

REPORT ON EXAMINATION
OF THE
KNIGHTBROOK INSURANCE COMPANY
AS OF
DECEMBER 31, 2008



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The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 30th day of June, 2010



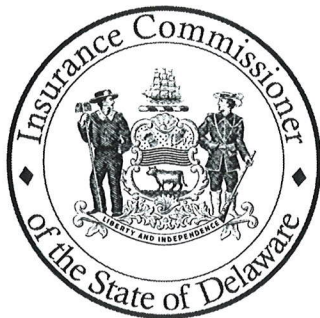
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2008 of the

KNIGHTBROOK INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: *Sonia C. Harris*

Date: 30 June 2010



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 30th day of June 2010.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

May 11, 2010

Honorable Alfred W. Gross
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Committee, NAIC
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P. O. Box 1157
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Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 09-035, an examination has been made of the affairs, financial condition and management of

KNIGHTBROOK INSURANCE COMPANY

hereinafter referred to as "Company" incorporated under the laws of the State of Delaware. The examination was conducted at the administrative office of the Company located at 4751 Wilshire Blvd. Suite 111, Los Angeles, California.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination of the Company was conducted as of December 31, 2004. This examination covers the four (4) year period, from January 1, 2005 through December 31, 2008 and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed to the extent deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The general procedure of the examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook, as adopted by the Delaware Insurance Department under Delaware Insurance Code Section 526, and generally accepted statutory insurance examination standards.

In addition to items noted in this report, the following topics were reviewed and are included in the workpapers of this examination:

- Fidelity Bonds
- Conflict of Interest
- Corporate Records
- Agent and Employee Welfare
- Compliance with Prior Report Recommendations
- NAIC Ratios
- Legal actions
- Regulatory agency correspondence
- All asset and liability items not mentioned

The examination was conducted under Specific Risk Analysis (SRA) guidelines. In planning and conducting the examination, consideration was given to the concepts of materiality, risk, the efficient allocation of examination resources, and examination efforts were directed accordingly. The workpapers of the Company's public accountant prepared in support of the Company's annual audit were reviewed and utilized to the extent deemed appropriate and practical.

HISTORY

The Company was incorporated under the laws of the State of Delaware on December 17, 1934 as a mutual property and casualty reinsurance company. Prior to December 31, 1995 the Company was known as Excess Mutual Reinsurance Company. As of December 31, 1995 the Company's name was changed to Excess Reinsurance Company, a stock reinsurance company incorporated in the State of Delaware. Effective November 17, 1999, the Company acquired Guilderland Reinsurance Company (Guilderland Re), a stock property and casualty reinsurer domiciled in the State of New York.

On July 1, 2008, the Company and its subsidiary, Guilderland Re, were acquired by KnightBrook, LLC a Delaware limited liability company. Simultaneously on this date, Northwestern Insurance Company (Northwestern), a Pennsylvania insurer, was merged into the Company. The merger and acquisition were approved by the insurance departments of the States of Delaware, New York, and Commonwealth of Pennsylvania.

The Company was subsequently renamed to its current name, KnightBrook Insurance Company, by amendment to its Certificate of Incorporation dated July 21, 2008.

CAPITALIZATION

Since its last 2004 examination, total common capital stock of the Company has increased \$462,400 from \$3,752,800 to \$4,218,200, primarily due to its July 1, 2008 purchase by KnightBrook LLC and concurrent merger of Northwestern into the Company (discussed above). As an amendment to its Certificate of Incorporation October 7, 2008, the Company had 3,000,000 authorized shares of common capital stock with a par value of \$3.73292 per share. As of December 31, 2008, issued and outstanding shares of the Company's common capital stock totaled 1,130,000 for a total common capital stock reported amount of \$4,218,200.

The following schedule details changes occurring in the capital and surplus accounts of the Company since the prior examination and includes the results of the acquisition and merger:

KnightBrook Insurance Company

	<u>Common Capital Stock</u>	<u>Gross Paid-in & Contributed Surplus</u>	<u>Unassigned Surplus</u>	<u>Total</u>
December 31, 2004	\$ 3,752,800	\$ 25,019,475	\$ 5,459,071	\$ 34,231,346
Operations 2005 (1)			849,870	849,870
Capital changes:				
Capital paid-in 2005	450			450
Surplus adjustments:				
Surplus paid-in 2005		(450)		(450)
Dividends to stockholder in 2005 (2)			(4,751,600)	(4,751,600)
December 31, 2005	<u>\$ 3,753,250</u>	<u>\$ 25,019,025</u>	<u>\$ 1,557,341</u>	<u>\$ 30,329,616</u>
Operations 2006 (1)			2,168,681	2,168,681
Capital changes:				
Capital paid-in 2006	(20,330)			(20,330)
Surplus adjustments:				
Surplus paid-in 2006		(6,202)		(6,202)
Dividends to stockholder in 2006 (2)			(5,934,500)	(5,934,500)
December 31, 2006	<u>\$ 3,732,920</u>	<u>\$ 25,012,823</u>	<u>\$(2,208,478)</u>	<u>\$ 26,537,265</u>
Operations 2007 (1)			454,135	454,135
Dividends to stockholder in 2007 (2)			(23,736)	(23,736)
December 31, 2007	<u>\$ 3,732,920</u>	<u>\$ 25,012,823</u>	<u>\$(1,778,079)</u>	<u>\$ 26,967,664</u>
Adjustment for Northwestern Merger into Company in 2008 (3)	1,000,000	2,000,000	(884,350)	2,115,650
Operations 2008 (1)			(4,038,893)	(4,038,893)
Capital changes:				
Capital paid-in 2008 (3)	(514,720)			(514,720)
Surplus adjustments:				
Surplus paid-in 2008 (3)		(963,903)		(963,903)
Transferred from capital (3)			1,478,623	1,478,623
December 31, 2008	<u>\$ 4,218,200</u>	<u>\$ 26,048,920</u>	<u>\$(5,222,699)</u>	<u>\$ 25,044,421</u>

1. Operations is defined as net income, change in net unrealized capital gains or (losses), change in net unrealized foreign exchange capital gain (loss), change in net deferred income tax, change in non-admitted assets and change in provision for reinsurance.
2. The Company's Board of Directors approved a \$20 per share dividend in 2005, \$25 per share dividend in 2006 and a \$0.10 per share dividend in 2007. (See DIVIDENDS to Stockholder, page 6)
3. These adjustments reflect the merger of Northwestern into the Company on July 1, 2008, and the restructure of its own common capital stock on October 7, 2008, and agree with reported amounts in the Northwestern 2007 annual statement, and the reconciliation of common capital stock.

DIVIDENDS TO STOCKHOLDER

The Company's Board of Directors approved a \$20 cash dividend per voting and non-voting common shares in November 2005 for a total of \$4,751,600, paid December 2005. The Company's Board of Directors approved a \$25 cash dividend per voting and non-voting common shares in November 2006 for a total of \$5,934,500, paid December 2006. The dividends paid in 2005 and 2006 were approved by the Delaware Department of Insurance. The Company's Board of Directors approved a \$0.10 cash dividend per voting and non-voting common shares in November 2007 for a total of \$23,736, paid December 2007.

The Company's Board of Directions approved a 0.13 stock dividend per common stock share on October 7, 2008, giving the Company 130,000 additional shares of issued and outstanding common stock for a total of 1,130,000 issued and outstanding shares of common stock.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Laws of the State of Delaware as implemented by the Company's Certificate of Incorporation and bylaws all corporate powers of the Company and its business, property and affairs are managed by or under the direction of its Board of Directors.

Shareholders

In accordance with Article II, Section 2.2 of its bylaws the annual shareholder's meeting shall be held each year on the first Wednesday in April at such time and place as the Board of Directors shall choose. At this time the stockholders shall elect a Board of Directors and transact such other business as may properly be brought before the meeting.

Board of Directors

In accordance with Article III, Section 3.1 of its bylaws, the Board of Directors shall consist of not less than seven nor more than thirteen members, as shall be determined from time to time by resolution of the Board subject to the power of the stockholders to change such action of the directors. Directors of the Company serve until their successor is qualified and elected. Members elected to the Company's Board also served as principal officers of the Company and interlocking Board members of other companies within the Hankey group of companies.

The members of the Board of Directors serving as of December 31, 2008, were as follows:

<u>Director's Name</u>	<u>Principal Business Affiliation</u>
Don Robert Hankey, Chairman of the Board	Principal, Hankey Group of Companies
Marc Joseph Bishara	COO, Venbrook Group
Richard Alan Dillon	CFO/Treasurer/CTO, KnightBrook Ins. Co.
Don Rufus Hankey	CEO, Nowcom Corporation
Eric David Jarvis	President and CEO, KnightBrook Ins. Co.
William Barry Lopatin	Chairman, Venbrook Group
Matthew Lee Sherman	COO, Knightbrook Ins. Co.
Jason Dexter Turner	CEO, Venbrook Group

Officers

In accordance with Article V, Section 5.2 of its bylaws, officers of the Corporation shall be elected by the Board of Directors and may be: a Chairman of the Board, a President, a Chief Executive Officer, a Vice-President, a Secretary and a Treasurer who shall have such powers and duties as set forth in the bylaws and as from time to time be determined by the Board of Directors.

As of December 31, 2008, the Company's principal officers and their respective titles are as follows:

<u>Officer</u>	<u>Title</u>
Don Robert Hankey	Chairman of the Board
Eric David Jarvis	President and CEO
Jason Dexter Turner	Secretary
Richard Alan Dillon	Treasury, CFO and CTO
Matthew Lee Sherman	COO
Greg Alan Hill	Assistant Treasury
Irwin Charles Keightly	Vice President
Stephen Chu Ming Su	Vice President

AGREEMENTS

Related Parties

Income Tax Allocation Agreement

Since its July 1, 2008 acquisition, the Company continues to file a consolidated tax return with its subsidiary, Guilderland Re, under a tax allocation agreement effective January 1, 2000. Each company is to have its tax liability calculated as if it were filing a separate federal income tax return. Carry-back net operating losses are also handled on a separate company basis. The Company pays the total tax liability for both companies, followed by timely settlements as required by the terms of the agreement.

Management Services Agreements

Cardigan Management Company, (CMC)

Effective December 28, 2006, the Company entered into a management service agreement with CMC, a Delaware limited liability company and an affiliate managing general agent. CMC provides management and administration services in connection with the operations of the Company including: underwriting risk management, regulatory services, home office services, accounting services, claims management, and cash records. The Company

KnightBrook Insurance Company

reimbursed CMC on a direct cost basis based on actual invoices specific to Company expenses, and indirect costs based on time assessment evaluations, space allocation and percentage of payroll associated for these services. The homeowners and commercial auto business managed by CMC was business originally written by Northwestern in Pennsylvania before it was merged into the Company. Of the Company's 2008 direct written premium of approximately \$1.4 million, CMS produced \$1.26 million, which was primarily commercial auto and homeowners.

Knight Management Insurance Services LLC, (KMIS)

Effective July 1, 2008, the Company entered into a management service agreement with KMIS a California limited liability company and an affiliate managing general agent. KMIS provides management and administration services in connection with the operations of the Company including: underwriting risk management, regulatory services, home office services, accounting services, claims management, and cash records. The Company reimbursed KMIS on a direct cost basis based on actual invoices specific to Company expenses and indirect costs based on time assessment evaluations, space allocation, and percentage of payroll associated for these services. In 2008, KMIS wrote \$170 thousand in direct written premiums on primarily material damage and guaranteed auto protection business. Under terms of a separate agreement (discussed above), CMC performs management services for KMIS similar to those performed for the Company.

Non-Affiliates

Master Service Agreement

Effective February 6, 2007, the Company entered into a master service agreement with Claims Management Resources, LLC (CMR), a Pennsylvania corporation, to manage claims related to Northwestern business. CMR provides full claims handling in accordance with procedures and policies established by CMR and the Company.

Professional Administrative Services Agreement

Effective July 1, 2008, KMIS and Reinsurance Solutions LLC (RSL) (a subsidiary of Guy Carpenter) entered into a professional administrative services agreement for RSL to provide ongoing management of the Company and Guilderland Re statutory reporting functions and other corporate financial services. Services provided include the preparation of statutory ledger entries, the preparation of statutory financial trial balances and the recording of investment activities.

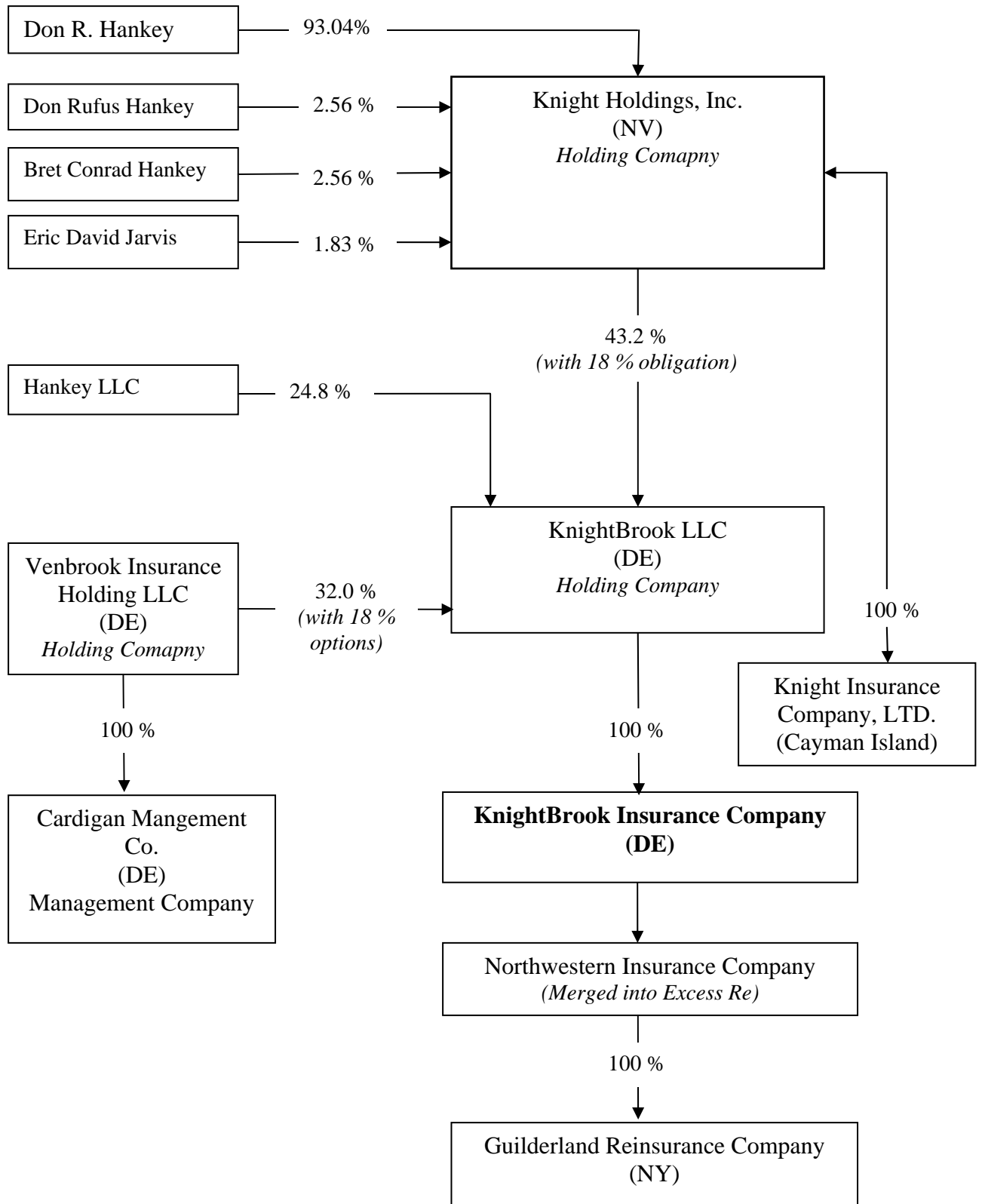
INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System and has filed a Holding Company Registration Statement with State of Delaware as of April 15, 2009.

The Company is a wholly owned subsidiary of KnightBrook LLC, a Delaware holding company which is ultimately owned by Knight Holdings, Inc., a Nevada holding company, Hankey LLC, and Venbrook Holding LLC, a Delaware holding company, all privately held.

The following abbreviated organizational chart illustrates the Company and its affiliates within the current Holding Company System as of December 31, 2008:

KnightBrook Insurance Company



TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2008, the Company was licensed to transact business in 28 states. The Company is actively positioning itself to become licensed throughout the United States to write all forms of property and casualty insurance. As of September 30, 2009, the Company was licensed to transact business in 35 states.

Plan of Operation

The Company is a multi-line carrier underwriting commercial and personal property and casualty insurance. The Company utilizes affiliated managing general agents, KMIS and CMS, to write its business.

REINSURANCE

The schedule below shows direct business written and reinsurance activity for 2008.

Direct Written	\$ 1,397,784
Reinsurance Assumed from Affiliates	0
Reinsurance Assumed from Non-Affiliates	0
Subtotal Reinsurance Assumed	\$ 0
Reinsurance Ceded to Affiliates	0
Reinsurance Ceded to Non-Affiliates	596,839
Subtotal Reinsurance Ceded	\$ 596,839
Net Premiums Written During Year	<u>\$ 800,945</u>

Assumed

The Company assumed no business in 2008.

Ceded – to Affiliates

The Company ceded no business to affiliates in 2008.

Ceded – to Non-Affiliates

Through intermediary Guy Carpenter, Northwestern management entered into agreements with various authorized and unauthorized reinsurers covering business to be merged.

The schedule below shows those coverage layers maintained as of December 31, 2008:

<u>Type</u>	<u>Date Effective</u>	<u>Coverage</u>
Quota share	March 1, 2008	70% Q.S. auto liability \$200K - 100%
Quota share	March 1, 2008	70% Q.S. auto physical damage \$75K - 100%
Excess of loss	March 1, 2008	100% of \$300K X.S. \$200K auto liability- per occurrence
Aggregate X.S.	January 1, 2008	95% of \$5 million - X.S. of 76% of gross net earned premiums
First X.S.	January 1, 2008	100% of \$925K X.S. of \$75K - combined net loss and LAE - per occurrence, bodily injury and property damage liability, including medical
Second X.S.	January 1, 2008	100% of \$1 million X.S. of \$1 million - combined net loss and LAE - per occurrence, bodily injury and property damage liability, including medical
First surplus	January 1, 2008	4.25 times net retention, per risk, maximum cession of \$425K, with minimum retention of \$50K

With the merger of Northwestern into the Company on July 1, 2008, all of the above non-affiliate ceded reinsurance agreements became the Company's.

GROWTH OF COMPANY

The Company was acquired by KnightBrook, LLC and simultaneously merged with Northwestern Ins. Co. on July 1, 2008. Prior to its acquisition, the Company had been in run-off since 2003. The following information covers the four (4) year period under examination to December 31, 2008:

<u>Year</u>	<u>Net Written Premiums</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Income (Loss)</u>
2005	\$ 7,106	\$ 41,758,447	\$ 11,428,832	\$ 30,329,615	\$ 1,572,083
2006	(4,738)	37,095,861	10,558,597	26,537,264	3,002,620
2007	287,614	38,455,196	9,371,876	29,083,314	(429,358)
2008	800,945	30,874,444	5,830,022	25,044,421	511,535

- Years 2005 and 2006 reflect results not merged with Northwestern Ins. Co.
- Years 2007 and 2008 reflect results merged with Northwestern Ins. Co.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operation and organization controls. The areas evaluated included computer systems, accounting systems, organization structure, and processing structure. The Company operates in a computer dominated environment. The Company uses electronic applications from 'SunGard' to meet its accounting entry and maintenance needs. Included in this suite of applications is: the Enterprise Accounting System for general ledger, the Enterprise Portfolio System for investments, Enterprise Filing System for statutory reporting, and BIZNET for managerial reporting. The Company continues to use ACCPAC for accounts receivable.

An external accounting firm audits the statutory financial statement of the Company annually. The Company's external firm reviewed its internal control structure in order to establish the necessary audit procedures required to express an opinion. No significant or qualifying deficiencies were found to exist in the design or operation of the Company's internal control structure.

Based on our examination review of the filed Annual Statement, which included: observations, tests of accounts and data, assessment of proper treatment, and subsequent discussions with management, the accounting systems and procedures were found to conform to insurance accounting practices and requirements.

FINANCIAL STATEMENTS

The following financial statements as determined by this examination are presented herein:

Analysis of Assets, as of December 31, 2008
Liabilities, Surplus and Other Funds, as of December 31, 2008
Underwriting and Investment Exhibit – Statement of Income which includes
Capital and Surplus Account for the one-year period ending December 31, 2008

Any dollar differences in the below statements are due to rounding.

Analysis of Assets

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 3,579,805	\$ 0	\$ 3,579,805	1
Common Stocks	21,726,705	0	21,726,705	2
Real estate properties occupied by the Company	85,788	0	85,788	
Cash	<u>3,695,367</u>	<u>0</u>	<u>3,695,367</u>	
Subtotals, cash and invested assets	<u>\$ 29,087,665</u>	<u>\$ 0</u>	<u>\$ 29,087,665</u>	
Investment income due and accrued	96,472		96,472	
Uncollected premiums, agents' balance in the course of collections	602,637	54,393	548,244	
Reinsurance:				
Amounts recoverable from reinsurers	430,690	0	430,690	
Funds held by reinsurance companies	16,819	0	16,819	
Current federal income tax recoverable	692,768	0	692,768	
Electronic data processing equipment and software	2,410	2,410	0	
Premium tax credit	<u>1,786</u>	<u>0</u>	<u>1,786</u>	
<i>Totals</i>	<u>\$ 30,931,247</u>	<u>\$ 56,803</u>	<u>\$ 30,874,444</u>	

Liabilities, Surplus and Other Funds

		<u>Notes</u>
Losses	\$ 2,057,435	3
Reinsurance payable on paid loss and loss adjustment expenses	11,305	
Loss adjustment expenses	508,866	3
Commissions payable, contingent commissions and similar charges	24,167	
Other expenses	110,446	
Taxes, licenses and fees due and accrued	33,587	
Net deferred tax liability	1,029,034	
Unearned premiums	645,994	
Advance premiums	36,647	
Ceded reinsurance premiums payable	142,534	
Amounts withheld or retained by company for account of others	(4,190)	
Payable to parent, subsidiaries and affiliates	83,534	
Reserve for reinsurance ceded outstanding balances	1,115,500	
Aggregate write-ins	35,163	
<i>Total Liabilities</i>	<u>\$ 5,830,022</u>	
Capital stock	4,218,200	
Gross paid in and contributed surplus	\$ 26,048,920	
Unassigned funds (surplus)	<u>(5,222,699)</u>	
Surplus	<u>\$ 20,826,221</u>	
Surplus as regards policyholders	<u>\$ 25,044,421</u>	
<i>Totals</i>	<u><u>\$ 30,874,443</u></u>	

Underwriting and Investment Exhibit: Statement of Income / Capital and Surplus Account

Underwriting Income	
Premiums earned	\$ 374,404
Deductions	
Losses incurred	(451,469)
Loss expenses incurred	125,323
Other underwriting expenses incurred	2,573,621
Total underwriting deductions	\$ 2,247,475
Net underwriting gain or (loss)	\$ (1,873,071)
Investment Income	
Net investment income earned	368,805
Net realized capital gains or (losses)	1,458,501
Net investment gain or (loss)	\$ 1,827,306
Other Income	
Net (loss) from agents' or premium bal. charged off	(68,253)
Finance and services charges not included in premiums	32,931
Reinsurance ceded balances charged off	221,885
Total other income (loss)	\$ 186,563
Net income before dividends to policyholders and FIT	\$ 140,798
Federal income taxes incurred	(370,737)
Net income (loss)	\$ 511,535
Capital and Surplus Account	
Surplus as regards policyholders, December 31, 2007	\$ 29,083,315
Net income	511,535
Change in net unrealized capital gains or (losses) less capital gains tax of \$(2,439,884)	(5,135,806)
Change in net deferred income tax	131,684
Change in non-admitted assets	449,087
Change in provision for reinsurance	4,606
Capital changes: Paid-in	(514,720)
Surplus adjustments:	
Paid-in	(963,903)
Transferred from capital	1,478,623
Change in surplus as regards policyholders for the year	\$ (4,038,894)
Surplus as regards policyholders, December 31, 2008	\$ 25,044,421

SCHEDULE OF EXAMINATION ADJUSTMENTS

No financial adjustments were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds: \$3,579,805

The Company's bond holdings totaled \$3.58 million and were approximately 11.6% of total admitted assets and 12.3% of the Company's total invested assets. Security composition for the year ending 2008 was comprised of the following:

U.S. Governments	\$ 1.69 million
Industrial & Miscellaneous	<u>1.89 million</u>
	<u>\$ 3.58 million</u>

All of the Company's bond holdings were categorized as Class 1, with respect to NAIC credit quality standards.

Note 2 - Common Stocks: \$21,726,705

The Company's common stock holding totaled \$21.73 million and were approximately 70.4% of total admitted assets and 75% of the Company's total invested assets, and comprised of the following:

Industrial & Miscellaneous	\$ 9.02 million
Guilderland Re (affiliate)	<u>12.71 million</u>
	<u>\$ 21.73 million</u>

Note 3 - Loss and Loss Adjustment Expense Reserves: \$2,566,301

Loss and loss adjustment expense reserves (LAE) represent 44% of the Company's liabilities and incurred but not reported reserves (IBNR) constituted approximately 73% of loss reserves at year-end 2008.

The distribution of booked net loss and LAE reserves by line of business is summarized below:

Reinsurance-non-proportional assumed property	\$	1,439,329	56.1%
Other liability – occurrence		817,247	31.8%
All other		<u>309,725</u>	12.1%
Net loss and LAE reserves	\$	<u><u>2,566,301</u></u>	

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company’s reserve methodologies and adequacy. INS evaluated the Company’s business by program and where applicable, line of business within program for loss and allocated loss adjustment expenses. The conclusions reached by INS are largely based upon information supplied by the Company’s staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectability of reinsurance recoverable. The aggregated actuarial data provided by the Company was verified and reconciled to Schedule P of the Company’s filed annual statement.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report. As a result of this study, the reserves were accepted as reported by the Company at December 31, 2008.

SUMMARY OF RECOMMENDATIONS

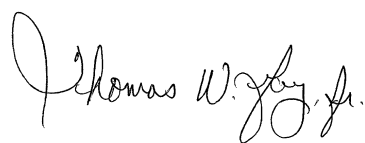
No recommendations were made in this examination report.

CONCLUSION

The following schedule shows the changes from the previous examination, which includes the results of this examination and the financial condition of the KnightBrook Insurance Company, as of December 31, 2008:

Description	12/31/2004 <u>Prior Examination</u>	12/31/2008 <u>Current Examination</u>	Increase <u>(Decrease)</u>
Assets	<u>\$ 58,861,976</u>	<u>\$ 30,874,443</u>	<u>\$ (27,987,533)</u>
Liabilities	<u>\$ 24,630,630</u>	<u>\$ 5,830,022</u>	<u>\$ (18,800,608)</u>
Common capital stock	\$ 3,752,800	\$ 4,218,200	\$ 465,400
Gross paid in and contrib. capital	25,019,475	26,048,920	1,029,445
Unassigned funds (surplus)	<u>5,459,071</u>	<u>(5,222,699)</u>	<u>(10,681,770)</u>
Total surplus	<u>\$ 34,231,346</u>	<u>\$ 25,044,421</u>	<u>\$ (9,186,925)</u>
Total Liabilities and Surplus	<u>\$ 58,861,976</u>	<u>\$ 30,874,443</u>	<u>\$ (27,987,533)</u>

Respectfully submitted,



Thomas W. Gay, Jr.
Examiner-in-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

1. The Company entered into a 50% quota share reinsurance contract with its Cayman Island affiliate, Knight Ins. Co., LTD, effective July 1, 2009, to cede commercial auto, general liability, inland marine coverage as respects collateral protection, guarantee account protection, renters liability protection, supplemental liability insurance, personal accident, personal affects, sports fitness, livery and para-transit business.

2. Since its acquisition on July 1, 2008, and as reflected in its current unaudited proforma year-end 2009 financial statements, the Company started writing business in 2009 under its agreement with KMIS and ceded under its 50% quota share agreement with Knight Ins. Co. (see above). The schedule below highlights this approximate growth (rounded) and its impact on year-end 2009 Statement of Income:

Net Premiums	\$ 3,461,000
Net Loss & LAE Deductions	2,030,000
Underwriting Expense	3,730,000
Total UW Deductions	\$ 5,760,000
UW GAIN/Loss	\$(2,299,000)
Investment Income	1,098,000
Other Income	187,000
Federal tax	(3,000)
Net Income / (Loss)	<u>\$(1,017,000)</u>

The balance sheet of these proforma financials showed total assets of approximately \$38,042,000, liabilities of approximately \$11,796,000, and total capital and surplus of approximately \$26,246,000.

3. The Company has had discussion and correspondence with the New York Insurance Department to restructure capital and surplus of Guilderland Re in order to reduce Surplus as Regards Policyholders and move surplus into the Company. Guilderland Re has been in run-off since 2003.