REPORT ON EXAMINATION AS TO THE CONDITION OF

MESA UNDERWRITERS SPECIALTY INSURANCE COMPANY

AS OF DECEMBER 31, 2017

NAIC COMPANY CODE 36838

NAIC GROUP CODE 0242

Filed
February 6, 2019
Commissioner
Department of Banking &
Insurance

TABLE OF CONTENTS

State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE
OFFICE OF SOLVENCY REGULATION
PO BOX 325
TRENTON, NJ 08625-0325

TEL (609) 292-5350
FAX (609) 292-6765

PHIL MURPHY
Governor

SHEILA OLIVER
Lt. Governor

MARLENE CARIDE
Commissioner

October 5, 2018

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

Commissioner:

In compliance with your instructions and pursuant to Insurance Laws and Rules of the State of New Jersey, a comprehensive risk focused examination has been made of the books, records and financial condition of

Mesa Underwriters Specialty Insurance Company
40 Wantage Avenue
Branchville, New Jersey 07890
NAIC Group Code 0242
NAIC Company Code 36838

hereinafter referred to as the "Company" or "MUSIC". The following examination report as to the condition of the Company is respectfully submitted.

SCOPE OF THE EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as the "NJDOBI" or "We", led a full scope coordinated multi-state risk-focused examination with the New York and Indiana Departments of Insurance participating. This examination covers the period of January 1, 2013, through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The principal portion of the examination was conducted at the Company's statutory home office in Branchville, New Jersey.

The Company was last examined as of December 31, 2012. The current examination was conducted concurrent with the examinations of its affiliates, Selective Insurance Company of America ("SICA"), Selective Way Insurance Company ("SWIC"), Selective Auto Insurance Company of New Jersey ("SAICNJ"), Selective Insurance Company of New England ("SICNE"), Selective Casualty Insurance Company ("SCIC"), Selective Fire and Casualty Insurance Company ("SFCIC"), Selective Insurance Company of the Southeast ("SICSE"), Selective Insurance Company of South Carolina ("SICSC") and Selective Insurance Company of New York ("SICNY"), (collectively, "The Group").

The NJDOBI conducted the examination in accordance with the 2017 edition of the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook (the "NAIC Handbook"). The NAIC Handbook requires NJDOBI to plan and perform the examination in order to evaluate the financial condition and identify prospective risks of the Company. To meet these objectives, NJDOBI obtained information regarding the Company's corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated the Company's system of internal controls and procedures used to mitigate identified risks. The examination also included assessing the principles used 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.

According to the NAIC Handbook, "One of the increased benefits of the enhanced risk-focused approach is to include … consideration of other than financial risks that could impact the insurer's future solvency. By utilizing the enhanced approach, the examiner reviewed the "financial" and "enterprise" risks that existed at the examination "as of" date and will be positioned to assess "financial" and "enterprise" risks that extend or commence during the time the examination was conducted and "prospective" risks which are anticipated to arise or extend past the point of examination completion. Using this approach, examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer."

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

During the course of this examination, consideration was given to work performed by the Company's Internal Audit Department and the Company's external accounting firm. Work reviewed included Sarbanes-Oxley compliance, risk analysis, documentation, test work and remediation efforts over weaknesses identified. Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no examination report recommendations from the prior examination as of December 31, 2012.

COMPANY HISTORY

The Company was incorporated under the laws of the State of Oklahoma on November 11, 1978 and commenced business on February 2, 1979 as a property and casualty insurance company. In 2006 the Company was a wholly-owned subsidiary of GAINSCO, Inc. ("GAINSCO"), a publicly traded insurance holding company incorporated in the State of Texas. The Company was licensed only in the State of Oklahoma, but was approved on a surplus lines basis in thirty seven states and the District of Columbia. The Company did not write any new business, but instead assumed all business from a subsidiary company, MGA Insurance Company, under the provisions of a reinsurance pooling agreement.

On November 1, 2007, Montpelier Re U.S. Holdings, Ltd. ("MRUSHL") purchased the Company from GAINSCO. As of December 31, 2009, the Company was a wholly-owned subsidiary of MRUSHL, which was a wholly-owned subsidiary of Montpelier Holdings, Ltd. of the United Kingdom, which was a wholly-owned subsidiary of Montpelier Re Holdings, Ltd., a Bermuda exempted limited liability company.

On December 31, 2011, Selective Insurance Group, Inc. ("SIGI") acquired all of the issued and outstanding stock of the Company. At that time, the Company redomesticated from Oklahoma to New Jersey, changed its name from Montpelier U.S. Insurance Company to Mesa Underwriters Specialty Insurance Company and amended and restated its Certificate of Incorporation.
The Company is a member of an insurance company holding system as defined in N.J.S.A 17:27A-1. Accordingly, the Company is registered with the State of New Jersey under the registration filed by its parent, SIGI.

As of January 1, 2012, the Company registered as a stock company and is an authorized surplus lines writer eligible to engage in the kinds of insurance specified in paragraphs "a", "b", "e", "f", "g", excluding bail, "i", "j", "k", "l", "n", "o-1", "o-2" and "o-3" and Legal Services Insurance pursuant to N.J.S.A. 17:46C-4a.(1). The Company is authorized to issue both participating and nonparticipating policies.

The Company's statutory home office in the State of New Jersey is located at 40 Wantage Avenue, Branchville, New Jersey 07890.

Capital Stock

The Company has 4,000,000 authorized shares issued and outstanding with $1.00 par value per share. SIGI owns 100% of the Company's outstanding capital stock. The Company has no preferred stock outstanding.

Dividends to Stockholders

During the examination period, the Company declared and paid one ordinary dividend totaling $2,080,000 to SIGI in 2017.

Management and Control

The Company's By-laws state that the number of directors who shall serve on the Board be not less than one or more than fifteen, the exact number of which shall be fixed from time to time by resolution of the Board. At December 31, 2017, there were six board members as follows:

Directors	Principal Occupation
Gregory E. Murphy	Chairman of the Board and CEO
John J. Marchioni	President and Chief Operating Officer
Mark A. Wilcox	Executive Vice President and Chief Financial Officer
Vincent M. Senia	Executive Vice President and Chief Actuary
Yanina Montau-Hupka	Senior Vice President, Chief Risk Officer
Michael H. Lanza	Executive Vice President, General Counsel and Chief Compliance Officer

The members serving on the SIGI Audit Committee as of December 31, 2017, were as follows:

John S. Scheid, Chairperson
Ronald L. O'Kelley
John C. Burville
Philip H. Urban
Robert Kelly Doherty

The audit committee of SIGI is comprised entirely of independent directors. Mr. Scheid is currently designated as the committee's financial expert.

N.J.S.A. 17:27A–4d.(3) requires that no less than one-third of the directors be directors who are not officers or employees of the corporation or of any entity controlling, controlled by or under common control with the corporation and who are not beneficial owners of a controlling interest in the voting securities of the corporation or any such entity. N.J.S.A. 17:27A–4d.(5) provides that the provisions of paragraphs (3) and (4) of subsection N.J.S.A. 17:27A–4d. shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors and committees thereof that substantially meet the requirements of those paragraphs. SIGI is the parent of the Company, and SIGI has a board of directors and committees thereof that substantially meet the requirements of N.J.S.A. 17:27A–4d.(3) and (4). The Company, therefore, was found to be in compliance with these statutes.

The Company is also required to comply with the provisions of N.J.S.A. 17:27A-4d(4) which states that "The board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer or any such entity. The committee shall be responsible for recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation, including bonuses or other special payments, of the principal officers." The Company was determined to be in compliance with the provisions of this statute as of the examination date, as the SIGI Audit Committee, Salary and Employee Benefits Committee, and Corporate Governance and Nominating Committee are comprised solely of Directors who are not employees or controlling shareholders of the Company or any affiliate.

The executive officers of the Company as of December 31, 2017, were as follows:

Executive Officer	Title
John J. Marchioni	Chief Operating Officer
Jeffery F. Kamrowski	President and Chief Executive Officer
Michael H. Lanza	General Counsel and Corporate Secretary
Rohan A. Pai	Senior Vice President, Treasurer
Anthony D. Harnett	Senior Vice President, Chief Accounting Officer
Vincent M. Senia	Executive Vice President, Chief Actuary
Mark A. Wilcox	Executive Vice President, Chief Financial Officer

Conflict of Interest Procedures

The Company has established a procedure for disclosure to its Board of any material interest or affiliation on the part of its officers, directors and employees that are in conflict with the official duties of such persons.

Each year, the Company requires its directors, officers and employees to sign a conflict of interest questionnaire and to divulge any potential conflicts of interest that could have an impact on the way they conduct the Company's business. A review of the conflict of interest questionnaires revealed conflicts were being reported as instructed.

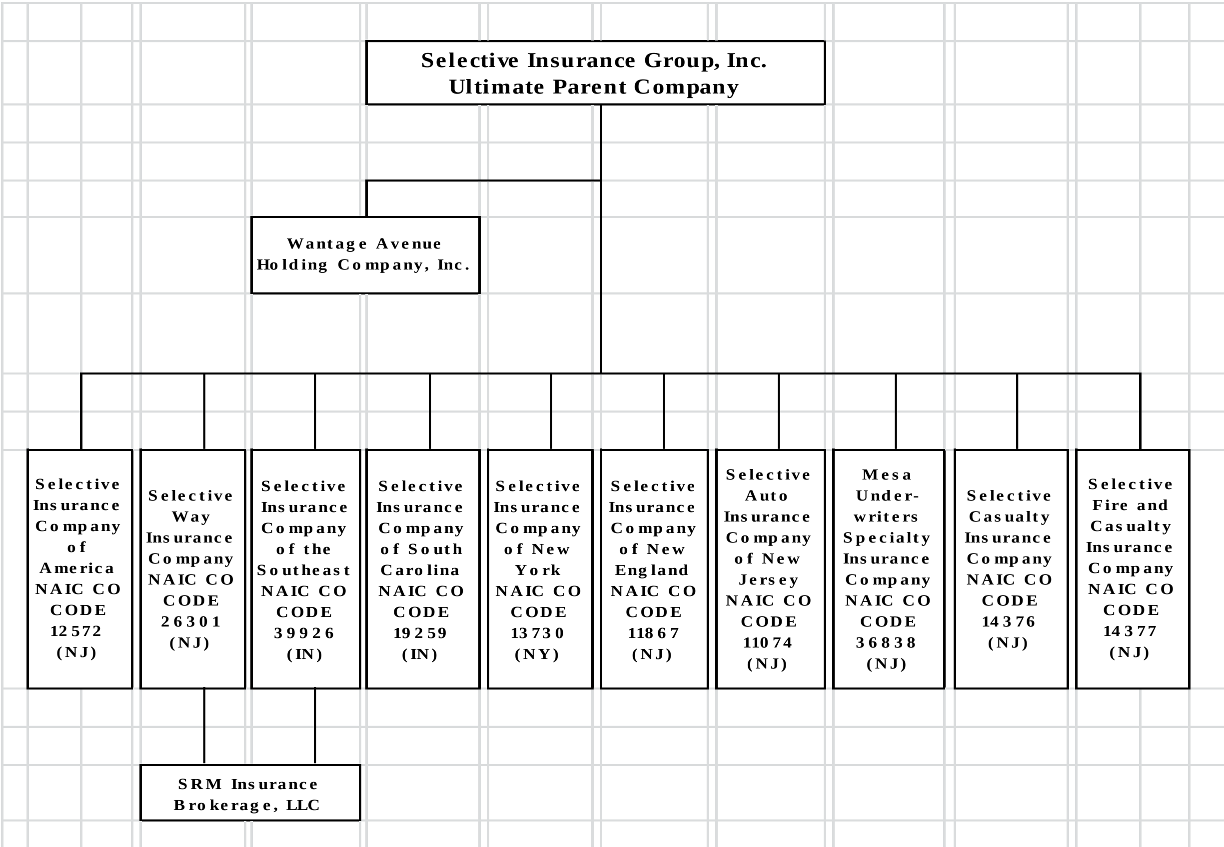
CORPORATE RECORDS

A review was made of the Board minutes and committee minutes for the period of examination. This examination determined that the minutes adequately approve and support the Company's transactions and events.

PARENT, SUBSIDIARIES, AND AFFILIATES

The Company is a member of an insurance company holding system as defined in N.J.S.A. 17:27A-1 et seq. Accordingly, the Company has filed with the State of New Jersey an insurance holding company registration as is required under N.J.S.A. 17:27A-3.

The following abbreviated organizational chart at December 31, 2017, identifies the insurance companies within the holding company organization:



Intercompany Agreements

Management Services Agreement

MUSIC and its affiliated company SICA entered into a Management Services Agreement as of January 1, 2012, under which SICA agrees to perform certain services for MUSIC, including accounting, tax, auditing, underwriting, claims, actuarial, legal, telecommunications and data processing services, and to make certain property, equipment, and facilities available for use. Expenses are reimbursed for reasonable charges and fees for the services provided by SICA. MUSIC paid $16,975,488 under this agreement with respect to calendar year 2017.

Reinsurance Pooling Agreement

MUSIC and its affiliated insurance companies entered into the Amended and Restated Reinsurance Pooling Agreement (2012) as of January 1, 2012, in connection with SIGI's acquisition of MUSIC. MUSIC and its affiliated insurance companies entered into the Second Amended and Restated Reinsurance Pooling Agreement (2012) as of July 1, 2012, in connection with the formations of SCIC and SFCIC. Effective January 1, 2014, MUSIC and its affiliated insurance companies became parties to the Third Amended and Restated Reinsurance Pooling Agreement (2013). Under this agreement, the affiliates cede 100% of their written business, net of third-party reinsurance, to SICA, which serves as reinsurance pooling agent (see the "Reinsurance" Section of this Report for further details).

Tax Allocation Agreement

The Company and its affiliates, along with the ultimate parent, SIGI, file a consolidated federal income tax return. Effective January 1, 2012, the Company and certain affiliates entered into the Amended and Restated Tax Allocation Agreement (2012), which covers the allocation, settlement, and financial statement presentation of current federal income taxes among companies in the consolidated income tax return of SIGI and its subsidiaries. The Company entered into First Amendment to the Amended and Restated Tax Allocation Agreement (2012) effective July 1, 2012 to add SCIC and SFCIC to the agreement.

Investment Services Agreement

SICA and its affiliated company MUSIC entered into an Investment Services Agreement as of January 1, 2012. Under this Agreement, SICA provides investment services to MUSIC. Expenses are reimbursed for reasonable charges and fees for the services provided by SICA. MUSIC paid $568,698 under this agreement with respect to calendar year 2017.

FIDELITY BOND AND OTHER INSURANCE COVERAGE

As of December 31, 2017, SIGI, on behalf of itself and its subsidiaries, including the Company, maintains a fidelity bond with the Federal Insurance Company and has a single loss limit of $5 million and a shared aggregate limit of liability of $10 million. The aggregate limit of liability exceeds the NAIC suggested minimum.

As of December 31, 2017, the Company is also a party to an insurance program whereby its parent, SIGI, has purchased policies to protect itself and its subsidiaries in the following areas, as applicable:

Property - policy provides protection for buildings and contents, business income, information systems and commercial umbrella coverage. It is underwritten by SICA and includes the following limits:

- Building & Business Personal Property - $147,785,184
- Business Income - $25,874,160
- Information Systems - $27,000,000
- Commercial Umbrella - $20 million limit each loss and in the aggregate

Workers' Compensation - provided by SICSC for all Selective employees except those in AZ, CA, CO, DC, FL, KS, LA, NE, NH, OR, TX, VT and WV. Coverage for those states is provided by the Federal Insurance Company. Both policies provide the following limits:

- Workers' Compensation - statutory requirements
- Employers' Liability - $1 million each accident, $1 million policy limit and $1 million each employee

Directors & Officers - total of 11 layers providing a total limit of $100 million with an additional $30 million of Side A only coverage. There are 11 carriers that provide the layers of coverage.

Fiduciary Liability - provided by Federal Insurance Company with a limit of $15 million and $100,000 retention.

Pollution Liability - provided by Admiral Insurance Company with limits of $2 million per pollution condition and $2 million total of all claims and $25,000 deductible.

General Liability - provided by SICA with limits of $1 million each occurrence and $3 million aggregate.

Automobile Liability - provided by Federal Insurance Company with a $1 million combined single limit.

Professional Liability, Errors & Omissions - provided by SICA with a $17 million limit each loss and in the aggregate.

Commercial Umbrella Liability - first layer provided by SWIC with a limit of $20 million; second layer provided by National Surety Corporation with a limit of $20 million in excess of underlying $20 million; third layer provided by Travelers Property Casualty Company of America ("Travelers") with a limit of $10 million in excess of underlying $40 million.

Employment Practices Liability - provided by Lloyds of London Syndicate 623/2623 (Beazley) with an aggregate limit of liability of $10 million and $250,000 retention.

ERISA Bond - provided within the fidelity bond by the Federal Insurance Company with a $5.0 million limit of liability.

TERRITORY AND PLAN OF OPERATION

The Company is 100% owned by SIGI. SIGI is a publicly traded stock company, which through its insurance subsidiaries writes a broad range of property and casualty insurance products.

MUSIC writes excess and surplus business in all 50 states and the District of Columbia through approximately 85 wholesale general agents and 9 wholesale brokers. In addition, the Group also provides a broad range of insurance and alternative risk management products and services to businesses, public entities and individuals. As of December 31, 2017, the Group also distributed these same products and services through approximately 1,250 independent agencies primarily in 25 states and the District of Columbia. Furthermore, the Group has approximately 5,800 agents selling flood insurance products written under the NFIP's WYO program.

The Group employs a field-based operating model that is supported by their home office in Branchville, New Jersey, and seven full-service regions utilizing branch offices. In addition, the Group has an underwriting and claims service center in Richmond, Virginia.

The Group utilizes on-site claims adjusters known as Claims Management Specialists ("CMS") and Safety Management Specialists ("SMS") - both of which are located throughout their operating territories. The Group also utilizes their field and corporate claim expertise to emphasize personal claims handling.

Administrative Offices

While the primary management and financial reporting activities are conducted from the Home Office in Branchville, New Jersey, the Group maintains other regional offices, including the following, as of December 31, 2017:

Region	Office Location
Heartland	Carmel, Indiana
New Jersey	Hamilton, New Jersey
Northeast	Branchville, New Jersey
Mid Atlantic	Allentown, Pennsylvania and Hunt Valley, Maryland
Southern	Charlotte, North Carolina
Southwest	Scottsdale, Arizona
Excess & Surplus	Horsham, Pennsylvania and Scottsdale, Arizona

REINSURANCE

Reinsurance Agreements with Affiliates

The Company is a participant in the Third Amended and Restated Reinsurance Pooling Agreement. Effective January 1, 2014, this agreement was amended to cause cessions under the agreement to be gross of collateralized reinsurance covers associated with catastrophe bonds, insurance-linked securities, or other collateralized reinsurance vehicles, if any, purchased by SICA on behalf, or for the benefit of, the Pooled Companies. Under this agreement, each pool member cedes 100% of its underwriting activity (net of inuring third party reinsurance) to SICA as Lead Company. The remaining net underwriting activity is retroceded to each pool member in accordance with each company's pooling percentage as set forth in the Third Amended and Restated Reinsurance Pooling Agreement.

The pooled percentages as of December 31, 2017, by Company, are as follows:

- Selective Insurance Company of America - 32%
- Selective Way Insurance Company - 21%
- Selective Insurance Company of South Carolina - 9%
- Selective Insurance Company of the Southeast - 7%
- Selective Insurance Company of New York - 7%
- Selective Casualty Insurance Company - 7%
- Selective Auto Insurance Company of New Jersey - 6%
- Mesa Underwriters Specialty Insurance Company - 5%
- Selective Insurance Company of New England - 3%
- Selective Fire and Casualty Insurance Company - 3%

Reinsurance Agreements with Non-Affiliates

The Group assumes required business from its participation in various voluntary and involuntary pools. The Group had the following reinsurance program in effect at December 31, 2017:

CASUALTY

2017 Workers Compensation Quota Share (various reinsurers)

The Company ceded its Workers' Compensation residual markets (involuntary pools) business pursuant to a 100% quota share reinsurance agreement. The reinsurance limit per occurrence is the expected loss ratio for each covered jurisdiction plus forty percentage points. The agreement contains a profit sharing provision whereby 50% of defined reinsurer net profit, up to seven percentage points of reinsurer net profit, is paid to the Company.

2017 Casualty Excess of Loss Treaty (various reinsurers)

	Maximum Retention Each Occurrence	Reinsurance Limit Each Occurrence	Aggregate Limit
First Layer	$2,000,000	$3,000,000	$78,000,000
Second Layer	$5,000,000	$7,000,000	$35,000,000
Third Layer	$12,000,000	$9,000,000	$27,000,000
Fourth Layer	$21,000,000	$9,000,000	$18,000,000
Fifth Layer	$30,000,000	$20,000,000	$40,000,000
Sixth Layer	$50,000,000	$40,000,000	$80,000,000

Each layer is 100% placed with the participating reinsurers.

PROPERTY

2017 Commercial and Personal Property Excess of Loss Treaty (various reinsurers)

2017 Commercial and Personal Property Excess of Loss Treaty (various reinsurers)			
	Maximum Retention Each Occurrence	Reinsurance Limit Each Occurrence	Aggregate Limit
First Layer	$2,000,000	$8,000,000	-
Second Layer A	$10,000,000	$30,000,000	$120,000,000
Second Layer B	$40,000,000	$5,000,000	$20,000,000
Third Layer	$40,000,000	$20,000,000	$75,000,000

The Second Layer A provides per occurrence coverage on all covered risks, while the Second Layer B provides per occurrence coverage only on policies written on a blanket limit basis. Each layer is 100% placed with the participating reinsurers.

2017 Commercial and Personal Property Catastrophe Treaty (various reinsurers)

	Maximum Retention Each Occurrence	Reinsurance Limit Each Occurrence	Aggregate Limit
First Layer (80% Placed)	$40,000,000	$60,000,000	$120,000,000
Second Layer (95% Placed)	$100,000,000	$125,000,000	$250,000,000
Third Layer (95% Placed)	$225,000,000	$250,000,000	$500,000,000
Fourth Layer (90% Placed)	$475,000,000	$250,000,000	$250,000,000

The Group purchased coverage for catastrophe losses outside of its historical footprint states primarily to protect the growth of their E&S property book although this treaty covers the Group's standard lines as well.

	Maximum Retention		Reinsurance Limit		Aggregate
	Each Occurrence		Each Occurrence		Limit
First Layer (85% Placed)	$5,000,000		$35,000,000		$35,000,000

OTHER REINSURANCE

2017 Surety and Fidelity Excess Treaty (various reinsurers)

	Maximum		Reinsurance		
	Retention		Limit		Aggregate
	Each Occurrence		Each Occurrence		Limit
First Layer (90% Placed)	$1,000,000		$3,000,000		$9,000,000
Second Layer (90% Placed)	$4,000,000		$5,000,000		$10,000,000
Third Layer (90% Placed)	$9,000,000		$3,000,000		$3,000,000

Excess and Surplus Lines

As part of MUSIC's acquisition by SIGI on December 31, 2011, MUSIC entered into several reinsurance agreements that together provide protection for losses on policies written prior to the acquisition and any development on reserves established by MUSIC as of the date of acquisition. The reinsurance recoverables under these treaties are 100% collateralized.

ACCOUNTS AND RECORDS

The Company's accounting books and records are maintained at its main administrative office located at 40 Wantage Avenue, Branchville, New Jersey 07890.

PeopleSoft is the accounting and general ledger system utilized by the Group to record, analyze and report financial results. Standard Insurance Operations premiums and losses are recorded through the use of its in-house computerized systems, CLAS® - commercial lines underwriting system, SelectPLUS® - personal lines underwriting system, eSurety™ - surety/fidelity bond underwriting system and MCS - claims system. Excess and surplus premium and losses are recorded within purchased systems, Dragon One Shield and Claim Zone. Reinsurance premium and loss transactions are primarily recorded in a purchased system – ProCede. Standard Insurance Operations premiums are billed and tracked through the TARABs system, which was subsequently replaced by STG in the fourth quarter of 2017. E&S premiums had converted from the EBIS system to STG in early 2016. The premium receipts are primarily processed through the following sources:

1. Lock Box with Bank of NY Mellon N.A.
2. ORCC - electronic payments, includes ACH and credit cards
3. Agent Payment System - ACH method for agents

The insurance affiliates are parties to a reinsurance pooling agreement and various intercompany service and other agreements under which SICA is the lead insurance company. Premium and losses are received and paid by SICA and are settled with its affiliated insurance companies through intercompany accounts. Transactions to be settled as a result of the intercompany pooling agreement are recorded in the respective assumed and ceded reinsurance accounts.

Investments are recorded in a purchased system, Princeton Asset Management. Each insurance affiliate owns and controls its funds via their respective custodial accounts at State Street Bank and Trust Company.

FINANCIAL STATEMENTS

The following pages contain financial statements showing the Company's financial position as of December 31, 2017, (Exhibit A) and the results of its operations for the five year period ending December 31, 2017, (Exhibit B), including capital and surplus (Exhibit C).

Exhibit A – Balance Sheet as of December 31, 2017

Comparative Statement of Assets
Liabilities, Surplus and Other Funds at December 31, 2017

Exhibit A

Assets:	Current Examination at 12/31/17	Balance per Company at 12/31/17	Note
Bonds	$270,490,156	$270,490,156	
Cash, cash equivalents & short term investments	3,402,537	3,402,537	1
Receivable for securities	24,313	24,313	
Investment income due and accrued	2,128,372	2,128,372	
Uncollected premium and agents' balances in the course of collection	13,381,930	13,381,930	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	30,947,290	30,947,290	
Accrued retrospective premiums	60,478	60,478	
Amounts recoverable from reinsurers	12,317,687	12,317,687	
Net deferred tax asset	5,325,142	5,325,142	
Guaranty funds receivable or on deposit	49,452	49,452	
Aggregate write-ins for other than invested assets	1,868,573	1,868,573	
Total Assets	$339,995,930	$339,995,930	
Liabilities:			
Losses	$128,617,386	$128,617,386	2
Reinsurance payable on paid loss and LAE	5,862,575	5,862,575	
Loss adjustment expenses	29,755,995	29,755,995	2
Commission payable, contingent commissions and other similar charges	4,357,582	4,357,582	
Other expenses	4,242,361	4,242,361	
Taxes, licenses and fees	1,534,057	1,534,057	
Current federal and foreign income taxes	779,918	779,918	
Unearned premiums	59,807,534	59,807,534	
Advance premiums	281,672	281,672	
Dividends declared and unpaid: policyholders	250,539	250,539	
Ceded reinsurance premiums payable	12,449,621	12,449,621	
Amounts withheld or retained by company for account of others	347,369	347,369	
Provision for reinsurance	188	188	
Payable to parent, subsidiaries and affiliates	443,737	443,737	
Aggregate write ins for liabilities	1,372,893	1,372,893	
Total Liabilities	$250,103,427	$250,103,427	
Capital and Surplus:			
Common capital stock	4,000,000	4,000,000	3
Gross paid in and contributed surplus	64,505,128	64,505,128	3
Unassigned funds (surplus)	21,387,375	21,387,375	3
Surplus as regards policyholders	$89,892,503	$89,892,503	3
Total Liabilities and Surplus and Other Funds	$339,995,930	$339,995,930	

Exhibit B – Statement of Operating Results for the Five-Year Period Ending December 31, 2017

Underwriting and Investment Exhibit for the five year period ending December 31, 2017					Exhibit B
	2013	2014	2015	2016	2017
Underwriting Income					
Premiums earned	86,871,874	92,630,452	99,495,458	107,478,597	114,551,335
Deductions:					
Losses incurred	45,405,625	46,510,696	45,976,840	49,845,384	55,450,224
Loss adjustment expenses incurred	10,664,652	11,250,868	11,462,297	11,824,804	11,802,954
Other underwriting expenses incurred	30,107,074	31,774,669	35,786,838	38,578,144	40,038,399
Aggregate write-ins for underwriting deductions	27,978	13,312	21,930	12,102	76,087
Total underwriting deductions	86,205,329	89,549,545	93,247,905	100,260,434	107,367,664
Net underwriting income (loss)	666,545	3,080,907	6,247,553	7,218,163	7,183,671
Investment Income					
Net investment income earned	5,180,128	5,276,177	5,314,981	5,584,459	6,456,527
Net realized capital gains	49,117	5,187	70,280	(575,999)	(172,124)
Net investment gain	5,229,245	5,281,364	5,385,261	5,008,460	6,284,403
Other income					
Net gain or loss from agents' or premium balances charged off	(134,843)	(141,113)	(145,958)	(135,551)	(109,664)
Finance and service charges not included in premiums	326,647	310,154	307,410	307,270	298,240
Aggregate write-ins for miscellaneous income	315,156	524,332	56,917	109,249	193,141
Total other income	506,960	693,373	218,369	280,968	381,717
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	6,402,750	9,055,644	11,851,183	12,507,591	13,849,791
Dividends to policyholders	213,733	309,101	310,947	182,411	231,708
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	6,189,017	8,746,543	11,540,236	12,325,180	13,618,083
Federal and foreign income taxes incurred	977,667	1,400,725	2,059,492	2,601,405	3,294,113
Net income	5,211,350	7,345,818	9,480,744	9,723,775	10,323,970

Exhibit C – Changes in Capital and Surplus for the Five-Year Period Ending December 31, 2017

CAPITAL AND SURPLUS					
for the FIVE year period ending December 31, 2017					Exhibit C
	2013	2014	2015	2016	2017
Capital and Surplus Account					
Net income or (loss)	5,211,350	7,345,818	9,480,744	9,723,775	10,323,970
Change in net unrealized capital gains or losses	(10,946)	(5,210)	(61,927)	78,082	
Change in net deferred income tax	(421,599)	(83,535)	(1,364,835)	(1,065,177)	(4,289,222)
Change in non-admitted assets	2,790,277	(135,196)	165,524	1,385,002	766,586
Change in provision for reinsurance	44,759	19,510	105	(66,061)	78,563
Cumulative effect of changes in accounting principles	0	0	0	0	0
Capital changes - Paid in	0	0	0	0	0
Surplus adjustments - Paid in	0	0	0	0	0
Dividends to stockholders	0	0	0	0	(2,080,000)
Aggregate write-ins for gains and losses in surplus	1,062,460	(2,633,203)	456,407	(298,789)	(134,711)
Change in Surplus as regards to policyholders for the year	8,676,301	4,508,184	8,676,018	9,756,832	4,665,186
Surplus December 31 previous year	53,609,982	62,286,283	66,794,467	75,470,485	85,227,317
Surplus December 31 current year	62,286,283	66,794,467	75,470,485	85,227,317	89,892,503

NOTES TO FINANCIAL STATEMENTS

(NOTE 1) – STATUTORY DEPOSITS

The following is a list of deposits as of December 31, 2017, for states that require the Company to maintain a deposit for the benefit of all policyholders or the policyholders of a particular state. The securities held are either US Treasury Notes or a specific security and are in the following carrying amounts and for the indicated states:

State	Carrying Value
Florida	$197,506
Massachusetts	246,883
New Jersey	300,621
New Mexico	148,130
New York	2,491,673
Total	$3,384,813

(NOTE 2) – LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company's reported liabilities at December 31, 2017, for unpaid losses and unpaid loss adjustment expenses, net of reinsurance, amounted to $128,617,386 and $29,755,995, respectively.

The Property and Casualty Actuarial Unit of the NJDOBI, Office of Solvency Regulation performed a review and evaluation of the outstanding gross and net loss and loss adjustment expense reserves. This review determined the year-end loss provisions established by the Company to be reasonable.

Data supplied to the Department's Actuarial Staff was reconciled to the Company's Annual Statement. Detail supporting loss payments and case reserves was provided by the Company and reconciled to Schedule P of the Annual Statements for the years under examination. Samples of reserves and payments were selected and verified to source documents.

(NOTE 3) – SURPLUS AS REGARDS POLICYHOLDERS

The Capital Stock of the Company at December 31, 2017, was $4,000,000 consisting of 4,000,000 shares issued with a par value of $1.00 each with total authorized shares of 4,000,000. No changes in capital stock occurred during the examination period. The Gross Paid In and Contributed Surplus and Unassigned Fund (Surplus) reported by the Company and as determined by this examination were $64,505,128 and $21,387,375, respectively. Total Surplus as Regards Policyholders was $89,892,503, as of December 31, 2017, reported by the Company and as determined by this examination.

SUBSEQUENT EVENTS

No significant subsequent events were identified by the examiners for the period from December 31, 2017 through the date of this examination report.

CONCLUSION

The undersigned hereby certifies that an examination has been made of Mesa Underwriters Specialty Insurance Company and the foregoing report is true to the best of my knowledge and belief.

Respectfully submitted,

William Michael, CFE
Examiner-in-Charge
Representing the State of New Jersey
Risk & Regulatory Consulting, LLC

Under the supervision of:

Robert Pietras, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

AFFIDAVIT

I, William Michael, the undersigned, hereby certify that the foregoing Report of Examination accurately discloses, to the best of my knowledge, all material and relevant information related to the financial condition of Mesa Underwriters Specialty Insurance Company in accordance with the NAIC Financial Condition Examiners Handbook and New Jersey State Regulations.

Respectfully submitted,

William Michael

William Michael, CFE
Examiner-in-Charge
Representing the State of New Jersey
Risk & Regulatory Consulting, LLC

Under the supervision of:

Robert Pietras, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Sheila Tkacs, on this 2nd day of January, 2019.

Sheila M. Tkacs

Notary Public of New Jersey

My commission expires: July 2020