

REPORT ON EXAMINATION AS TO THE CONDITION OF
HARLEYSVILLE INSURANCE COMPANY OF NEW JERSEY
MOUNT LAUREL, NEW JERSEY 08054

AS AT DECEMBER 31, 2013

N.A.I.C. GROUP CODE 0140

N.A.I.C. COMPANY CODE 42900

Filed

June 26, 2015

**Commissioner
Department of Banking &
Insurance**

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State of New Jersey

DEPARTMENT OF BANKING AND INSURANCE

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CHRIS CHRISTIE
Governor

KENNETH E. KOBYLOWSKI
Commissioner

June 16, 2015

Honorable Kenneth E. Kobylowski
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
MOUNT LAUREL, NEW JERSEY
N.A.I.C. GROUP CODE 0140
N.A.I.C. COMPANY CODE 42900

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

SCOPE OF THE 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 Statutes Annotated.

The examination took place concurrently with the other affiliated companies of the Harleysville Group which was led by the Pennsylvania Insurance Department, being primary state of domicile of the Company's predecessor parent company; Harleysville Mutual Insurance Company "Harleysville Mutual".

The examination was made as at December 31, 2013, and addressed the four-year period from December 31, 2009, the date of the last Financial Condition Examination. During this four-year period under examination, the Company's assets decreased from \$715,147,164 to \$239,320,284. Liabilities decreased from \$539,757,860 to \$48,627,669 and its surplus to policyholders increased from \$175,389,304 to \$190,692,615.

This examination was conducted in accordance with the risk focus examination approach as adopted by 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 format of this report is consistent with the current practices of the NJDOBI and the examination format prescribed by the NAIC. It is limited to a description of the Company, a discussion of financial items that are of specific regulatory concern and a factual disclosure of other significant regulatory information.

The scope of this examination will focus on the direct business of Harleysville Insurance Company of New Jersey.

Examination Goals

- Perform an examination that identifies significant deviations from statutory accounting practices that affect solvency.
- Perform an examination that identifies deviations from New Jersey Insurance Laws and New Jersey Regulations.
- Perform an examination in accordance with standards prescribed by the revised NAIC Financial Examiners Handbook, NAIC Accreditation Standards and New Jersey Department of Banking and Insurance Policy.
- Identify and report on significant operational and internal control deficiencies and access the Company's risk management practices.
- Assess the risks that the Company's surplus is materially misstated.
- Provide a foundation for a profile of the Company's operations, risks and results to be utilized by regulatory authority.

Emphasis during the examination was placed on risks rather than a balance sheet approach. Reliance was placed on the work done from the lead state of Pennsylvania.

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

There were no prior report examination recommendations

HISTORY AND KIND OF BUSINESS

The Company was incorporated under the laws of the State of New Jersey on April 11, 1983, and commenced operations on May 18, 1984.

On August 1, 2008, the Company moved its statutory office to 112 West Park Drive, Mount Laurel, NJ 08054.

The Company's amended Certificate of Authority dated July 14, 1998 authorizes the Company to transact the kinds of insurance specified under paragraphs "a", "b", "d", "e", "f", "g", "j", "k", "l", "m", "n" and "o-1", and "o-3" of N.J.S.A. 17:17-1 et seq.

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

As a result of the Merger at December 31, 2013, the Company is part of the Nationwide Mutual Insurance Company Holding Company System and its pool participant's rate is 0 percent.

The Company's main administrative office, which serves as the primary location for accounting books and records, is located at 355 Maple Avenue, Harleysville, PA 19438. This office provides administrative and support functions such as executive, financial systems, data processing, customer service, underwriting, equipment, supplies and human resources. The Company's parent is responsible for the maintenance of the Company's general ledger.

The individual upon whom process may be served is National Registered Agents.

STATUTORY DEPOSIT

The Company maintains a \$100,000 United States Treasury Note with the Commissioner of Banking and Insurance of the State of New Jersey for the benefit and security of the policyholders of Harleysville Insurance Company of New Jersey. This security is being held by Commerce Bank as required by State of New Jersey regulations.

The Company maintains a \$100,000 United States Treasury Note with the State of Massachusetts and a \$300,000 United States Treasury Note with the State of Michigan for the benefit and security

of the policyholders of Harleysville Insurance Company of New Jersey. These securities are being held by Citibank and JP Morgan Chase respectively.

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, Michigan and New Jersey. The Company wrote the majority of the business in New Jersey with the balance in Pennsylvania. The Company is licensed in the state of Massachusetts as a qualified reinsurer as of December 31, 2013.

The Company writes the bulk of its business in commercial lines with an emphasis on commercial multiple peril, commercial automobile liability and workers' compensation through "a long standing independent agency force". The Company does not utilize Third Party Administrators (TPA) or Managing General Agents (MGA).

Effective May 1, 2012 the Company entered into an Amended and Restated Proportional Reinsurance Agreement with its ultimate Parent, Nationwide Mutual and other property and casualty subsidiary companies in the Harleysville Group (the "Harleysville Pool"). This agreement was superseded effective January 1, 2013, when the Company was added to the Nationwide Amended and Restated Reinsurance Pooling Agreement (the "Nationwide Pool").

The Company continues to market products exclusively through independent agents and, as partners, under the combined Nationwide organization, Harleysville Insurance and Allied Insurance Companies established a national independent agency distribution network. Currently, the Harleysville network is represented by about 1,700 associates and some 1,300 agencies in 32 states, and provides a variety of insurance-related products and services, including property, casualty and life insurance. The business is marketed primarily in the eastern and midwestern United States through independent agents.

A summary of net premiums written over the past four years is summarized below:

<u>Year</u>	<u>Net Premium Written</u>
2010	\$231,541,000
2011	199,136,883
2012	274,545,401
2013	(134,510,678)

The negative number for 2013 refers to the amount of unearned premium from December 31, 2012 which was reversed out in 2013 due to the pooling agreement.

CORPORATE RECORDS

The Company's By-Laws stipulate that the annual meeting of shareholders will be held on the fourth Thursday of April of each year at the Company's principle office, at 112 West Park Drive, Mount Laurel NJ 08054, or at such other place as the Board of Directors may designate. Special meetings of the shareholders may be held whenever called by the Chief Executive Officer or by the Board of Directors, or by a shareholder of not less than 25 percent of the shares. A notice of

each annual meeting of the shareholders shall be given at least 30 days written notice. Notice of other special meetings of shareholders shall be given at least 48 hours in advance of such meeting.

The number of Directors shall be not less than five or more than sixteen. Each Director shall file a written acceptance of trust with the Secretary of the Corporation. The Directors shall be elected at each annual meeting by the shareholders entitled to vote and shall hold office for one year until their successors have been duly elected and qualified. The meeting of the Board will be held at the place of and immediately succeeding the annual meeting of shareholders. A majority of the members of the Board of Directors shall constitute a quorum.

Review of the Company's minutes from the Board meeting indicated the approval of significant company transactions.

MANAGEMENT AND CONTROL

The management, conduct and affairs of the Company have been vested in the Board of Directors (herein after Board) who are elected and vested with the authority by the shareholders of the Company. A listing of the Board serving at December 31, 2013, with their principal occupation, is as follows:

<u>Name</u>	<u>Principal Occupation</u>
Wesley Kim Austen 355 Maple Ave. Harleysville, PA 19438	Director Harleysville Insurance Company of NJ
Michael Leon Browne 355 Maple Ave. Harleysville, PA 19438	Chief Operating Officer Harleysville Insurance Company of NJ
Kevin Michael Toth 355 Maple Ave. Harleysville, PA 19438	Regional Vice President Mid-Atlantic Operations Harleysville Preferred Insurance Company
Allan Robert Becker 355 Maple Ave. Harleysville, PA 19438	Director, Vice President and Chief Actuary Harleysville Preferred Insurance Company
James Robert Burke 355 Maple Ave Harleysville, PA 19438	Director Harleysville Insurance Company of NJ
Chad Michael Zierke 355 Maple Ave. Harleysville, PA 19438	Vice-President - Claims Nationwide Mutual Insurance Company
Mark Allen Berven 355 Maple Ave. Harleysville, PA 19438	Executive Vice President Chief Strategy and Product Management Officer Nationwide Mutual Insurance Company

David Wilson Galloway, III
355 Maple Ave.
Harleysville, PA 19438

Director and Assistant Secretary
Harleysville Insurance Company of NJ

The Board of Directors at their annual meeting may elect a Chairman of the Board and shall elect a President, one or more Vice Presidents, a Secretary, a Treasurer and such Assistant Secretaries, Assistant Treasurers, and any other officers that the Board deems necessary. The same person may hold any two or more offices except that the President shall not also serve as Secretary, Assistant Secretary, Treasurer or Assistant Treasurer. All elected officers shall serve until the next annual meeting of the Board and until their respective successors shall have been elected and qualified.

The Chairman of the Board shall preside at each meeting of the Board and shall have and perform such duties as may be assigned to him in accordance with the authority of the Board. These powers and duties may include those usually vested in the Chief Officer of the Company.

The Company's Board is comprised of officers of its ultimate parent. N.J.S.A. 17:27A-4d(5) states that paragraphs 3 and 4 of subsection d shall not apply to a domestic insurer if the person controlling the insurer is an entity having a Board and committees thereof that meet the requirements of those paragraphs. The controlling entity, Nationwide Mutual, has 15 outside directors serving on its 16 member Board. This meets the requirement of N.J.S.A. 17:27A-4d(3) that one third of the Board be comprised of outside directors.

Nationwide Mutual has an audit committee that meets the requirements of N.J.S.A. 17:27A-4d(4). The audit committee is composed of Directors who are neither officers nor employees of Nationwide. Nationwide's audit committee members at December 31, 2013 are as follows:

James Bachmann – Retired managing partner of Ernst & Young - Columbus, Ohio
Timothy Corcoran – Owner/Partner of Corcoran Farms and CFO of 4C Ventures, LLC
M. Diane Koken – Former Insurance Commissioner of Pennsylvania from 1997-2007
Brent Porteus – Managing Partner of the family owned farming and agricultural business, Blair Porteus and Sons
Michael Toelle – Former Board member of CHS, Inc.

The following is the Company's listing of officers serving as of December 31, 2013:

Michael Leon Browne - President and COO
Robert William Horner III - Vice President and Secretary

REINSURANCE AND RETENTION

The Company participates in an intercompany pooling arrangement, the Nationwide Pool, in which Nationwide Mutual is the lead company. Effective January 1, 2013, the Company cedes

100% of its underwriting results after ceding external reinsurance to the Nationwide Pool and assumes zero percent from the pool.

The companies in the Nationwide Pool assuming a proportionate share of the pool as January 1, 2013 are:

<u>Company</u>	<u>Percentage</u>
Nationwide Mutual Insurance Company	83%
Nationwide Mutual Fire Insurance Company	12%
Scottsdale Insurance Company	4%
Farmland Mutual Insurance Company	1%

The remaining affiliated companies participating in the Nationwide pool all have zero pool percentage.

A portfolio transfer was also completed to redistribute the assets and liabilities of the Company to Nationwide Mutual Insurance Company, Nationwide Mutual Fire Insurance Company, Scottsdale Insurance Company and Farmland Mutual Insurance Company.

As of December 31, 2013, the amounts receivable and payable from/(to) parent and the other pool participate in the intercompany pooling arrangement are as follows:

	<u>Amount Receivable</u>	<u>Amount Payable</u>
Nationwide Mutual Insurance Company	\$00	\$2,309,058
Other pool participants	\$304,137	\$308,312

A summary of other reinsurance agreements other than the pooling agreement that were in effect at December 31, 2013 that affected HICNJ follows:

- 1.) Nationwide Insurance Property Catastrophe - Effective 6-1-13 to 5-31- 14
\$500M XS \$1B and \$80M XS 2.2B; 30% Retained
- 2.) Nationwide Insurance Property Catastrophe CAT Bond (Caelus 2013-1) - Effective 6-1-13 to 2-29-16
\$300M XS \$1.9B; 10% Retained
- 3.) Nationwide Insurance Property Catastrophe CAT Bond (Caelus 2013-2) - Effective 6-1-13 to 3-31-17
\$400M XS \$1.5B; 20% Retained
- 4.) Nationwide Insurance Property CAT - SE Tower - Effective 6-1-13 to 5-31-14
\$500M XS \$500M; 30% Retained
- 5.) Nationwide Insurance Property CAT - NE Tower - Effective 6-1-13 to 5-31-14
\$500M XS \$500M; 30% Retained
- 6.) Nationwide Enterprise Property Per Risk - Effective 7-1-13 to 6-30-14
\$115M XS \$10M; 25% Retained. in \$15M XS \$10M Layer

7.) Nationwide Enterprise Liability XOL - Effective 12-1-13 to 11-30-14
\$90M XS 10M

The following "legacy" reinsurance agreements were also noted:

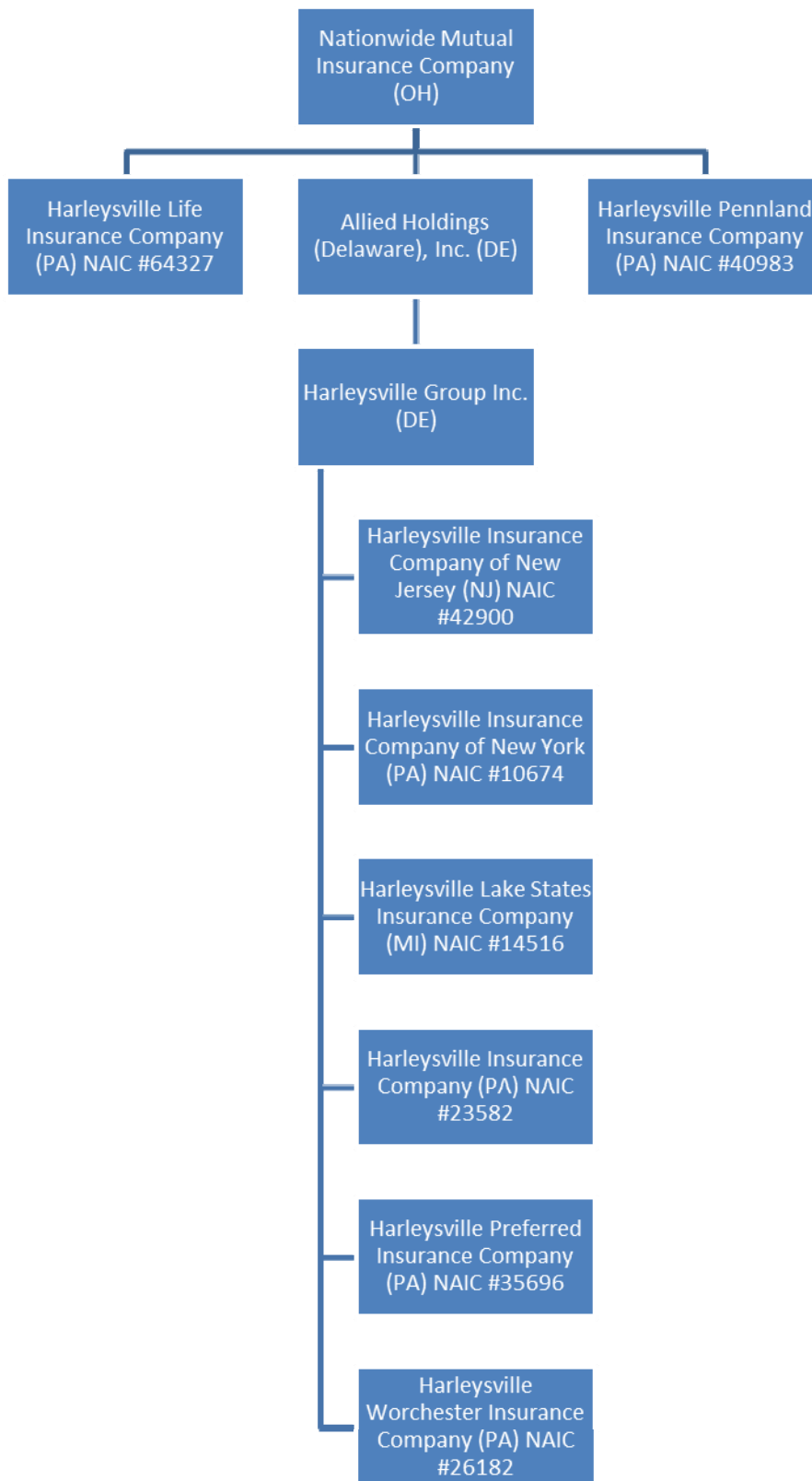
8.) Harleysville Equipment Breakdown Reinsurance Agreement - Effective 1-1-2011 to continuous
100% Quota Share coverage for equipment breakdown and systems protector. \$100M per accident
limit

9.) Harleysville Employment Practices Liability - Effective 10-1-2009 to continuous
75% of \$250,000 per wrongful employment act for Business Owner's policies.
50% of \$100,000 and 75% of \$900,000 XS \$100,000 per wrongful employment act for Mono-Line
of Commercial Package policies

HOLDING COMPANY SYSTEM

The Company is a member of a holding company system as defined in N.J.S.A. 17:27A-1. The Company is a wholly owned subsidiary of Harleysville Group, Inc. (HGI) which is 100 percent owned by Allied Holdings (Delaware), Inc., a wholly owned subsidiary of Nationwide Mutual Insurance Company.

Below is a partial organizational chart which lists the members of the Holding Company System which are representative of the Harleysville Group operations:



INTER-COMPANY AGREEMENTS

At December 31, 2013 the Company had the following inter-company agreements with its affiliates:

Intercompany Pooling Agreement

Nationwide Mutual, as a successor to Harleysville Mutual, became the lead company and a 0% participant in the Harleysville Pool effective May 1, 2012. Each pool member company contributed 100% of its premium and underwriting results to the Harleysville Pool through the reinsurance pooling agreement. As of December 31, 2012 and 2011, the companies in the Harleysville Pool assumed the following shares of the Pool:

<u>Company</u>	<u>NAIC#</u>	<u>2012 Pool</u>	<u>2011 Pool</u>
Harleysville Insurance Company	23582	4%	4%
Harleysville Insurance Company of New Jersey	42900	23%	21%
Harleysville Insurance Company of New York	10674	2%	2%
Harleysville Lake States Insurance Company	14516	9%	9%
Harleysville Mutual Insurance Company	14168	N/A	16%
Harleysville Pennland Insurance Company	40983	13%	4%
Harleysville Preferred Insurance Company	35696	23%	21%
Harleysville Worcester Insurance Company	26182	26%	23%
Nationwide Mutual Insurance Company	23787	0%	N/A

Effective January 1, 2013, as part of the Company's process to streamline its inter-company reinsurance program, Harleysville Preferred Insurance Company, Harleysville Worcester Insurance Company, Harleysville Insurance Company of New York, Harleysville Pennland Insurance Company, Harleysville Insurance Company, Harleysville Lake States Insurance Company and HICNJ were added to the Nationwide Pool as 0% participants.

Tax Sharing Agreement

Effective May 1, 2012, the Harleysville Group companies became a party to Tax Sharing Agreement dated as of January 1, 2008 between Nationwide Mutual and any corporation that may be a subsidiary of Nationwide Mutual. Nationwide Mutual, on behalf of the Group, will file a consolidated federal income tax return. Parent will make timely and accurate preparations and filings of the consolidated federal income tax return. Payment of tax liability, including tax refunds, shall be made within 90 days following the filing of the Tax Return of the Group. Per the agreement for each calendar year each subsidiary shall remit to Nationwide Mutual an amount equal to the federal income tax liability attributable to such Subsidiary as calculated under Section V of the agreement. Section V sets limitations on tax attributes, tax benefits, carryback of losses & credits.

Effective January 1, 2015 the parties replaced the Tax Sharing Agreement described above with a new Tax Sharing Agreement. The new agreement replaced the old agreement in its entirety. Effective January 1, 2015, Nationwide Life Insurance Company and its subsidiaries became members of the consolidated federal income tax return group of which Nationwide Mutual is the parent. The new agreement reflects changes in the tax allocation methodology relating to having

Nationwide Life Insurance Company and its subsidiaries as members of the group. The new agreement was approved by both the Pennsylvania Insurance Department and New Jersey Department of Banking and Insurance prior to its effective date.

Second Amended Cost Sharing Agreement

On May 1, 2012 the Harleysville Group companies became a party to the Second Amended and Restated Cost Sharing Agreement effective January 1, 2011, between Nationwide Mutual, Nationwide Mutual Fire Insurance Company, and their respective direct and indirect subsidiaries and affiliates. 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. Some expenses can be allocated 100% to specific party. The CFO of Nationwide Mutual 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.

POLICY ON CONFLICT OF INTEREST

The Company, through its Parent, Nationwide Mutual Insurance Company, has a questionnaire regarding conflict of interest in which the officers and directors are required to disclose any possible conflict. This questionnaire is completed annually. All reported possible conflicts were reviewed and resolved for year 2013 in accordance with the Company's Code of Conduct.

EMPLOYEE WELFARE AND PENSION PLANS

The Company has no employees of its own, but utilizes the employees of its ultimate Parent Company, Nationwide Mutual. This was effective the first pay period of 2013. These employees are provided the following benefits:

- Comprehensive medical, dental and vision coverage
- My Health Program
- Health Advocate
- Flexible spending accounts
- Health reimbursement accounts
- Health savings accounts
- Nationwide Retirement Plan
- Ayco Financial Counselors
- Special Discounts
- Life, accident and disability coverage
- Nationwide Savings Plan
- Consolatory pay

Associate Assistance Program
Educational assistance
Back-up Care Advantage Program

Voluntary Options:

Group Legal Service, Long-Term Care Insurance, Veterinary Pet Insurance and more
Participation is voluntary and services can be paid through payroll deduction
These products and services offer associates group rates

Time off:

My Time can be used for vacation, personal and sick time
Time is accrued each pay period based on amount of service and job band
There are 9 or 10 paid holidays each year
Time off helps support work life balance

FIDELITY BOND AND OTHER INSURANCE COVERAGE

The Company maintains an insurance program on a consolidated basis with the ultimate Parent Company, Nationwide Mutual, and all affiliates designed to protect their assets arising out of property and casualty risks.

The Company maintains, on a consolidated basis, fidelity coverage in the amount of \$100,000,000 aggregate limit with a \$5,000,000 retention that includes coverage for dishonesty, loss of property on premises or in transit and forgery on deposits and securities. The amount of fidelity bond coverage as measured by the NAIC's formula and exposure index was deemed adequate.

Other coverages include automobile, property, general liability, umbrella, excess liability, workers' compensation, excess workers' compensation, international liability, kidnap and ransom, directors and officers, errors and omissions, computer crime, fiduciary, mortgage impairment, aviation and pollution.

POLICY FORMS AND UNDERWRITING PRACTICES

The Company writes direct business within the states of New Jersey and Pennsylvania only. The Company's total direct written premiums for 2013 included 24.1 percent for commercial multiple peril, 20.1 percent for commercial auto liability, 17.4 percent for allied lines, 14.4 percent for workers' compensation and 24.0 percent for remaining lines of business.

During the examination period, the Company's new policy forms were filed and approved by the New Jersey Department of Banking and Insurance.

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 general ledger system was tested and reconciled to the annual statement.

The Company's accounting books and records are maintained at its main administrative office located at 355 Maple Avenue, Harleysville, PA 19438-2297.

The Company records losses through the use of its in-house computerized system. Losses are received and paid by the Company's ultimate Parent, Nationwide Mutual Insurance Company, and settled through inter-company accounts.

The Company has a direct billing system for the premiums. The vast majority of premium receipts are processed through a Lock Box with PNC Bank. Like losses, the premium payables/receivables are settled through inter-company accounts.

The commissions are paid twice per month on agency bill business, and once per month on direct bill business.

The Company pays dividends to eligible workers' compensation policyholders under the Variable Dividend System and under the Risk Retention System. The dividends are authorized by the Board of Directors and are paid out accordingly.

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 inter-company 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 inter-company settlements between NMIC and its subsidiaries.

ADVERTISING AND SALES MATERIAL

The Company's advertising and sales materials are in compliance with N.J.S.A. 17:18-10.

TREATMENT OF POLICYHOLDERS

The company maintains an electronic database record of complaints. The Company is 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".

CONTINUITY OF OPERATIONS

The Company has made provisions for the succession of officers in its By-laws. The Company has created a formal, comprehensive Business Continuity Plan (BCP), which includes a Disaster Recovery Plan.

The Disaster Recovery portion of the Business Continuity Plan (BCP) was tested with no exceptions noted.

SUBSEQUENT EVENTS

The following subsequent events were noted during the examination:

Change in ownership of HGI: On Schedule Y, part 1A, (as of December 31, 2013) Harleysville Group, Inc. was 100% directly owned by Allied Holdings (Delaware) Inc. Effective November 1, 2013, Nationwide Mutual Insurance Company contributed its holdings of all the issued and outstanding common stock of Harleysville Group, Inc. to Allied Holdings (Delaware), Inc. a newly formed wholly-owned subsidiary of Nationwide Mutual. As a result of the contribution of shares, Allied Holdings (Delaware) Inc. became the parent of Harleysville Group, Inc. The Schedule Y, part 1A to be filed with the 1Q 2014 quarterly statutory financial statements (as of March 31, 2014) will show Allied Holdings (Delaware), Inc. as the parent of Harleysville Group, Inc. An Amendment No. 1 to the year-end 2013 Insurance Holding Company System Registration Statement ("Form B") will also be filed regarding this ownership change.

Third Amended and Restated Cost Sharing Agreement: On January 1, 2014 the parties replaced the Second Amended and Restated Cost Sharing Agreement with the Third Amended and Restated Cost Sharing Agreement. This agreement spells out the Parties desire to have each other perform certain operational and certain administrative services on behalf of one another. The Party rendering the services is the "Providing Party" and the Party receiving such services is the "Receiving" Party. This agreement also outlines the proper distribution and allocation of expenses to each Receiving Party.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A Balance Sheet as of December 31, 2013

Exhibit B Summary of Operations for the Five-Year Period Ending
December 31, 2013

Exhibit C Capital and Surplus Account for the Five-Year Period
Ended December 31, 2013

HARLEYSVILLE INSURANCE COMPANY OF NEW JERSEY
BALANCE SHEET AS OF DECEMBER 31, 2013

	Balance Per Examination <u>12/31/13</u>	Balance Per Company <u>12/31/13</u>	Examination <u>Change</u>	Note <u>Number</u>
Assets				
Bonds	\$173,480,184	\$173,480,184	\$0	
Cash and short-term investments	5,395,165	5,395,165	0	
Investment income due and accrued	2,499,197	2,499,197	0	
Agents' balances or uncollected premiums:				
Agents' balances in course of collection	6,093,998	6,093,998	0	
Agents' balances and uncollected premiums deferred and not yet due	27,038,023	27,038,023	0	
Amounts recoverable from reinsurers	9,887,230	9,887,230	0	
Other amounts receivable under reinsurance contracts	2,218,500	2,218,500	0	
Current federal and foreign income taxes recoverable	12,403,850	12,403,850	0	
Receivables from parent, subsidiaries and affiliates	<u>304,137</u>	<u>304,137</u>	<u>0</u>	
Total Admitted Assets	<u>\$239,320,284</u>	<u>\$239,320,284</u>	<u>\$0</u>	
Liabilities				
Losses	\$0	\$0	0	1
Reinsurance payable on paid loss and LAE	0	0	0	1
Loss adjustment expenses	0	0	0	1
Commissions payable	0	0	0	
Other expenses	0	0	0	
Taxes, licenses and fees	0	0	0	
Net Deferred Tax Liability	3,104,304	3,104,304	0	
Unearned premiums	0	0	0	
Ceded reinsurance premiums payable	42,614,411	42,614,411	0	
Remittances and items not allocated	584	584	0	
Provision for reinsurance	291,000	291,000	0	
Payable to parent, subsidiaries and affiliates	<u>2,617,370</u>	<u>2,617,370</u>	<u>0</u>	
Total Liabilities	<u>\$48,627,669</u>	<u>\$48,627,669</u>	<u>\$0</u>	
Surplus and Other Funds				
Common capital stock	\$9,000,000	\$9,000,000	\$0	
Gross paid-in and contributed surplus	18,604,165	18,604,165	0	
Unassigned funds (surplus)	<u>163,088,450</u>	<u>163,088,450</u>	<u>0</u>	
Surplus as regards policyholders	<u>\$190,692,615</u>	<u>\$190,692,615</u>	<u>\$0</u>	
Total liabilities, surplus and other funds	<u>\$239,320,284</u>	<u>\$239,320,284</u>	<u>\$0</u>	

EXHIBIT B

HARLEYSVILLE INSURANCE COMPANY OF NEW JERSEY
SUMMARY OF OPERATIONS
FOR THE FOUR YEAR PERIOD ENDED DECEMBER 31, 2013

<u>UNDERWRITING INCOME</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Premiums Earned	\$227,416,972	\$211,183,344	\$246,613,768	\$0
Deductions:				
Losses Incurred	\$123,156,053	\$144,995,550	\$143,236,080	\$0
Loss Expenses Incurred	31,326,798	33,728,752	34,532,256	0
Other Underwriting Expenses Incurred	79,737,980	69,961,106	95,460,067	(26,902,135)
Total Deductions	<u>\$234,220,831</u>	<u>\$248,685,408</u>	<u>\$273,228,403</u>	<u>(\$26,902,135)</u>
Net Underwriting Gain or (Loss)	<u>(\$6,803,859)</u>	<u>(\$37,502,064)</u>	<u>(\$26,614,635)</u>	<u>\$26,902,135</u>
<u>INVESTMENT INCOME</u>				
Net Investment Income Earned	\$28,729,102	\$26,623,672	\$23,583,285	\$8,908,442
Net Realized Capital Gains and Losses	384,974	15,835,912	(20,328)	27,446,562
Net Investment Gain	<u>\$29,114,076</u>	<u>\$42,459,584</u>	<u>\$23,562,957</u>	<u>\$36,355,004</u>
<u>OTHER INCOME</u>				
Net gain (loss) from agents' or premium balances charged off	(\$455,717)	(\$275,224)	(\$259,739)	\$0
Finance and Service Charges	458,910	514,145	1,065,368	0
Aggregate write-ins for miscellaneous income	<u>(77,050)</u>	<u>(148,860)</u>	<u>(376,379)</u>	<u>0</u>
Total Other Income	<u>(\$73,857)</u>	<u>\$90,061</u>	<u>\$429,250</u>	<u>\$0</u>
<u>CAPITAL AND SURPLUS ACCOUNT</u>				
Net Income Before Dividends to Policyholders and Before Federal Income Taxes	\$22,236,360	\$5,047,581	(\$2,622,428)	\$63,257,139
Dividends to Policyholders	258,224	224,593	136,254	0
Federal and Foreign Income Taxes Incurred	3,912,729	(7,159,544)	(262,016)	(12,584,157)
Net Income	<u>\$18,065,407</u>	<u>\$11,982,532</u>	<u>(\$2,496,666)</u>	<u>\$75,841,296</u>

<u>EXHIBIT C</u>				
HARLEYSVILLE INSURANCE COMPANY OF NEW JERSEY				
CAPITAL AND SURPLUS ACCOUNT				
FOR THE FOUR YEAR PERIOD ENDED DECEMBER 31, 2013				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Surplus as Regards Policyholders, December 31,				
Prior Year	<u>\$175,389,304</u>	<u>\$177,858,408</u>	<u>\$163,384,802</u>	<u>\$143,767,177</u>
Net Income	\$18,065,407	\$11,982,532	(\$2,496,666)	\$75,841,296
Change in Net Unrealized Capital Gains or Losses	5,117,274	(14,241,505)	0	0
Change in Net Deferred Income Tax	(95,767)	(1,427,369)	5,581,475	(32,518,858)
Change in Non-admitted Assets	3,068,869	(9,581,050)	(7,821,810)	17,629,000
Change in Provision for Reinsurance	25,098	(128,000)	27,000	(26,000)
Surplus Adjustments: Paid In	0	0	0	0
Cumulative effect of changes in accounting principles	0	(568,134)	1,392,376	0
Dividends to Stockholders	(23,568,000)	0	(16,300,000)	(14,000,000)
Aggregate Write-Ins for Gains and Losses to Surplus	<u>(143,777)</u>	<u>(510,080)</u>	<u>0</u>	<u>0</u>
Change in Surplus as Regards Policyholders for the Year	<u>\$2,469,104</u>	<u>(\$14,473,606)</u>	<u>(\$19,617,625)</u>	<u>\$46,925,438</u>
Surplus as Regards Policyholders, December 31,				
Current Year	<u>\$177,858,408</u>	<u>\$163,384,802</u>	<u>\$143,767,177</u>	<u>\$190,692,615</u>

NOTES TO THE FINANCIAL STATEMENTS

(NOTE 1) LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

HICNJ had no net loss and loss adjustment expense reserves for the period ending December 31, 2013.

An actuarial review was completed of the Harleysville Group gross and net loss and LAE reserves as of December 31, 2013 for the state of Pennsylvania. The review was completed under the direction of Henri Itri of Corporate Actuarial Services/Harleysville Insurance. The results of the review were presented to the New Jersey Department of Banking and Insurance, Office of Solvency Regulation, Actuarial Unit. The Actuarial Unit of the NJDOBI performed a cursory review of the results and found them to be acceptable.

CONCLUSION

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

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

Respectfully Submitted,

/S/

Daniel J Fialkowski, CFE, AIE, FLMI, CPM
Supervising Insurance Examiner
New Jersey Department of Banking & Insurance
Office of Solvency Regulation

HARLEYSVILLE INSURANCE COMPANY OF NEW JERSEY

I, Daniel J. Fialkowski, 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, 2013 to the best of my information, knowledge and belief.

Respectfully Submitted,

/S/

Daniel J. Fialkowski, CFE, AIE, FLMI, CPM
Supervising Insurance Examiner
New Jersey Department of Banking & Insurance
Office of Solvency Regulation

State of New Jersey
County of Mercer

Subscribed and sworn to before me, on this 16th day of June, 2015.

/S/

Sheila M. Tkacs
Notary Public of New Jersey

My commission expires: July, 2015