

REPORT ON EXAMINATION AS TO THE CONDITION OF
BONDEX INSURANCE COMPANY
FLORHAM PARK, NEW JERSEY
AS OF DECEMBER 31, 2018
AIC COMPANY CODE 12965

FILED

April 14, 2020

Commissioner
Of
Banking & Insurance

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PHIL MURPHY
Governor

MARLENE CARIDE
Commissioner

SHEILA OLIVER
Lt. Governor

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

PO Box 325
TRENTON, NJ 08625-0325

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

December 31, 2019

Honorable Marlene Caride
Commissioner of
New Jersey Department of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625-0325

Commissioner:

In accordance with the plan adopted by the National Association of Insurance Commissioners for examination of insurance companies, a financial condition examination has been made of:

Bondex Insurance Company
Florham Park, New Jersey 07932
NAIC Group Code 0000 NAIC Company Code 12965

Hereinafter referred to as the "BIC," "Bondex," or "Company."

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 N.J.S.A. 17:23-22. The examination covers the five-year period ending December 31, 2018.

The examination was conducted at the Company's main administrative office located at 30A Vreeland Road, Suite 120, Florham Park, New Jersey 07932. The examination was conducted in accordance with the guidelines established by the National Association of Insurance Commissioners.

The examination was conducted in accordance with the 2018 NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process as defined in the 2018 NAIC Financial Condition Examiners Handbook.

In addition, a review or audit was also made of the following items:

- History and Kind of Business
- Territory and Plan of Operation
- Parent, Subsidiaries and Affiliates
- Inter-company Agreements
- Management and Control
- Corporate Records
- Continuity of Operations
- Information System Review
- Policy on Conflict of Interest
- Fidelity Bond and Other Insurance Coverages
- Employee Welfare and Pension Plan
- Accounts and Records
- Reinsurance
- Treatment of Policyholders

Surplus as regards policyholders determined by the examination, at the examination date, consisted of the following:

Common Capital Stock	\$ 1,000,000
Gross Paid in and Contributed Surplus	1,550,000
Unassigned Funds	<u>1,109,558</u>
Surplus as Regards Policyholders	<u>\$ 3,659,558</u>

The change in assets, liabilities and surplus for the period covered by this examination is detailed below:

	12/31/2018	12/31/2013	Change	% Change
¹²¹² Assets	\$9,509,998	\$4,767,198	\$4,742,800	99.49%
Liabilities	\$5,932,556	\$2,025,914	\$3,906,642	192.8%
Surplus	\$3,577,442	\$2,741,285	\$ 836,157	30.5%

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

The following are the comments and recommendations from the prior examination report and Company compliance:

Corporate Records

It was noted that approvals for investment transactions were not shown in the Board of Director minutes. It will be recommended that the minutes should indicate that investment transactions are approved by the Board of Directors to be in compliance with NJSA 17:27A-4.

Company Response – All investment trades are now discussed and approved at the quarterly board meetings and noted in the minutes. Copies of the trade activities are distributed at the board meetings with the financial reports. Bondex will include approvals in the board minutes.

Examiner's Response – The Company has complied with this recommendation.

Bonds and Stocks

A review of BIC's custodial agreement with Morgan Stanley Smith Barney (MSSB) revealed that it does not meet the specific requirements of Section 1, Part III, F (Outsourcing of Critical Functions) of the 2014 NAIC Financial Condition Handbook. It is therefore recommended that the Company amend its custodial agreement with MSSB to include satisfactory indemnification, safeguard and controls in accordance with the 2014 NAIC Financial Examiners Handbook.

Company Response – Morgan Stanley did amend the custodial agreement to adhere to the indemnification requirement.

Examiner's Response – The Company has complied with this recommendation.

HISTORY AND KIND OF BUSINESS

The Company was incorporated as a stock company by means of a Certificate of Incorporation dated March 20, 2007. The Certificate was approved by the Attorney General on April 2, 2007, recorded in the office of the Morris County Clerk on April 24, 2007 and filed with the Department of Insurance on April 24, 2007.

Through a Certificate of Authority dated June 8, 2007, the Company is authorized to transact the kinds of business of insurance as specified in N.J.S.A. 17:17-1 section "g".

As of December 31, 2018, the authorized capital stock of the Company consisted of 500,000 shares of common stock having a par value of \$2.00 per share. At December 31, 2018 there were issued and outstanding 500,000 shares of common stock with a value of \$1,000,000.

All of the outstanding and issued shares of the Company are controlled by Bondex Insurance Group, Inc. (fka CB Holdings Group, Inc.), the Parent Corporation. Bondex Insurance Group, Inc. shares are divided as follows: Lionel Jorge owns 49.2% of the shares. Philip Tobey, President and CEO, owns 48.2 % of the shares and 2.6% of the shares are owned by others. Shares are not actively traded.

The Company did not report any dividends paid to stockholders for the examination period under review.

An amended certificate of incorporated was filled and approved that changed the location of the principal office of the Company in the State of New Jersey. As of the examination date the principal office of the corporation is located at 30A Vreeland Road, Suite 120, Florham Park, County of Morris, State of New Jersey 07932.

The registered agent on whom process may be served is Philip S. Tobey, President and Treasurer.

TERRITORY AND PLAN OF OPERATIONS

Bondex Insurance Company is a domestic for-profit stock property and casualty insurance company. Organized on March 20, 2007, it is authorized to write fidelity and surety bonds (section "g" of N.J.S.A. 17:17-1) as provided for in its Certificate of Authority dated June 8, 2007. It is currently licensed in the states of New Jersey, New York, Pennsylvania and Delaware.

The Company operates only out of its home office located at 30A Vreeland Avenue, Florham Park, New Jersey. It does not use any regional offices, branches or service offices.

The Company issues policies mostly through one broker, Dale Group, Inc., who is an affiliated company who does business in New Jersey. Dale Group, Inc. is a Managing General Agent and a controlling producer.

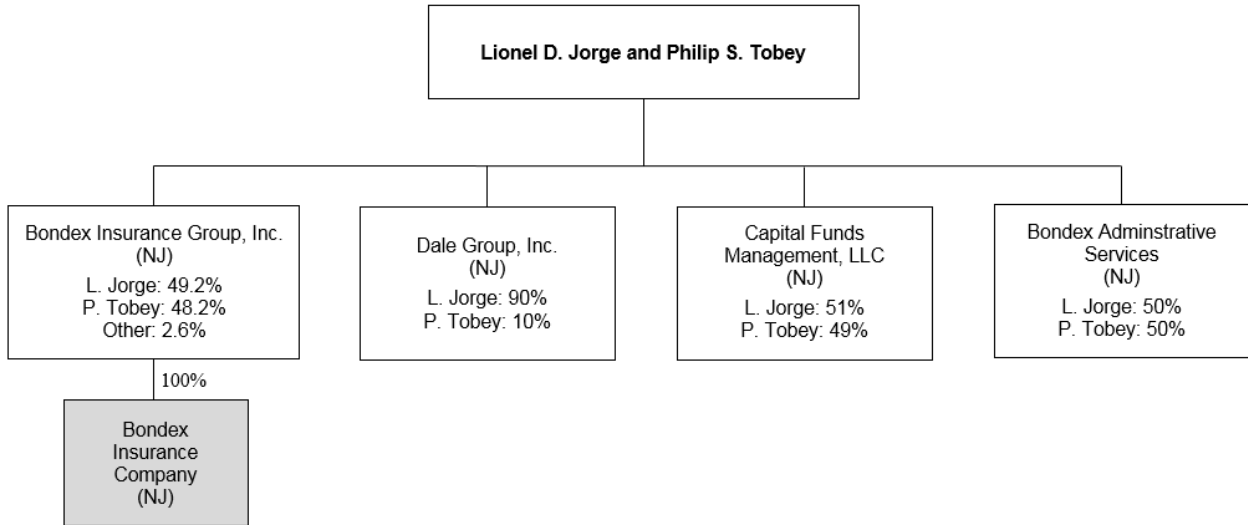
During the period under examination, the Company had the following gross premium written income:

2018	\$6,828,309
2017	6,869,842
2016	5,360,818
2015	5,282,119
2014	2,761,521

PARENT, SUBSIDIARIES AND AFFILIATES

The Company's organizational structure makes it a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1, and as such it has filed a holding company

registration statement with the New Jersey Commissioner of Banking and Insurance in compliance with N.J.S.A. 17:27A-3. An organization chart follows which illustrates the interrelationships of the particular companies within the holding company system as of December 31, 2018:



Bondex Insurance Group, Inc. (fka CB Holdings Group, Inc.) is the parent company and owns 100% of Bondex Insurance Company. Messrs. Lionel D. Jorge and Philip S. Tobey own 49.2% and 48.2% respectively of CB Holdings Group, Inc. Lionel Jorge and Philip Tobey also own 90% and 10% respectively of Dale Group, Inc.

On December 23, 2016 CB Holding Group, Inc. filed for and received approval from the State of Delaware for a name change effective immediately. From this date on the name of the parent company of Bondex Insurance Company is Bondex Insurance Group, Inc.

As of November 2, 2015, Bondex Insurance Group, Inc. had invested in Boston Indemnity Company, an insurance company domiciled under the laws of South Dakota. The 100% ownership interest in Boston indemnity Company was subsequently sold to Great Midwest Insurance Company in 2018 for \$6,239,109. The transaction was consummated on October 5, 2018 and the final payment was exchanged on November 23, 2018.

INTER-COMPANY AGREEMENTS

At December 31, 2018, the Company maintained several inter-company agreements:

Underwriting Management Agreement

The Company entered into an Underwriting Management Agreement with Dale Group effective June 1, 2007 (the “UMA”) pursuant to which Bondex authorizes Dale Group, on its behalf to solicit and submit proposals for insurance contracts; issue and deliver policies and

endorsements, adjust, compromise and settle claims; and execute fidelity and surety bonds as authorized by Bondex. The UMA further provides that Dale Group grants Bondex use of its facilities as Bondex's principal business location and the services of its personnel as needed to assist Bondex in the conduct of its surety business. Bondex Insurance Company agrees to pay Dale Group, Inc. a flat commission rate of thirty (30%) on all written bond premiums less return premiums.

Group Agency Agreement

The Company has an Agency agreement with Dale Group, Inc. effective July 1, 2007. In this agreement Bondex agrees to pay Dale Group, Inc. a flat commission rate of 25% for all bonds.

Tax Allocation Agreement

Effective December 31, 2016, Bondex agrees to join with the parent, Bondex Insurance Group, Inc. (fka CB Holdings Group, Inc.), in the filing of a Consolidated Return by Parent for any taxable year in which such Subsidiary is a member of the "affiliated group."

In each taxable year ending on or after the Effective date, the tax liability of the Subsidiary shall be deemed to be an amount equal to the tax liability of such Subsidiary determined as if such Subsidiary had filed a separate U.S. federal income tax return for such period and shall not exceed the amount that such Subsidiary would pay if it filed a separate U.S. federal income tax return.

Administrative Services Agreement

Effective January 1, 2018 the Company entered into an agreement with Bondex Administrative Services where Bondex Administrative Services will provide the following services:

- Corporate Government Services
- Company Records
- Treasury Services and Financing
- Insurance Policies and Contracts
- Sales and Purchases of Assets
- Disaster Contingency Plans
- Disputes
- Marketing Services
- General Administrative Services

For these services the Company shall pay Bondex Administrative Services a management fee equal to one hundred sixty thousand dollars (\$160,000.00) for each calendar month.

MANAGEMENT AND CONTROL

The corporate powers of the Company are managed by a Board of Directors consisting of four members, two being outside Directors. At each annual meeting, the Shareholders shall elect directors to hold office until the next succeeding annual meeting. Each Director shall hold office for the term for which he is elected and until his successor shall have been elected and qualified.

The Company is part of a holding company system and at least one-third of their Board of Directors are required to be outside directors according to N.J.S.A. 17:27A-4d(3). The Company does meet this requirement.

Regular meetings of the Board of Directors shall be held for the election or appointment of officers and for the transaction of any other business as soon as convenient after the annual meeting of the Shareholders. Attendance of Directors at meetings of the Board during the four years under examination was adequate.

A list of Directors elected and serving at December 31, 2018 follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
Philip S. Tobey	President and CEO Bondex Insurance Company
Lionel D. Jorge	Chairman of the Board Bondex Insurance Company
Kurt Padavano	SVP and Chief Operating Officer Advance Realty Group, LLC
Gregory B. Habay	Asset Manager AQR Capital Management, LLC

COMMITTEES

Starting in 2008 the Company maintained an Audit Committee as described in N.J.S.A. 17:27A-4d(4), which requires its members, be comprised of all outside directors. The following are members of the committee: Kurt Padavano and Gregory Habay. Kurt Padavano is Senior Vice President and Chief Operating Officer of Advance Realty Group, LLC. He is not an employee and does not own shares of the Corporation. Kurt Padavano is also the sole member of the Conflicts of Interest Committee. Gregory Habay is an Asset Manager for AQR Capital Management, LLC.

OFFICERS

The officers of the Corporation shall be chosen by the Board of Directors and shall be a President, a Vice President, a Secretary and a Treasurer. The Board of Directors may appoint such other officers and agents as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board.

The President shall be the Chief Executive Officer of the Corporation, shall preside at all meetings of the Shareholders and the Board of Directors, shall have general and active management of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect

The Vice President shall, in the absence of the President or in the event of his inability or refusal to act, perform the duties and exercise the powers of the President, subject to all the restrictions upon the President, and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

The Secretary shall attend all meetings of the Board of Directors and all meetings of the Shareholders and record all the proceedings of the meetings of the Corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required.

The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all monies and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors.

The officers elected by the Board of Directors and serving at December 31, 2018 were as follows:

Philip S. Tobey	President and CEO
Maureen Frances Cupo	Secretary
Elizabeth Mary Miller	CFO and Treasurer
Jeffrey Randall Bauman	Vice President

STOCKHOLDERS

All meetings of the Shareholders shall be held at such place as may be fixed from time to time by the Board of Directors.

An annual meeting of the Shareholders shall be held every year at such date and time as shall be designated by the Board of Directors, at which they shall elect by a plurality vote a Board of Directors, and transact such other business as may properly be brought before the meeting.

Special meetings of the Shareholders may be called by the President for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation. The President or Secretary shall call a special meeting of the Shareholders upon the written request, stating the purpose or purposes of the proposed meeting, of either a majority of the

Board of Directors, or Shareholders owning a majority in the amount of the entire capital stock of the Corporation issued and outstanding and entitled to vote.

CORPORATE RECORDS

A review of the minutes of the Board of Directors and Audit Committee indicated that transactions and events of the Company were not fully adequately approved and supported. It is recommended that the Company adequately support transactions and events in the minutes of the Board of Directors and Audit Committee in accordance with NAIC best practices.

CONTINUITY OF OPERATIONS

Bondex Insurance Company currently has 2 servers and 4 computer workstations utilizing a Microsoft client/server platform, all located in a secured SSAE 16 audited and PCI DSS compliant data center in Morris County, New Jersey that is available 24 hours a day, 365 days a year. Bondex uses a fully managed file level backup system which is monitored 24X7. The Data Backup System compresses, de-duplicates and encrypts data using an advanced encryption standard (AES-256) prior to sending it to either off-site to the secure vault servers, or to secure onsite servers. This allows Bondex Insurance Company's servers to be back up and running within hours of hardware failure. E-mail Spam filtering and virus protection are active and are monitoring all inbound and outbound e-mail messages utilizing Microsoft Exchange Online Protection (EOP). The EOP service applies multi-layered filters and scanning engines to help protect Bondex e-mail users from email-borne threats, along with Barracuda Networks Web filtering products, and a SonicWall Router that protect Bondex Insurance Company's environment.

It was noted that Company did not perform testing of their disaster recovery plan. It is recommended the Company simulate a disaster recovery test to identify and document essential deficiencies that might exist, which could potentially impede the process necessary to establish and restore either basic or critical systems and functions in a timely manner.

POLICY ON CONFLICTS OF INTEREST

Conflict of interest questionnaires are required to be signed by directors, officers and employees on an annual basis. A review of the conflict of interest questionnaires for the examination period did not disclose the existence of any conflicts or irregularities.

A review of the minutes did not indicate that the Board reviewed or approved the conflict of interest questionnaires. It is recommended that the minutes include an approval of the Board of their review of conflict of interest questionnaires.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

At December 31, 2018, the Company maintained a financial institution bond in the amount of \$1,000,000 that includes coverage for forgery or alteration. Based on the NAIC exposure

index guidelines for minimum amounts of fidelity insurance, the amount of coverage for Bondex appears to be adequate.

In addition, the Company also maintains the following insurance coverages:

Professional Liability
Directors and Officer's Liability
Commercial Umbrella Policy
Workers' Compensation
Business Owner's Policy

ACCOUNTS AND RECORDS

Records of the Company are maintained at its Home Office in Florham Park, New Jersey and further individually discussed below:

General Ledger System

The Company uses SunGard iWorks EAS for their accounting system. This software was designed expressly for insurance companies, with a central data repository for financial data. This software can develop statements and reports, build budgets, track allocations and manage cash inflow and outflow. Data is imported automatically and reports are automatically generated.

Operating Receipt and Disbursement Process

The Company uses the SunGard iWorks EAS system and Bond Pro for their receipt and disbursement process.

Deposits are done remotely to the operating account. The Controller scans the checks using a scanner. The original deposit slip and checks are stored at Bondex Insurance Company's office.

When an invoice is received, the expense is recorded as an expense and payable in the SunGard iWorks EAS system. The Company does not use pre-printed checks. Checks are printed on blank check stock out from EAS with Multi-Color Prismatic check security features. They are printed on a MICR Laser printer using MICR ink. This process is a specialized technology for the banking industry. Using the blank check stock eliminates the risk of checks with account and routing numbers being misplaced, lost or stolen. The monthly bank statement contains check number, payee name and amount of the checks that was cleared during the month. Electronic copies of cleared checks are also available on line. All bank statements are reviewed by the CEO.

Claim Review Process

Filings of claims are done by mail and in writing. The claim is reviewed and verified that there is a bond and that it is in effect. A physical claim file is then created. Proof of claim forms are mailed to the claimant to verify that the claim is legitimate.

Most bond principals complete the required performance demanded by the claimant. If, for any reason, the principal is not able to complete the performance, Bondex provides either the required service using a different contractor, or a cash settlement to the claimant.

Any expense and cash settlement incurred by Bondex is indemnified by the bond principal as agreed to in the original performance bond. Bondex can also take the expense out of collateral retained from the bond principal, if any.

A typical claim file contains the correspondence between Bondex, the claimant and the attorney.

Audited Financials

Pursuant to N.J.A.C. 11:2-26.4 an annual audit was performed by the CPA firm of Bonamassa, Maietta & Cartelli, LLP and an audited financial/CPA report was filed with the Commissioner of the Department of Banking Insurance. The report contains a synopsis of the major audit activities and results in the corporate area.

REINSURANCE

The Company has engaged in a ceded reinsurance contract with Platinum Underwriters Reinsurance, Inc. (Platinum) effective as of May 1, 2013. Under this agreement, the Company has the ability to write premium up to \$1,000,000 per bond while taking on risk no greater than 10% of surplus. The Company extended this agreement with Platinum for one month and terminated this agreement as of May 31, 2013 for a more favorable opportunity.

The Company engaged in a new ceded treaty with Ace Property & Casualty Insurance Company through ACE Tempest Re, USA, LLC effective June 1, 2014. Under this agreement, the Company has the ability to write premium up to \$1,000,000 per bond. A new agreement effective was made effective June 1, 2015 to May 31, 2016. The following schedule shows the percentage amount ceded based on the bond amount:

<u>Bond Penalty</u>	<u>Company's Retention</u>	<u>Reinsurer's Cession</u>
\$1 to \$150,000	70%	30%
\$150,001 to \$300,000	60%	40%
\$300,001 to \$500,000	40%	60%
\$500,001 to \$750,000	30%	70%
\$750,001 to \$1,000,000	25%	75%

The Company entered into a reinsurance contract with Arch Reinsurance Company (Arch) effective February 15, 2015. Under this contract the Company will cede 100% of the business classified as Northeast Non-Standard surety business to Arch. Coverage cannot exceed

\$3,000,000 bond cover or \$10,000,000 in the aggregate. The reasoning behind this is to grow the book of business. The trust, which was set up at Wilmington Trust Company in Wilmington, DE for the benefit of Arch totaling \$242,107 is to fund future potential obligations. This will increase over time at 10% of written premium through Arch. It will be evaluated annually.

Both the ACE and Arch treaties were terminated effective as of April 30, 2016 for a broader reinsurance treaty.

The Company, along with its related company Boston Indemnity Company, entered into a new ceded treaty with Arch Reinsurance Company and Ace Property and Casualty Company effective May 1, 2016. Under this agreement, the Company has the ability to write surety bonds with limits up to \$4,000,000 per bond and \$10,000,000 in the aggregate while taking on risk no greater than 10% of surplus. The following schedule shows the percentage amount ceded based on the bond amount:

<u>Bond Penalty</u>	<u>Company's Retention</u>	<u>Reinsurer's Cession</u>
\$0 to \$500,000	65%	35%
\$500,001 to \$1,000,000	30%	70%
\$1,000,001 to \$2,000,000	10%	90%
\$2,000,001 to \$4,000,000	7.50%	92.50%

This treaty was terminated on October 31, 2017 and was replaced with an excess of loss structure.

The Company, along with its related company Boston Indemnity Company, entered into a new excess of loss treaty with Arch Reinsurance Company and Beazley USA Services, Inc. effective November 1, 2017. Under this agreement, the Company limits its exposure to any Bondholder (or Principal) to \$350,000 during the treaty term (November 1, 2017 to October 31, 2018). This agreement provides layered protection up to \$8,000,000 per Bondholder (or Principal) with a Company retention of \$350,000. See schedule below:

Layer 1: Reinsurer liable for \$1,650,000 in excess of \$350,000 with a \$4,950,000 aggregate limit.

Layer2: Reinsurer liable for \$2,000,000 in excess of \$2,000,000 with a \$4,000,000 aggregate limit.

Layer3: Reinsurer liable for \$4,000,000 in excess of \$4,000,000 with an \$8,000,000 aggregate limit.

On November 1, 2018 this structure was renewed for Bondex Insurance Company with one modification, the Company reduced the attachment point to \$250,000 per Bondholder and increased the aggregate limit on layer 1 to \$5,250,000, as well as added Aspen Insurance UK, LTD as a third reinsurer to the coverage.

The Company entered into an assumed reinsurance agreement with Companion Property and Casualty Insurance Company of South Carolina and Companion Specialty Insurance

Company under a contract effective July 1, 2012. The Companion P&C Insurance Company assumed agreement was terminated as of January 9, 2015. Companion was purchased by Enstar Group Limited and they have chosen not to continue the Surety line. The trust, which was set up at Wilmington Trust Company in Wilmington, DE for the benefit of Companion Property and Casualty Insurance Company totaling \$204,933 will remain intact until there is no liability to Companion. The trust will diminish as the liability diminishes. The Company reported a remaining balance of \$49,960 as of December 31, 2018.

In conjunction with the sale of Boston Indemnity Company, the Company has entered into an agreement with Boston Indemnity providing 100% reinsurance for business written through Boston Indemnity Company for clients that have direct relationships with the Dale Group.

TREATMENT OF POLICYHOLDERS

A review of the Company's complaints indicated that the Company did not maintain complaint logs and in general was not in compliance with N.J.S.A. 17:29B-4(10) of the New Jersey Statutes. It is recommended that the Company maintain complaint logs for each year to be in compliance with N.J.S.A. 17B-4(10) of the New Jersey Statutes.

FINANCIAL EXHIBITS

Exhibit A - Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2018-
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Exhibit B - Underwriting and Investment Exhibit for the Four Year Examination Period
Ended December 31, 2018Page 15

Exhibit C - Capital and Surplus for the Periods Ended December 31, 2014 to December 31,
2018.....Page 16

EXHIBIT A-STATEMENT OF ASSETS, LIABILITY AND UNASSIGNED FUNDS

AT DECEMBER 31, 2018

	Current Examination at 12/31/18	Balance per Company at 12/31/18	Examination Change	Note Number
<u>Assets</u>				
Bonds	\$2,125,353	\$2,125,353	\$ 0	1
Common Stocks	\$613,810	\$613,810	0	
Preferred Stocks	\$80,000	\$80,000	0	
Cash and Short Term Investments	4,507,388	4,507,388	0	1
Investment Income Due and Accrued	22,266	22,266	0	
Premiums In the Course of Collection	1,550,318	1,550,318	0	
Amounts Recoverable from Reinsurers	(86,738)	(86,738)	0	
Other Amounts Receivable Under Reinsurance Contracts	49,960	49,960	0	
Federal Income Tax Recoverable	38,881	38,881	0	
Net Deferred Tax Asset	110,645	110,645	0	
Electronic Data Processing Equipment	3,157	3,157	0	
Receivables Due from Parent, Subsidiaries and Affiliates	<u>494,958</u>	<u>577,074</u>	<u>(82,116)</u>	2
Total Admitted Assets	<u>\$9,509,998</u>	<u>\$9,592,114</u>	<u>\$(82,116)</u>	
<u>Liabilities</u>				
Losses	\$1,013,513	\$1,013,513	\$ 0	3
Reinsurance Payable on Paid Losses	(73,034)	(73,034)	0	
Loss Adjustment Expenses	229,350	229,350	0	3
Commissions Payable, Contingent Commissions and Other Similar Charges	488,153	488,153	0	
Taxes, Licenses and Fees	3,482	3,482	0	
Unearned Premiums	2,371,926	2,371,926	0	
Ceded Reinsurance Premiums Payable	5,643	5,643	0	
Aggregate write-Ins-Collateral Held	<u>1,893,523</u>	<u>1,893,523</u>	<u>0</u>	
Total Liabilities	<u>\$5,932,556</u>	5,932,556	\$ 0	
<u>Surplus and Other Funds</u>				
Common Capital Stock	\$1,000,000	\$1,000,000	\$0	
Gross Paid In and Contributed Surplus	1,550,000	1,550,000	0	
Unassigned Funds (Surplus)	<u>1,027,442</u>	<u>1,109,558</u>	<u>(82,116)</u>	
Surplus as Regards Policyholders	<u>\$3,577,442</u>	<u>\$3,659,558</u>	<u>(\$82,116)</u>	
Total Liabilities, Surplus and Other Funds	<u>\$9,509,998</u>	<u>\$9,592,114</u>	<u>(\$82,116)</u>	

EXHIBIT B-SUMMARY OF OPERATIONS FOR THE FIVE-YEAR PERIOD ENDING DECEMBER 31, 2018

<u>UNDERWRITING INCOME</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Premiums Earned</u>	\$ 1,282,746	\$ 1,786,225	\$ 1,534,558	\$ 2,881,343	\$ 5,965,692
Deductions:					
Losses Incurred	\$37,323	(\$38,520)	\$725,054	(\$367,153)	1,105,706
Loss Expenses Incurred	170,965	191,177	(351,797)	512,618	292,283
Other Underwriting Expenses Incurred	976,014	1,412,401	1,193,205	3,063,894	4,607,375
Total Underwriting Deductions	<u>\$ 1,184,302</u>	<u>\$ 1,565,058</u>	<u>\$ 1,566,462</u>	<u>\$ 3,209,359</u>	<u>\$ 6,005,364</u>
Net Underwriting Gain or (Loss)	<u>\$ 98,444</u>	<u>\$ 221,167</u>	<u>\$ (31,904)</u>	<u>\$ (328,016)</u>	<u>\$ (39,672)</u>
 <u>INVESTMENT INCOME</u>					
Net Investment Income Earned	\$ 80,782	\$ 72,827	\$ 67,664	\$ 76,736	\$ 108,185
Net Realized Capital Gains or (Losses)	39,483	13,837	(11,059)	17,862	15,320
Net Investment Gain or (Loss)	<u>\$ 120,265</u>	<u>\$ 86,664</u>	<u>\$ 56,605</u>	<u>\$ 94,598</u>	<u>\$ 123,505</u>
 <u>OTHER INCOME</u>					
Net Gain or (Loss) from Agents' Balances					
Charged Off	\$ (2,157)	\$ (3,907)	\$ -	\$ -	\$ (5,176)
Finance and Service Charges	21,157	3,313	0	0	0
Total Other Income	<u>\$ 19,000</u>	<u>\$ (594)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,176)</u>
Net Income Before Federal Income Taxes	\$ 237,709	\$ 307,237	\$ 24,701	\$ (233,418)	\$ 78,657
Federal Income Taxes Incurred	62,002	73,657	(12,171)	(33,710)	21,183
Net Income	<u>\$ 175,707</u>	<u>\$ 233,580</u>	<u>\$ 36,872</u>	<u>\$ (199,708)</u>	<u>\$ 57,474</u>

EXHIBIT C-CAPITAL AND SURPLUS ACCOUNTS FOR THE PERIODS ENDING
DECEMBER 31, 2014 TO DECEMBER 31, 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
NET INCOME	\$ 175,706	\$ 233,600	\$ 36,872	\$ (199,708)	\$ 57,474
 <u>OTHER SURPLUS GAINS OR (-) LOSSES</u>					
Change in Net Unrealized Capital Gains or (-) Losses	\$ 51,455	\$ (54,184)	\$ 72,508	\$ 88,577	\$ (53,557)
Change in Net Deferred Income Tax	(114,750)	65,019	(58,634)	(79,186)	39,722
Change in Nonadmitted Assets	95,960	(164,261)	108,344	157,928	27,273
Aggregate Write Ins for Gains & Losses in Surplus	350,000	0	0	0	0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Surplus Gains or (-) Losses	\$ 382,665	\$ (153,426)	\$ 122,218	\$ 167,319	\$ 13,438
Change in Surplus as Regards Policyholders for the Year	\$ 558,371	\$ 80,174	\$ 159,090	\$ (32,389)	\$ 70,912
Surplus as Regards Policyholders December 31, Previous Year	<u>\$ 2,741,285</u>	<u>\$ 3,299,656</u>	<u>\$ 3,379,829</u>	<u>\$ 3,538,919</u>	<u>\$ 3,506,530</u>
Surplus as Regards Policyholders December 31, Current Year	<u>\$ 3,299,656</u>	<u>\$ 3,379,830</u>	<u>\$ 3,538,919</u>	<u>\$ 3,506,530</u>	<u>\$ 3,577,442</u>

NOTES TO FINANCIAL STATEMENTS

Note 1: Statutory Deposits

The following is a list of deposits as of December 31, 2018 for the states that require the Company to maintain a deposit for the benefit of all policyholders or the policyholders of the particular state.

The states requiring a statutory deposit and its accompanying values are indicated below:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
New Jersey	\$162,774	\$162,774
New York	557,064	558,126
Delaware	10,000	10,000
	Total	<u>\$729,838</u>

Note 2: Receivable from Parent, subsidiaries and affiliates

The Company reported a balance of \$577,074 for intercompany balances between affiliated parties which was \$82,116 less than the examination determined amount of \$494,958. The examination difference was based on some of these balances which could not be accounted for and subsequently the Company wrote off \$82,116 of these receivable balances in 2019 (this balance was concurrently accounted for as an expense within the above income statement thus increasing reported other underwriting expenses incurred by \$82,116 to \$4,607,365). Furthermore, some of these balances were not supported by intercompany agreements, there was no audit trail to support some of the reported balances and some of the balances reported were not settled in a timely basis.

It is recommended the Company ensure all inter-company balances are supported by inter-company agreements, the balances have a clear audit trail and the balances are settled on a timely basis.

Note 3: Losses and Loss Adjustment Expenses

The Company reported liabilities as at December 31, 2018 for unpaid losses, net of reinsurance, and unpaid loss adjustment expenses amounting to \$1,013,513 and \$229,350 respectively. The unpaid loss reserve included \$427,858 for reported losses and a provision for incurred but not reported losses of \$585,655.

Based on the analysis performed by the Actuarial Unit of the New Jersey Department of Banking and Insurance Office of Solvency Regulation it was determined that the Company's gross and net loss and loss adjustment expense reserves will be accepted as reported.

EXAMINATION RECOMMENDATIONS

Corporate Records-Page 9

It is recommended that the Company adequately support transactions and events in the minutes of the Board of Directors and Audit Committee in accordance with NAIC best practices.

Continuity of Operations: Page 9

It was noted that Company did not perform testing of their disaster recovery plan. It is recommended the Company simulate a disaster recovery test to identify and document essential deficiencies that might exist, which could potentially impede the process necessary to establish and restore either basic or critical systems and functions in a timely manner.

Policy on Conflicts of Interest: Page 9

A review of the minutes did not indicate that the Board reviewed or approved the conflict of interest questionnaires. It is recommended that the minutes include an approval of the Board of their review of conflict of interest questionnaires.

Treatment of Policyholders: Page 13

The Company indicated that they do not maintain complaint logs and were determined to not be in compliance with N.J.S.A. 17:29B-4(10). It is recommended that the Company maintain complaint logs for each year to be in compliance with N.J.S.A. 17:29B-4(10).

Note 1: Receivable from Parent, subsidiaries and affiliates: Page 17

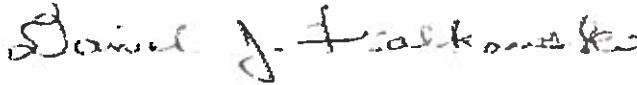
It is recommended the Company ensure all inter-company balances are supported by inter-company agreements, the balances have a clear audit trail and the balances are settled on a timely basis.

CONCLUSION

The examination of Bondex Insurance Company was conducted by the undersigned with the assistance of field and office staff and the Actuarial Unit of the New Jersey Department of Banking and Insurance Office of Solvency Regulation.

I would like to take this opportunity to acknowledge the courtesy and assistance extended to the examiners by officers and personnel of the Company throughout the course of this examination.

Respectfully Submitted,

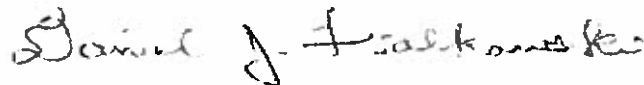


Daniel J. Fialkowski, CFE
Examiner-In-Charge

Bondex Insurance Company

I, Daniel J. Fialkowski, do solemnly swear that the foregoing report of examination is hereby presented to be a full and true statement of the condition and affairs of the Bondex Insurance Company as of December 31, 2018, to the best of my knowledge and belief.

Respectfully submitted,



Daniel J. Fialkowski, CFE, AIE, FLMI, CPM
Examiner-In-Charge

State of New Jersey
County of Mercer

Subscribed and sworn to before me, *Sheila Tkacs*
On this 7th day of April 2020.



SHEILA M. TKACS
NOTARY PUBLIC
STATE OF NEW JERSEY
My Commission Expires: July, 2025