collaboration with the American Reliance Casualty Company (Casualty), sold the bulk of their business written to VIK Brothers Insurance, Inc. and affiliates pursuant to an Asset Purchase Agreement dated February 12, 1993 and approved by the New Jersey Department of Banking and Insurance on June 12, 1993. At that point the Company operated in a runoff status, retaining the responsibility for claims in the state of Florida, for New Jersey personal automobile policies and for all policies issued before January 1, 1989. The Company also sold the right to market the name "American Reliance", and effective December 18, 1995 the corporate name was changed to ARI Mutual Insurance Company.

On February 28, 1994 the Company submitted a Form D filing to the New Jersey Department of Banking and Insurance requesting approval of an "Exchange Agreement" whereby all of its common stock in ARI Holdings, Inc. (1,359,656 shares) are to be transferred to the American Reliance Casualty Company in exchange for 100% of Casualty's issued and outstanding common stock. Prior to such a transfer, Casualty would declare and pay an extraordinary dividend to ARI Holdings, Inc. equal to the difference between the value of the Casualty Common Stock and the value of the ARI Common Stock beneficially held by Mutual.

On December 29, 1994 the Company submitted a Form D filing to the New Jersey Department of Banking and Insurance requesting approval of an assumption reinsurance agreement whereby the company would assume all of the business of American Reliance Indemnity Company, hereinafter referred to as "Indemnity". Indemnity would pay an extraordinary dividend to the Company in an amount such that Indemnity's capital and surplus would be reduced to the minimum required level. The New Jersey Department of Banking and Insurance approved both Form D filings on July 17, 1995.

On August 7, 1995 an Assumption Reinsurance Agreement was executed between Indemnity and the Company whereby the Company assumed all of the rights, liabilities and obligations relating to all insurance policies issued by Indemnity as of August 31, 1995. Also on August 7, 1995 the "Exchange Agreement" between the Company and

Casualty was consummated and Casualty declared an extraordinary dividend in the amount of \$4,030,173 payable to ARI Holdings, Inc.

On September 6, 1995 the Company filed an amended Form B (Holding Company Registration Filing) with the New Jersey Department of Banking and Insurance reflecting the changes discussed above.

The Company's amended Certificate of Authority dated December 18, 1995 authorizes the Company to transact the kinds of insurance specified under paragraphs "a", "b", "d", "e", "f", "g", "i", "j", "k", "l", "m", "n" and "o-1", "o-2" and "o-3" of N.J.S.A. 17:17-1 et seq. and Health Insurance as defined in the Life and Health Insurance Code N.J.S.A. 17B:17-4.

In 1996 the Company developed a detail feasibility study and plan for recommencement of operations. This plan was filed with the State of New Jersey with the request that the Company be permitted to recommence writing insurance. The State of New Jersey approved the Company's request in August of 1996. In March 1997 the Company recommenced issuing insurance policies in the State of New Jersey.

On February 1, 1996 the Company moved its principal office and operations to 133 Franklin Corner Road, Lawrenceville, New Jersey. The registered agent upon whom process may be served is the Company itself.

On February 19, 1999 the New Jersey Department of Banking and Insurance approved a capital contribution from the Company to ARI Casualty in the amount of \$ 2,000,000.

The contribution was made by the Company in the form of a transfer of 709,220 shares of ARI Indemnity common stock with a statement value of \$ 2.82 per share.

The Company's amended Certificate of Authority dated November 6, 2000 authorizes the Company to transact the kinds of insurance specified under paragraphs "a", "b", "e", "f", "g", "i", "j", "k", "l", "m", "n" and "o" of N.J.S.A. 17:17-1 et seq.

The Indemnity Insurance Company was sold in the year 2005.

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 Delaware, Maryland, New Jersey, Pennsylvania, and Virginia as of December 31, 2007.

The Company conducts its business operations from its home office at 133 Franklin Corners Road, Lawrenceville, New Jersey, 08648.

All underwriting and administrative business is conducted at this office; and all accounting books of record are maintained at this office. The Company has no other locations of business.

The Company intends to concentrate on mono-line auto rather than an entire account basis. The Company's concentration is on smaller "mom and pop" businesses with a small percentage of riskier businesses (vehicles over 20,000 pounds).

The Company markets its products exclusively through approximately 170 independent agents and brokers.

The Company places reinsurance through one reinsurance intermediary broker AON, Re Inc. AON began as the Company's Intermediary on August 15, 2005. The Intermediary is authorized to act in the state of New Jersey under N.J.S.A. 17:22E-2(b).

A summary of direct premiums written over the past three years is summarized below:

<u>Year</u>	<u>Direct Premiums Written</u>
2005	\$34,600,392
2006	38,010,388
2007	36,909,662

Gross direct written premiums written in 2007 are allocated among the following lines of business:

<u>Line of Business Written</u>	<u>Direct Premiums Written</u>
Commercial Automobile Liability	\$30,753,011
Automobile Physical Damage	5,609,694
Other Liability-Occurrence	<u>546,957</u>
Total	<u>\$36,909,662</u>

The Company's accounting, claim, underwriting and administrative functions are conducted at the Company's home office.

RNEINSURANCE AND RETENTION

The Company had the following reinsurance in force as of December 31, 2007:

Business Type and Contract

Reinsurance Limits

Commercial Auto Liability

1 st Excess of Loss	\$375,000 excess of \$125,000 Company retention
2 nd Excess of Loss	\$500,000 excess of \$500,000
3 rd Excess of Loss	\$4,000,000 excess \$1,000,000

Commercial Auto Physical

1 st Excess of Loss	\$425,000 each insured excess of \$75,000 Company retention; \$850,000 maximum per occurrence
Excess of Loss Catastrophe	95% excess \$250,000 of any catastrophe loss; \$1,662,500 Maximum per occurrence; cannot exceed \$3,325,000 per reinsurance term

Once the above reinsurance is calculated the Company assumes 100% of ARI Casualty Company's net loss exposures under an Inter-company Reinsurance Pooling Treaty. Mutual will then cede 35% of the total net consolidated losses of the combined Companies back to Casualty under a inter-company Quota Share Reinsurance Treaty. These inter-company Agreements are explained in detail under the examination report section "Holding Company System".

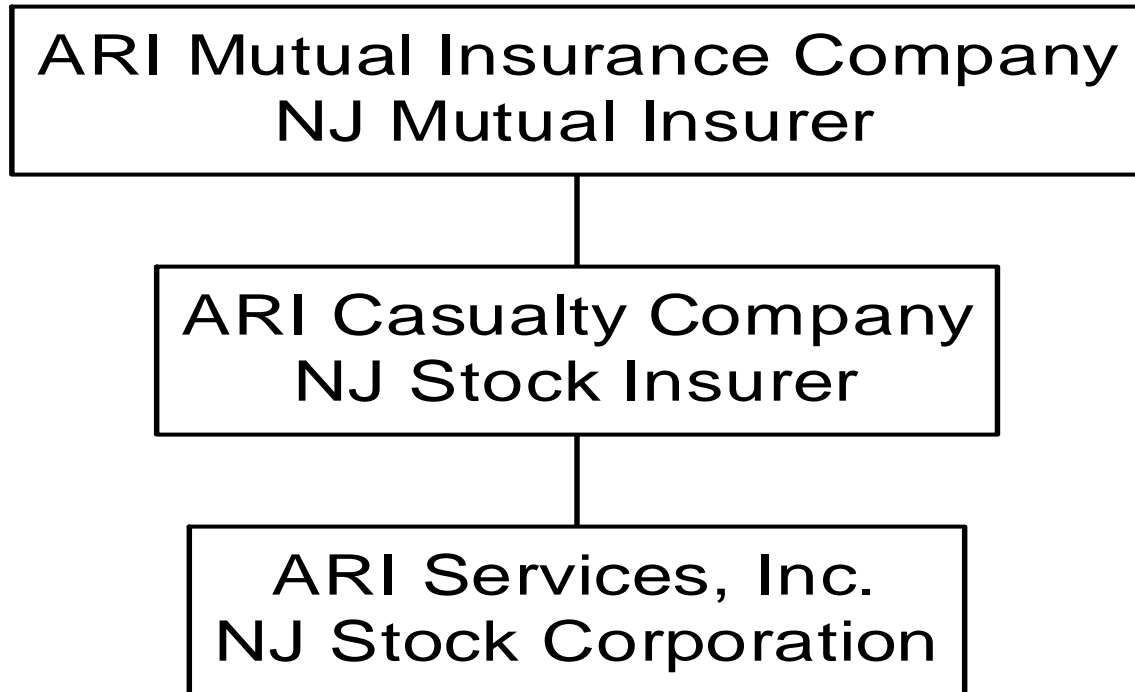
In addition to the above mentioned reinsurance the Company is also a participant in mandatory Pools and Associations. The Company assumes reinsurance from the National Workers Compensation Pool and the New Jersey Commercial Automobile Insurance Procedure and cedes reinsurance to the New Jersey Unsatisfied Claim and Judgment Fund.

The Company did report reinsurance in dispute of \$36,000 as of December 31, 2007 and has not written off any amount in reinsurance balances in 2007.

Reinsurance Agreements were reviewed to ensure contracts had acceptable clauses and conditions. The NJDOBI Actuarial Unit determined that all the reinsurance contracts pass "10/10" risk transfer test.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a holding company system as defined within N.J.S.A. 17:27A-1. The Company is the ultimate Parent of the Companies within the holding company system as illustrated below:



The Company is operating under a number of inter-company agreements, which are described below:

Inter-Company Quota Share Reinsurance Pooling Agreements-The Company and ARI Casualty Company participate in a reinsurance pooling agreement. Under the Agreements ARI Casualty cedes 100% of its premiums and losses to ARI Mutual. ARI Mutual combines this business with its own premiums and losses and cedes 35% back to ARI Casualty. Prior to March 1, 1997, ARI Mutual assumed 40% and ARI Casualty assumed 60% of the combined premiums and losses.

Management Agreements-ARI Mutual has separate management agreement with ARI Casualty Company. Under both Agreements, ARI Mutual provides Casualty use of the following:

- Executive, management, administrative and other employee services
- Office facilities
- Data processing systems and services
- Equipment, supplies, communications and other systems

In exchange ARI Casualty is to share the cost of such services through the same respective prorated percentage (35%) as indicated in the Pooling Agreement.

Tax Allocation Agreement-ARI Mutual files a consolidated income tax return with ARI Casualty Company. The Agreement stipulates ARI Mutual should account for all tax payments and tax refunds and share all payments and refunds based upon each Company's proportionate share of tax liability (including credit for tax losses) as if each Company filed independently.

All Agreements have been approved by the NJDOBI in accordance with N.J.S.A. 17:27A-4.

CORPORATE RECORDS

Minutes of meetings held by the Board of Directors revealed adequate approval of the Company's transactions and events including the review and approval of the prior statutory financial examination report.

The Company's adherence to its Certificate of Incorporation and Bylaws was validated without exception.

MANAGEMENT AND CONTROL

Mutual Policyholder Members

Mutual policyholder meetings are held annually at the Company's principal office at a place and time to be determined.

Ten members shall constitute a quorum for the transaction of any business. Each member is entitled to one vote.

The election of the Board Directors is accomplished through a majority of votes cast by the Members at the annual meeting of policyholders.

Directors

In accordance with the Company's By-laws, the business and affairs of the Company are governed under the management of the Board of Directors.

The By-laws indicate the number of Directors serving the Company should be no less than three or more than five. Directors are to remain in office for a term of three years except in the case of death, resignation or removal. Directors are divided into three classes of

Directors and the term of each Director is staggered so that one class of Directors expires each year. A majority of Directors shall constitute a quorum on any business transactions.

The following Directors were serving as of December 31, 2007:

<u>Director</u>	<u>Current Occupation</u>
George L. Bielitz, Jr.	Independent Financial Consultant Chairman of the Board
Barry W. Blank	Commercial Banking Consultant
William G. Vowteras	President and Full Partner of Fraser Brothers, Inc. an independent insurance agency
Karen S. Fulton	President & Chief Executive Officer of ARI Companies

In accordance with N.J.S.A. 17:27A-4(d)(3) the Company is required to maintain 1/3 outside directors. All Directors other than Karen S. Fulton are outside directors.

In accordance with the By-laws the Company is required to maintain an audit committee consisting of Directors who are neither Officers nor employees of the Company. The audit committee shall perform the following functions:

- Annually arrange an audit of the Company's books by an independent public accountant
- Review the annual report and present the report and its finding to the Board of Directors
- Access to the accounts, books and records of the Company and the cooperation and assistance of the Officers maintaining such corporate and accounting records

Directors of the audit committee serving as of December 31, 2007 were as follows:

George Leonard Bielitz Jr.
William George Vowteras
Barry William Blank

In accordance with the Company By-laws the Board of Directors may create additional committees and appoint Directors to serve on them. Under this resolution the Board of Directors created a Compensation Committee comprised of the following Directors:

**George Leonard Bielitz Jr.
William George Vowteras
Barry William Blank**

As indicated above all Directors serving on both the audit and compensation committees are considered outside directors. As indicated in N.J.S.A. 17:27A-4(d)(4) any committee selecting and reviewing the work performed by the Company's CPA auditors, nominating candidates for director, or evaluating the performance and determining the compensation of Company officers, shall be comprised solely of outside Directors. Both the compensation and audit committee encompass such functions.

Officers

As designated in the Company's By-laws the Officers of the Company shall be a President, a Secretary, a Treasurer and additional Officers as designated by the Board. Officers are annually elected and hold one-year terms.

Officers serving the Company as of December 31, 2007 are indicated below:

**Karen S. Fulton-President
John T. Ericson-Secretary
David A. Gerth-Treasurer**

POLICY ON CONFLICT OF INTEREST

The Company maintains a "Code of Conduct" policy statement for all employees regardless of position. The Code of Conduct stipulates the various conditions and actions that are and or may be deemed by the Company to be inappropriate, potential conflicts of interest and or violations of said policy statement.

Conflict of interest questionnaire are completed annually by each Company employee. Potential conflicts are brought to the attention of the Company's President and questionnaires are annually presented to the Board of Directors for review.

FIDELITY BONDS AND OTHER INSURANCE COVERAGES

The Company maintains an insurance program on a consolidated basis with Company affiliates designed to protect their assets arising out of property and casualty risks. Coverage's include protection on property, general liability, directors and officers, fiduciary liability, workers compensation, insurance company professional liability, employment practices liability insurance, system breakdown and financial institution bond.

At December 31, 2007, the ARI Insurance Companies maintained Commercial Umbrella Coverage in the amount of \$10,000,000 with deductible of \$10,000.

The Company also maintained fidelity bond with the aggregate limit of \$4,000,000, with insuring clause of a single loss limit of \$2,000,000 and deductible of \$25,000 that include coverage for fidelity, loss of property on premises or in transit and forgery on deposits and securities, counterfeit currency, servicing contractors/third party administrators and computer theft. The amount of fidelity bond coverage as measured by the NAIC's formula and exposure index was deemed adequate.

ACCOUNTS AND RECORDS

Financial information needed in conjunction with the verification of assets and the determination of liabilities was made available in detail and summary form. The general ledger system was tested and reconciled to the annual statement. The Company's accounting books and records are maintained at the Company's home office. The general books of account are maintained on a Freedom general ledger software package (Freedom).

The Company uses Freedom to record accounts payable, which has a direct feed into the general ledger package.

Premium billing and accounts receivable are recorded using the Company's Phoenix System. Approximately 70% of all premium receipts by volume are received in a lock box and are deposited directly in the bank. The bank issues detail to the Company and the Company records the deposits daily through the Phoenix System. The remaining 30% of receipts are received by the Company directly. Premiums billed are recorded in Phoenix, and are interfaced with Freedom and posted to the general ledger. Written premiums are manually recorded (through journal entries) into Freedom and posted to the general ledger on a monthly basis through reports generated by Phoenix. Commissions are recorded in the same manner with commission payments fully automated and the recording of commissions manually recorded on a monthly basis.

Claim reserves and payments are entered in the Company's Phoenix System on a daily basis and recorded manually (through journal entries) onto Freedom and posted to the general ledger.

Investment transactions are recorded through the use of Excel spreadsheets. The Company records the activity to their investment accounts on a monthly basis. All reconciled monies are then posted to the general ledger through journal entries.

CONTINUITY OF OPERATIONS

A review was made of the Company's Business Continuity Plan and ImageRight System which holds all the images for claims, underwriting and billing. The review determined that the Company has run tests for their ImageRight System, when they upgraded from their original server to a new server. However, the Company has not presented a fully tested Business Continuity Plan. It is recommended that the company continue to work on upgrading the recovery process of all their important systems and continue developing and testing a full Business Continuity Plan.

TREATMENT OF POLICYHOLDERS

The Company's complaint handling procedures as well as its complaint log were reviewed during the examination. Upon review of the Company's complaint file it was determined that the Company's was in compliance with N.J.S.A. 17:29B-4(10) which states: "This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints, and the time it took to process each complaint".

FINANCIAL STATEMENTS AND OTHER EXHIBITS

- Exhibit A- Balance Sheet at December 31, 2004 and December 31, 2007
- Exhibit B- Summary of Operations for the Three Year Period Ending December 31, 2007
- Exhibit C- Capital and Surplus Account for the Three Year Period Ending December 31, 2007

EXHIBIT A

ARI MUTUAL INSURANCE COMPANY
BALANCE SHEET AT DECEMBER 31, 2007 AND DECEMBER 31, 2004

<u>Assets</u>	Current Company at 12/31/07	Balance per Company at 12/31/07	Examination Change	Note Number	Balance per Company at 12/31/04
Bonds	\$36,820,386	\$36,820,386		1	\$10,396,593
Preferred Stocks	1,882,500	1,882,500			1,000,000
Common Stocks	16,066,715	16,066,715			13,981,134
Cash and Short-Term Investments	4,689,250	4,689,250			2,509,883
Investment Income Due and Accrued	442,136	442,136			124,769
Agents' Balances or Uncollected Premiums:					
Uncollected Premiums and Agents' Balances In Course of Collection	6,404,217	6,404,217			4,889,378
Amounts Recoverable From Reinsurers	2,150,625	2,150,625			1,604,344
Other Amounts Receivable Under Reinsurance Contracts	333,738	333,738			1,932,393
Current Federal and Foreign Tax receivable	43,810	43,810			0
Net Deferred Tax Asset	871,299	871,299			982,839
Guarenty Funds on deposit	1,083,449	1,083,449			172,488
Receivable from Parent, Subsidiaries and Affiliates	275,038	275,038			457,835
Aggregate Write-ins for Other Than Invested Assets	9,852	9,852			298,491
Total Admitted Assets	\$71,073,015	\$71,073,015			\$38,350,147
<u>Liabilities</u>					
Losses	\$18,056,304	\$18,056,304		2	\$11,529,020
Reinsurance Payable on Paid Losses	83,676	83,676			\$0
Loss Adjustment Expenses	4,504,244	4,504,244		2	2,165,203
Commissions Payable	373,831	373,831			468,239
Other Expenses	3,149,441	3,149,441		3	975,325
Taxes, Licenses and Fees	665,500	665,500			144,062
Federal and Foreign Income Taxes	0	0			17,367
Unearned Premiums	10,248,738	10,248,738			7,340,978
Advance Premiums	15,905	15,905			0
Ceded Reinsurance Premiums Payable	3,575,934	3,575,934			3,795,484
Amounts Withheld or Retained by Company for Account of Others	815,866	815,866			293,763
Provision for Reinsurance	26,400	26,400			76,200
Aggregate Write-ins for Liabilities	0	0			0
Total Liabilities	\$41,515,839	\$41,515,839			\$26,805,641
<u>Surplus and Other Funds</u>					
Surplus Notes	3,000,000	3,000,000		4	0
Unassigned Funds (Surplus)	26,557,176	26,557,176		4	11,544,506
Surplus as Regards Policyholders	\$29,557,176	\$29,557,176		4	\$11,544,506
Total Liabilities, Surplus and Other Funds	\$71,073,015	\$71,073,015			\$38,350,147

EXHIBIT B

**ARI MUTUAL INSURANCE COMPANY
SUMMARY OF OPERATIONS FOR THE
THREE YEAR PERIOD ENDING DECEMBER 31, 2007**

<u>UNDERWRITING INCOME</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Premiums Earned	\$22,063,925	\$21,838,717	\$17,604,560	\$14,235,407
Deductions:				
Losses Incurred	11,099,636	9,436,401	6,652,366	7,264,944
Loss Expenses Incurred	2,503,203	2,361,858	2,856,435	1,942,684
Other Underwriting Expenses Incurred	6,897,349	7,720,929	6,626,986	3,949,584
Total Deductions	\$20,500,188	\$19,519,188	\$16,135,787	\$13,157,212
Net Underwriting gain or (Loss)	\$1,563,737	\$2,316,529	\$1,468,773	\$1,078,195
 <u>INVESTMENT INCOME</u>				
Net Investment Income Earned	\$1,564,944	\$1,184,119	\$579,762	\$255,144
Net Realized Capital Gains or (-) Losses	(49,187)	0	(1,626,648)	
Net Investment Gain	\$1,515,757	\$1,184,119	(\$1,046,886)	\$255,144
 <u>OTHER INCOME</u>				
Net Gain or Loss (-) From Agents' Balances Charged Off	(\$198,390)	(\$216,377)	(\$49,647)	(\$48,929)
Finance or Service Charge not Included in Premiums	121,927	121,505	115,061	92,614
Aggregate Write-ins for Miscellaneous Income	0		169,000	350,000
Total Other Income	(\$76,463)	(\$94,872)	\$234,414	\$393,685
Net Income Before Dividends To Policyholders and Before Federal and Foreign Income Tax	\$3,003,031	\$3,405,776	\$656,301	\$1,727,024
Dividends To Policyholders	0	0	0	14
Net Income Before Federal Income Taxes	\$3,003,031	\$3,405,776	\$656,301	\$1,727,010
Federal and Foreign Income Taxes Incurred	23,803	101,833	100,800	43,474
Net Income	\$2,979,228	3,303,943	\$555,501	\$1,683,536

EXHIBIT C

**ARI MUTUAL INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT FOR
THREE YEAR PERIOD ENDING DECMEBER 31, 2007**

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net Income	\$2,979,228	\$3,303,943	\$555,501	\$1,683,564
<u>OTHER SURPLUS GAINS OR (-) LOSSES</u>				
Change In Net Unrealized Capital Gains or (-) Losses	\$1,767,829	\$2,111,657	\$4,345,535	\$998,561
Change in Net Deferred Income Tax	(850,048)	(818,460)	(2,299,194)	(627,577)
Change in Non Admitted Assets	885,749	577,539	2,403,591	1,133,635
Change in Provision for Reinsurance	119,400	(62,800)	(6,800)	126,800
Change in Surplus Notes			\$3,000,000	
Total Other Surplus Gains or (-) Losses	<u>\$1,922,930</u>	<u>\$1,807,936</u>	<u>\$7,443,132</u>	<u>\$1,631,419</u>
Increase or (-) Decrease as Regards Policyholders	\$4,902,158	\$5,111,879	\$7,998,633	\$3,314,983
Surplus as Regards Policyholders December 31, Previous Year	<u>\$24,655,018</u>	<u>\$19,543,139</u>	<u>\$11,544,506</u>	<u>\$8,229,523</u>
Surplus as Regards Policyholders December 31, Current Year	<u>\$29,557,176</u>	<u>\$24,655,018</u>	<u>\$19,543,139</u>	<u>\$11,544,506</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - BONDS AND STOCKS

At December 31, 2007 the Company reported assets for bonds of \$36,820,386, Preferred Stocks of \$1,882,500 and common stocks of \$16,066,715. The assets were accepted as stated.

Statutory Deposits:

At December 31, 2007 the Company held an U.S. Treasury note of \$1,000,000 with New Jersey, a U.S. Treasury Note of \$250,000 with Delaware and a U.S. Treasury Note of \$50,000 with Virginia.

NOTE 2 - LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

At December 31, 2007 the Company reported a net liability for Losses and Loss Adjustment Expenses of \$ 22,560,548.

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

The liabilities consisted of Net Loss Reserves, as reported by the Company and as determined by this examination, totaled \$ 18,056,304. Net Loss Adjustment Expense Reserves, as reported by the Company and as determined by this examination, totaled \$ 4,504,244.

NOTE 3 – OTHER EXPENSES

The Company reported a liability for "Other Expenses" of \$3,149,441 at December 31, 2007. The liability has been accepted as stated. However, it was determined that the Company did not report an accrual for insurance fraud assessments. It is recommended the Company include insurance fraud assessments in their future accruals.

NOTE 4: SURPLUS AS REGARDS POLICYHOLDERS

A summary of the Surplus as Regards Policyholders as a result of this examination is summarized below:

Surplus Notes	\$ 3,000,000
Unassigned Funds	<u>26,557,176</u>
Total Surplus as Regards Policyholders	\$ 29,557,176

The Surplus as Regards Policyholders as determined by this examination amounted to \$ 29,557,176 which is above the minimum needed surplus level of \$ 4,500,000 as required by statutes to write policies without contingent liability.

Surplus Notes

At December 31, 2007 the Company reported a balance of \$ 3,000,000 for Surplus Notes. The surplus note bears interest at a rate of 8.86 % and during the year, the Company paid \$531,600 towards principal and/or interest. The note was issued by Hare and Company in exchange for \$3,000,000 cash. The Surplus Note was underwritten by Bank of New York and was administered by Wilmington Trust Company. The date of maturity of the note was December 15, 2035.

Unassigned Funds

The Exchange reported an amount for unassigned funds at December 31, 2007 of \$26,557,176 which has been accepted as stated by this examination report.

REPORT RECOMMENDATIONS

Continuity of Operations (Page 15)

It will be recommended that the company continue to work on upgrading the recovery process of all their important systems and that they continue developing and testing a full Business Continuity Plan.

Other Expenses (Page 19)

It was determined that the Company did not report an accrual for insurance fraud assessments. It is recommended the Company include insurance fraud assessments in their future accruals.

CONCLUSION

The examination of the ARI Mutual Insurance Company was conducted by the undersigned at the Company's home office located at 133 Franklin Corner Road, Lawrenceville, New Jersey, 08648.

The courteous cooperation extended to the examination staff by the officers and employees of the Company is acknowledged.

Respectfully submitted,

/S/

William F. Kirgan,
Supervising Insurance Examiner

The ARI Mutual Insurance Company

I, William F. Kirgan, do solemnly swear that the foregoing Report on examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2007 to the best of my information, knowledge and belief.

Respectfully submitted,

/S/

**William F. Kirgan,
Examiner-In-Charge
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance**

**State of New Jersey
County of Mercer**

Subscribed and sworn to before me, Robert E. Zupko on this 23rd day of June, 2009.

/S/

**Robert E. Zupko
Notary Public of New Jersey**

My commission expires February 4th, 2014