REPORT ON EXAMINATION AS TO THE CONDITION OF

HIGH POINT PREFERRED INSURANCE COMPANY

WOODBRIDGE, NEW JERSEY

AS OF DECEMBER 31, 2019

NAIC GROUP CODE 1227

NAIC COMPANY CODE 28959

FILED

JUNE 23, 2021

COMMISSIONER

DEPARTMENT

OF

BANKING AND INSURANCE

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MARLENE CARIDE
Commissioner

June 15, 2021

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 the Revised Statutes of the State of New Jersey, an examination has been made of the financial condition and affairs of:

<u>HIGH POINT PREFERRED INSURANCE COMPANY</u>
<u>WOODBRIDGE, NJ 07095</u>
<u>NAIC GROUP CODE 1227</u>
<u>NAIC COMPANY CODE 28959</u>

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the High Point Preferred Insurance Company will be referred to in this report as the "Company", "High Point Preferred" or "HPP".

SCOPE OF EXAMINATION

This risk-focused examination was called by the Commissioner of the New Jersey Department of Banking and Insurance ("NJDOBI") pursuant to the authority granted by N.J.S.A. Section 17:23-22 of the New Jersey Revised Statutes.

The examination was made as of December 31, 2019, and addressed the five-year period from January 1, 2015, to December 31, 2019. During this period, the Company's reported admitted assets increased by $53,188,993 to $333,016,510 from $279,827,517, liabilities increased by $18,351822 to $152,883,595 from $134,531,773, and total capital and surplus increased by $34,837,171 to $180,132,915 from $145,295,744.

The examination was conducted in accordance with the proposed risk-focused procedures and guidelines prescribed by the National Association of Insurance Commissioners ("NAIC"). 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 reviews 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. The examination was conducted in accordance with the standards and procedures established by the NAIC Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Handbook*. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Certified Public Accounting ("CPA") firm of PricewaterhouseCoopers, LLP ("PwC") provided an unqualified audit opinion on the fair presentation of the Company's year-end financial statements based on Statutory Accounting Principles for the reporting year period ending December 31, 2019. Relevant work performed by PwC during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers whenever feasible to facilitate efficiencies. Certain PwC 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 REPORT ON EXAMINATION RECOMMENDATIONS

There were no comments and/or recommendations in the Company's prior report on examination as of December 31, 2014.

HISTORY

The Prudential Property and Casualty Insurance Company of New Jersey ("PRUPAC-NJ") was incorporated under the laws of the State of New Jersey on November 15, 1985, and commenced business October 21, 1987.

The Articles of Incorporation were amended on December 16, 1985. This amendment changed the authorized capital stock of the Company to $2,000,000 divided into 400 shares of common stock having a par value of $5,000 per share.

On June 17, 1994, the authorized capital stock of the Company was changed to $4,200,000 divided into 400 shares of common stock having a par value of $10,500 per share. The Articles of Incorporation were again amended on December 10, 1996. This amendment changed the principal office of the corporation from South Plainfield, New Jersey, to Holmdel, New Jersey.

In October 1997, The Prudential Insurance Company of America ("Prudential") submitted a feasibility study to NJDOBI. This plan was approved in November 1997. The plan called for the formation of two new PRUPAC-NJ subsidiary companies, The Prudential Commercial Insurance Company of New Jersey ("PRUCOM-NJ") and The Prudential General Insurance Company of New Jersey ("PRUGEN-NJ"). PRUCOM-NJ wrote automobile risks for select long-term automobile customers of PRUPAC-NJ who met select company criteria. PRUGEN-NJ wrote automobile risks that did not meet PRUPAC-NJ automobile guidelines. The kinds of insurance transferred to PRUGEN-NJ and PRUCOM-NJ were the kinds specified in paragraphs "b" and "e" of <u>N.J.S.A.</u> 17:17-1.

PRUPAC-NJ was authorized to transact the kinds of business specified in Paragraphs "a", "b", "d", "e", "f", "g", "i", "j", "k", "l", "m", "n", "o-1", "o-2", and "o-3" of <u>N.J.S.A.</u> 17:17-1, except that authority granted under paragraph "d" to write bodily injury or death by accident, upon the health of a person, was specifically excluded.

In October 2002, Prudential announced it was exploring options concerning its property and casualty insurance businesses, including the possible sale of all or part of these operations. In May 2003, a decision was made to initiate selling the property and casualty companies. On November 1, 2003, the New Jersey group of companies were sold to Palisades Safety and Insurance Association ("PSIA"). At that time, PRUPAC-NJ was renamed "High Point Preferred Insurance Company."

On November 1, 2003, the NJDOBI Commissioner issued a Certificate of Authority to HPP, authorizing it to transact the kinds of business specified in paragraphs "a", "b", "e", "f", "g", "i", "j", "k", "l", "m", and "o" of <u>N.J.S.A.</u> 17:17-1 et. seq.

On November 2, 2004, the Company's Certificate of Incorporation was amended to reflect the change of location of the principal office in the State of New Jersey to Red Bank, New Jersey. This amendment was approved by the New Jersey Deputy Attorney General on April 12, 2005, filed with the Monmouth County Clerk on August 16, 2005, and filed with NJDOBI on August 16, 2005.

On January 1, 2007, the Company purchased Lancer Casualty Company from Lancer Financial Group, Inc. and two of its subsidiaries, Lancer Insurance Company and Lancer Management Company, Inc., and was renamed Teachers Auto Insurance Company of New Jersey ("TAI").

Effective January 1, 2011, due to the reorganization of the High Point Group, the Company amended its Stock Certificate to reflect that High Point Property and Casualty Insurance Company ("HPC") now owned 100% of the issued and outstanding stock of HPP; and, as of July 1, 2011, HPP owned 100% of the issued and outstanding stock of Palisades Property and Casualty Insurance Company ("PPCIC"). PPCIC was previously owned by PSIA.

On March 23, 2015, the Company paid a dividend of $47,137,277 in investments through its parent, HPC, to PSIA for a redistribution of capital among the entities.

On August 1, 2018, the Company purchased from Mid-Century Insurance Company all of the issued and outstanding stock of 21st Century Security Insurance Company, a property and casualty insurance company. Subsequent to its acquisition, 21st Century Security Insurance Company was renamed AtHome Insurance Company ("AtHome"). The Company made a payment of $9.2 million at closing and two subsequent payments totaling $1 million later in 2019.

On December 5, 2018, the Company made a capital contribution of $1,200,000 to AtHome.

On January 31, 2019, the Company's Certificate of Incorporation was amended to reflect the change of location of the principal office in the State of New Jersey to Woodbridge, New Jersey. This amendment was approved by the New Jersey Deputy Attorney General on April 3, 2019, filed with the Middlesex County Clerk on April 18, 2019, and filed with NJDOBI on April 18, 2019.

On May 1, 2019, the Company paid a dividend of $65,000,000 through its parent, HPC up to its parent, PSIA, which then paid it to its subsidiary, Palisades Insurance Company ("PIC").

On May 1, 2019, the Company contributed capital of $30,000,000 to its subsidiary, PPCIC.

STATUTORY DEPOSIT

As of December 31, 2019, the Company, in accordance with N.J.S.A. 17:20-1c., had a market value of $200,250 for the New Jersey statutory deposit.

TERRITORY AND PLAN OF OPERATIONS

HPP is a New Jersey domestic property and casualty stock insurance company licensed in the State of New Jersey and Pennsylvania to transact the following lines of business: Homeowners, Flood, Earthquake, Commercial Auto, Auto, and Aircraft. The business written by the Company consists of homeowner and umbrella business. The homeowner business in the State of New Jersey is a seasoned book as it is a carryover of the business written prior to the acquisition by the Palisades Group. No new homeowner business has been written in New Jersey since the acquisition in 2003.

As a result of the reorganization of the Palisades and High Point Group of Companies in 2011, the Companies are now branded as Plymouth Rock Assurance. In addition, the outstanding shares of HPP are owned 100% by HPC; and HPP owns 100% interest in PPCIC and AtHome. Collectively, HPP, PPCIC and AtHome comprise the High Point Home Group.

In 2017, the Company entered into a Quota Share Agreement with HPC, under which 100% of renter endorsements underwriting results are assumed by the Company. In addition, the Company assumes under a 100% quota share reinsurance agreement the homeowners multiple peril, inland marine, commercial multiple peril, fire and allied lines and workers compensation business written by its subsidiary, PPCIC.

The Companies share a property catastrophe contract with HPP and other entities affiliated with Plymouth Rock Management Company of New Jersey ("PRNJ"). Effective July 2019, the internal layer covers losses up to $93 million for all companies, subject to retentions of $5 million each for PSIA, HPP and the entities affiliated with the management company.

PRNJ provides underwriting, marketing, product management and other administrative services on behalf of the Company. Investment services are contractually provided by SRB Corporation, an affiliate of PRNJ. Custodial investment services are provided by The Northern Trust Company. Information technology services are provided by STG Corporation, an affiliate of PRNJ.

The Company maintains its statutory home office at 581 Main Street, Suite 400, Woodbridge, NJ 07095-1144. The Company conducts its business operations from its main administrative office at 581 Main Street, Suite 400, Woodbridge, NJ 07095-1144, which serves as the primary location of the Company's accounting books and records.

REINSURANCE

At December 31, 2019, the Company had the following reinsurance in effect:

Homeowner and Misc. Property

Per Risk Excess of Loss

Policy Limit: $6 million [higher limits on scheduled policies]
Treaty Retention: $1 million
Treaty Limit: 100% of $5 million excess of $1 million per risk with maximum of $10 million per occurrence and $20 million per year (NJ & New England combined)

Facultative Per Risk Excess of Loss

Policy Limit: Maximum Limit Offered
Treaty Retention: $2 million
Treaty Limit: 100% of total coverage insured excess $2 million

Auto, Homeowner, Misc. Property

Catastrophe Excess of Loss – Internal Layer
Treaty Retention: $5 million for each HP Group and PSIA Group, as well as for insurance company affiliates of PRNJ
Treaty Limit: $93 million less applicable retentions; PSIA and HPP assumed 47.0% and 13.7%, respectively, of any loss in this layer as of December 31, 2019.

Catastrophe Excess of Loss
Treaty Retention: $93 million
Treaty Limit: $557 million excess of $93 million

Personal Catastrophe
Quota Share
Policy Limit: Maximum limit offered: $5 million
Treaty Retention: 10% of first $1 million per occurrence
Treaty Limit: 90% of the first $1 million per occurrence and 100% of the excess up to $5 million

Limousine Liability
Excess of Loss
Policy Limit: $1.5 million
Treaty Retention: $1 million
Treaty Limit: 100% of $500,000 excess of $1 million per risk

Commercial Auto Facultative Program:
Excess of Loss on Individual Ceded Risk
Policy Limit: $1.5 million
Treaty Retention: $500,000
Treaty Limit: 100% of $1 million excess of $500,000 per risk

Intercompany Reinsurance:
Under the terms of a Quota Share Reinsurance Agreement, as amended, PSIA assumes all of the direct business, net of external reinsurance that insures to the benefit of the contract and involuntary pools and associations, written by PPCIC, PIC, HPC, HPP, TAI, Twin Lights Insurance Company, and Rider Insurance Company, with the exception of: (i) PIC, wherein PSIA assumes 80% of PIC's direct business written in the states of Connecticut and New York, net of external reinsurance that inures to the benefit of the contract and involuntary pools and associations; and (ii) homeowners business written by PPCIC and homeowners and personal umbrella business written by HPP. PSIA guarantees the collection of all external reinsurance.

Under a separate treaty, HPP assumes 100% of the business written by PPCIC. HPP assumes all of the direct business, net of cessions to involuntary pools and associations, written by PPCIC, with the exception of direct business written in the State of New York, wherein HPP assumes 80% of PPCIC's direct business, net of cessions to involuntary pools and associations. HPP guarantees the collection of all external reinsurance.

The Company also assumes 100% of the renters endorsement underwriting activity of HPC, TAI, PIC and PSIA.

CORPORATE RECORDS

The Company's by-laws stipulate that the annual meeting of the stockholders shall be held at the time and at the place determined by the Board of Directors (the "Board"). The Board shall consist of not less than three or more than twelve Directors. Special meetings of the Directors may be held at any time or any place designated in the call of the meeting.

A review of the minutes of the Board meetings noted that all meetings were well attended. The Board minutes also indicated that the Company's overall transactions and events were adequately supported and approved.

MANAGEMENT AND CONTROL

The business, property and affairs of the Company are managed by the President and the delegated officers under the guidance and direction of the Board.

The following were Directors of the Company as of December 31, 2019:

Name	**Principal Occupation**
Gerald I. Wilson	President and CEO, PRNJ
Richard D. Eisenberg	Lawyer, Partner-Eisenberg Tanchum & Levy, LLP
Steven N. Klein	Partner and Managing Director – First Infrastructure, Inc.

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4d(3), which states that "not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with, that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity."

The Company was determined to be in compliance with the provisions of N.J.S.A. 17:27A-4d(3) as of the examination date, as the Board consists of three members of which two are considered outside directors.

Committees

The Audit Committee (the "Committee") Charter indicates that the size of the Committee is set from time to time by the Board, but will always consist of at least two directors, and the members of the Committee shall be appointed annually by the Board who may replace Committee members at any time. At least one member of the Committee shall be an "audit committee financial expert" as determined by the Board. The Committee shall meet at least two times per year, and shall meet periodically with management, the internal auditors and the independent auditor in separate executive sessions. The Committee shall report directly and regularly to the Board and review any issues that arise with respect to the quality or integrity of the Company's financial statements; the Company's compliance with legal or regulatory requirements; and the retention, termination, and performance of the independent auditors.

The following Audit Committee members were appointed and serving at December 31, 2019:

Name	**Position**
Richard D. Eisenberg	Independent Director
Steven N. Klein	Independent Director

The Company is 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 of 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 N.J.S.A. 17:27A-4d(4) as of the examination date, as the Audit Committee is comprised solely of two independent, outside directors who performed the functions indicated in this statute.

Officers

The officers of the Company perform duties as designated by the Company's by-laws with respect to the offices they hold, or as otherwise indicated by the Board of Directors. The president, treasurer, and secretary shall be elected annually by the directors at their first meeting following the annual meeting of the stockholders. Other officers, if any, may be elected by the Board of Directors at this meeting or at any other time. Any two or more offices may be held by the same person, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity, if such instrument is required by law or by the by-laws to be executed, acknowledged, or verified by two or more officers. Any officer may be required by the directors to give bond for the faithful performance of his duties to the corporation in such amount and with such sureties as the directors may determine.

The following officers were elected and serving the Company at December 31, 2019:

Name	**Title**
Gerald I. Wilson	President and Chairman of the Board
Yogesh Sharad Deshmukh	Treasurer
Harry M. Baumgartner	Secretary
Vito A. Nigro	Assistant Treasurer
Bonnie Banahan	Assistant Secretary

N.J.S.A. 17:27A-4d(5) states, "The provisions of paragraphs (3) and (4) of this subsection d. 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."

The Company satisfies the requirements of N.J.S.A. 17:27A-4d(5).

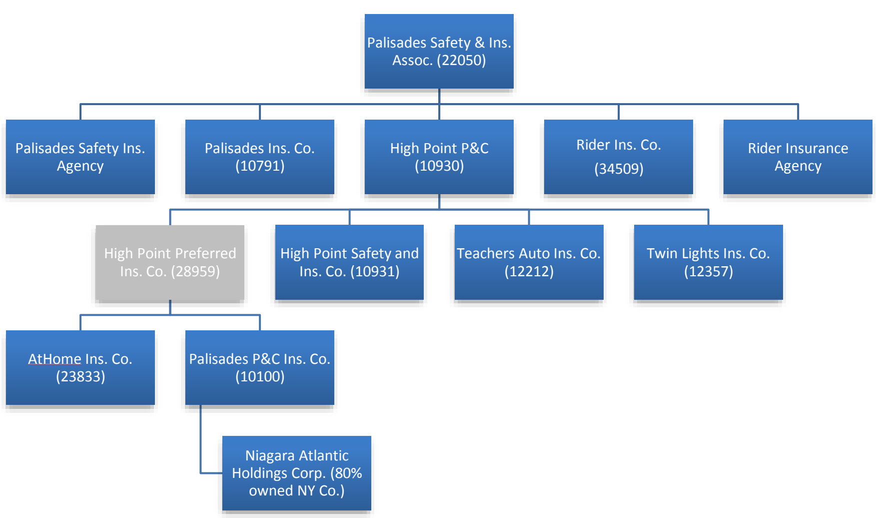
All transactions and actions taken by the officers of the Company on its behalf are ratified by the Board and by the Company shareholders at the Annual Shareholders Meeting.

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

The Company is a member of an insurance holding company system as defined by N.J.S.A. 17:27A-1.

A review of the holding company registration statement indicated that the Company was in compliance with N.J.S.A. 17:27A-3, Sections a-j, requiring registration of those insurers who qualify as determined by N.J.S.A. 17:27A-1.

The Company had two (2) direct subsidiaries as of December 31, 2019. A holding company system organizational chart as of December 31, 2019 follows:



INTER-COMPANY AGREEMENTS / RELATED PARTY TRANSACTIONS

Inter-Company Agreements
The Company was a named party to the following affiliated agreements at the examination date:

Consolidated Federal Income Tax Liability Allocation Agreement:
Effective November 9, 1999, PSIA and affiliates entered into a consolidated tax agreement. Under the terms of this agreement, the amount of federal income taxes payable by each party to the agreement shall be equal to the amount of tax liability allocable to it as determined in accordance with the provisions of Treasury Regulation 1.1552-1(a)(2). The method of allocation among companies is subject to a written agreement effective November 1, 2003, which has been approved by NJDOBI. Taxes are allocated based on the separate return calculations of each company, with current credit for net losses utilized as part of the consolidated return. Inter-company tax balances are settled quarterly through the payable to or receivable from accounts after the tax filing is made in October of each year.

Services Agreement:
The Company entered into a service agreement with the Palisades Safety and Insurance Management Corporation ("PSIMC") on November 1, 2003. Effective April 20, 2011, PSIMC's name was changed to PRNJ. Under the terms of this Agreement, PRNJ provides various administrative and employee welfare services to the Company in exchange for a management fee equal to 12.5% of premium written. The services provided include payroll, accounting and tax preparation, human resources, voucher processing and bill payment, appointment and termination of general servicing agents, investigation and defense of claims, policy issuance and administration, marketing development, and other services associated with the production and administration of policies of insurance.

Operating Services Agreement:
Effective January 1, 2009, PSIA entered into an operating services agreement with affiliates. The operating services to be provided by PSIA on behalf of the affiliates, including the Company, include the following:

- Payment of claims arising from any of the Companies' policy of insurance. The Companies shall retain the ultimate responsibility for all adjustment and claims payments made on their behalf.

- Collection of premiums and payment of premium refunds on behalf of the Companies; provided such premiums shall be held in a fiduciary capacity, and further provided that all such net premiums shall be accounted for, pursuant to accounting procedures approved by the Companies.

- Payment of commissions, fees, assessments, governmental examination expenses, and other general and administrative expenses on behalf of the Companies.

- Payment and collection of external reinsurance amounts on behalf of the Companies; provided such amounts shall be held in fiduciary capacity, and further provided that all such amounts shall be accounted for, pursuant to accounting procedures approved by the Companies.

There will be no fee charged to any party subject to this Agreement. The Companies shall reimburse PSIA for actual costs and expenses paid by PSIA on behalf of the Companies and reimbursement will be within 45 days of the close of each quarter.

Agency Agreement:

Effective January 1, 2009, the Company on behalf of itself and HPC, HPS, TAI, and, as of March 1, 2014, PIC (“HP Insurance”) appointed High Point Brokerage Company, Inc. (“HP Broker”) as their insurance agent. The agreement authorizes HP Broker to solicit, accept and bind risk in respect to private passenger automobile, homeowner and umbrella policies. It also authorizes HP Broker to handle the production, servicing, and administration of private passenger automobile, umbrella and homeowner policies defined as “non-aligned” business, which are policies that are not assigned to a current or former broker with Prudential Insurance Agency, LLC. HP Broker must promptly notify HP Insurance in writing of all risks that have been written or bound and notify HP Insurance if HP Broker receives notice of any claims, suits or losses on these policies. HP Insurance will directly bill and collect premiums, and also send notices of cancellation, nonrenewal or changes in coverage. If HP Insurance does not directly bill, HP Broker will perform these duties. HP Broker must keep records and accounts of all insurance transactions current and all transactions must be readily identifiable and accessible for examination by HP Insurance. Commissions are based on the commission rate in effect on the effective date of the policy, and commission refunds will be at the same rate originally paid. This agency agreement will automatically terminate if HP Broker has a revoked or suspended license, is dissolved, insolvent, bankrupt, reorganized, has misappropriation of funds, convicted of a dishonest act, or no longer services any HP Insurance business. HP Broker may also terminate without cause upon giving HP Insurance written notice at least 90 days before the date of termination.

100% Quota Share Reinsurance Agreement (Special Treaty):

Effective May 1, 2012, a 100% Quota Share Reinsurance Agreement (Special Treaty), as amended, was entered into by PSIA (Reinsurer) and PPCIC, PIC, HPC, HPP, TAI, and TLI (the “Companies”). Rider was subsequently added to this agreement in 2019. Please see “Reinsurance” section of this report for additional details.

Investment Services Agreement:

The Company entered into an investment services agreement with SRB Corporation, an affiliate of PRNJ, to provide a broad spectrum of investment services, including development of investment objectives, development of investment policies and guidelines, selection of investment managers, investment and management of assets, measurement and evaluation of investment performance, accounting oversight, cash management of banking relationships, creation and management of a custodial relationship, administrative support, and investment advice.

Catastrophe Reinsurance (Affiliated):

Effective July 1, 2019, the Company entered into a retention layer catastrophe reinsurance agreement between affiliated companies and their subsidiaries. Please see “Reinsurance” section of this report for additional details.

Related Party Transactions

In 2015, the Company paid an extraordinary dividend to HPC in the amount of $50,000,000. NJDOBI approved this dividend request on March 20, 2015.

In 2018, the Company made a capital contribution to AtHome in the amount of $1,200,000.

In 2019, the Company made a capital contribution to PPCIC in the amount of $30,000,000. NJDOBI approved this dividend request on March 29, 2019.

In 2019, the Company paid an extraordinary dividend to HPC in the amount of $65,000,000. NJDOBI approved this request on March 20, 2019.

POLICY ON CONFLICT OF INTEREST

On an annual basis the Company's officers and directors attest to an affirmation of ethical standards and a disclosure of possible activities which could construe as a possible conflict of interest.

The examination team reviewed all Conflict of Interest statements executed by officers and directors for the period under examination, noting that there were no apparent or potential conflicts of interest.

INFORMATION SYSTEMS

Information systems were reviewed at the Group level. The IT examination team's procedures considered a customized range of IT risks focusing on both IT governance and IT operational controls. Overall, the IT examination team concluded that IT General Controls (ITGCs) are *Effective*. IT review conclusions were based on inquiry, inspection of documentation, observation, independent research and a review of third-party work papers. The IT examination team's conclusion regarding control strength was discussed with, and accepted by, the Examiner-in-Charge at the conclusion of the IT review.

CONTINUITY OF OPERATIONS

The Company's by-laws provide for the election of directors and the appointment of officers to fill any vacancies caused by death, resignation, disqualification, or removal by the Board.

The Company has a disaster recovery plan that was reviewed in the course of the coordinated examination IT review. No material findings were noted.

FINANCIAL STATEMENT EXHIBITS

Exhibit A

Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2019

Admitted Assets	**Current Examination at 12/31/2019**	**Balance per Company at 12/31/2019**	**Examination Change**	Note Number
Bonds	$ 142,054,173	$ 142,054,173	$ -	1
Stocks				
Preferred	-	-	-	
Common	139,110,821	139,110,821	-	
Cash, cash equivalents and short-term investments	8,707,170	8,707,170	-	
Other Invested Assets	5,178,075	5,178,075	-	
Investment income due and accrued	1,126,857	1,126,857	-	
Premiums and Considerations:			-	
Uncollected premiums and agents' balances in the course of collection	822,468	822,468	-	
Deffered premiums and agents' balances and installments booked but deferred and not yet due	25,995,351	25,995,351	-	
Amount recoverable from reinsurers	654,561	654,561	-	
Current federal and foreign income tax recoverable and interest thereon	813,068	813,068	-	
Receivable from parent, subsidiaries and affiliates	4,484,981	4,484,981	-	
Aggregate write-ins for other than invested Assets	4,068,985	4,068,985	-	
Total net admitted assets	**$ 333,016,510**	**$333,016,510**	**$ -**	

Liabilities				
Losses	$ 40,679,237	$ 40,679,237	$ -	2
Reinsurance payable on paid losses and loss adjustment expenses	5,140,230	5,140,230	-	
Loss adjustment expenses	9,998,516	9,998,516	-	2
Commissions payable, cotingent commissions and other similar charges	1,011,793	1,011,793	-	
Other expenses	1,195,756	1,195,756	-	
Taxes, licenses and fees	589,328	589,328	-	
Net deffered tax liability	3,156,891	3,156,891	-	
Unearned Premiums	84,107,138	84,107,138	-	
Advance Premium	2,040,409	2,040,409	-	
Ceded reinsurance premiums payable	829,398	829,398	-	
Remittances and items not allocated	22,072	22,072	-	
Payable to parent, subsidiaries and affiliates	2,409,896	2,409,896	-	
Payable for securities	150,000	150,000	-	
Aggregate write-ins for other liabilities	1,552,931	1,552,931	-	
Total liabilities	**152,883,595**	**152,883,595**	-	

Surplus and Other Funds				
Common capital stock	$ 4,200,000	$ 4,200,000	$ -	3
Gross paid in and contributed surplus	89,754,459	89,754,459	-	3
Unassigned funds (surplus)	86,178,456	86,178,456	-	3
Total Capital and Surplus	**180,132,915**	**180,132,915**	-	
Total liabilities and surplus as regards policyholders	**$ 333,016,510**	**$333,016,510**	**$ -**	

Exhibit B

Summary of Revenue and Expenses for the Five-Year Period Ending December 31, 2019

	2015	2016	2017	2018	2019
Total Revenue:					
Premiums earned	$ 106,708,176	$ 116,011,340	$ 113,368,114	$ 110,545,493	$ 125,411,075
Expenses:					
Losses Incurred	$ 39,005,448	$ 32,587,488	$ 33,707,275	$ 44,297,519	$ 54,634,104
Loss Adjustment expenses incurred	12,987,505	11,428,284	10,499,917	12,104,249	12,976,822
Other underwriting expenses incurred	23,514,749	27,289,283	28,303,266	31,467,550	41,844,085
Total Underwriting deductions	75,507,702	71,305,055	72,510,458	87,869,318	109,455,011
Net underwriting gain (loss)	31,200,474	44,706,285	40,857,656	22,676,175	15,956,064
Investment Income:					
Net investment income earned	2,905,060	2,688,537	4,759,974	5,333,110	5,613,467
Net realized capital gains or loss (less capital gains tax)	4,095,345	105,262	274,995	336,054	(436,252)
Net Investment gain (loss)	7,000,405	2,793,799	5,034,969	5,669,164	5,177,215
Other Income:					
Net gain (Loss) from agents' or premium balance charge off	$ (48,828)	$ (15,700)	$ (32,122)	$ (24,469)	$ (55,908)
Finance and service charges not included in premiums	251,910	-	-	-	-
Aggregate write-ins for miscellaneous income	20,051	12,339	13,258	4,297	(13,156)
Total other Income	223,133	(3,361)	(18,864)	(20,172)	(69,064)
Net Income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	38,424,012	47,496,723	45,873,761	28,325,167	21,064,215
Dividends to policyholders		-	-	-	-
Net Income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	38,424,012	47,496,723	45,873,761	28,325,167	21,064,215
Federal and foreign income taxes incurred	10,395,156	15,815,165	14,261,695	5,312,616	4,676,440
Net Income	**$ 28,028,856**	**$ 31,681,558**	**$ 31,612,066**	**$ 23,012,551**	**$ 16,387,775**

Capital and Surplus Account for the Five-Year Period Ending December 31, 2019

	2015	2016	2017	2018	2019
Surplus as regards policyholders, December 31 prior year	$ 145,295,744	$ 115,978,451	$ 151,990,063	$ 186,634,425	$ 210,665,333
Net income	28,028,816	31,681,558	31,612,066	23,012,551	16,387,775
Change in net unrealized capital gains (losses)	(8,770,828)	4,441,182	8,331,826	2,264,000	6,160,154
Change in net deferred income tax	(1,256,743)	(316,762)	(5,133,889)	84,670	(2,289,712)
Change in non-admitted assets	(202,792)	232,634	(207,642)	(1,389,312)	(57,428)
Change in provision for reinsurance	21,531	(27,000)	42,000	59,000	
Capital changes:					
Paid in	-	-	-	-	-
Surplus adjustments:					
Paid in	-	-	-	-	-
Dividends to stockholders	(47,137,277)	-	-	-	(65,000,000)
Aggregate write-ins for gains and losses in surplus	-	-	-	-	14,266,793
Net change in capital and surplus for the year	(29,317,293)	36,011,612	34,644,361	24,030,909	(30,532,418)
Capital and surplus, December 31, current year	**$ 115,978,451**	**$ 151,990,063**	**$ 186,634,425**	**$ 210,665,333**	**$ 180,132,915**

NOTES TO THE FINANCIAL STATEMENTS

There were no changes made to the assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2019. The surplus as regards policyholders, which totaled $180,132,915 as of the examination date, was determined to be reasonably stated and in compliance with N.J.S.A 17:17-1 et seq.

Note 1 – Bonds

Bonds totaling $200,250 in fair value were held as statutory deposits by the NJDOBI on behalf of the Company in accordance with N.J.S.A. 17:20-1c.

Note 2 - Unpaid Losses and Loss Adjustment Expenses

At December 31, 2019, the Company reported unpaid Losses and unpaid Loss Adjustment Expenses of $40,679,237 and $9,998,516. No adjustments to reserves or surplus were indicated as a result of the actuarial portion of the examination. The assumptions used were generally found to be appropriately conservative.

The examination team collaborated with the actuaries to conduct all of the reviews of internal controls and risk analysis.

The aggregate net amounts reported by the Company, met or exceeded the statutory minimums of the State of New Jersey. The claims reserves and policy reserves, including Incurred but Not Reported ("IBNR"), as reported by the Company, were deemed to be reasonable in light of the liabilities they support and materially in compliance with the Statutes of the State of New Jersey. This examination conclusion is not a guarantee that the reserves and any supporting assets will be adequate under every scenario of future experience; the results reached in this analysis are dependent on the assumptions used. Realized results may vary as actual experience differs from the assumptions.

Note 3 – Capital and Surplus

The Company reported total capital and surplus in the amount of $180,132,915 at December 31, 2019, as summarized:

The Company has 400 shares of $10,500 par value of common stock authorized, issued and outstanding at December 31, 2019.

At December 31, 2019, the Company had unassigned funds (surplus) of $86,178,456.

The Company was determined to be in compliance with the minimum capital and surplus requirements of the State of New Jersey at December 31, 2019.

SUMMARY OF EXAMINATION RECOMMENDATIONS

There were no comments and/or recommendations deemed necessary for purposes of this examination report.

COMMITMENTS AND CONTINGENCIES

Palisades Group and its subsidiaries (including the Company, and collectively known as Palisades) are routinely involved in numerous claims, lawsuits, regulatory audits, investigations and other legal matters arising, for the most part, in the ordinary course of managing a property and casualty business. Palisades believes that the legal actions, regulatory matters, proceedings and investigations currently pending against it should not have a material adverse effect on Palisades results of operations, financial condition or liquidity based upon current knowledge and taking into consideration current accruals. Disputed tax matters arising from audits by the Internal Revenue Service ("IRS") or other state and foreign jurisdictions, including those resulting in litigation, are accounted for under the NAIC's accounting guidance for tax loss contingencies.

SUBSEQUENT EVENTS

On March 11, 2020, the outbreak of a novel strain of coronavirus, COVID-19, was declared a pandemic by the World Health Organization. The extent of the pandemic's impact on the Company's operational and financial performance cannot be predicted and will depend on various factors, such as the duration and spread of the outbreak, regulatory developments, and the impact on the financial markets. Due to the uncertainty of the pandemic, it is not feasible to assess the impact at this time.

CONCLUSION

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

The examination was conducted remotely. The courteous assistance and cooperation of the Company's management is acknowledged.

Respectfully submitted,

Alex Quasnitschka, CFE
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,

Nancy Lee Chice, CFE
CFE Reviewer
New Jersey Department of Banking and Insurance

High Point Preferred Insurance Company.

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

Respectfully submitted,

Alex Quasnitschka

Alex Quasnitschka, CFE
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,

Nancy Lee Chice

Nancy Lee Chice, 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, on this 28th day of May, 2021.

Sheila M. Tkacs

Notary Public of New Jersey

My commission expires: July 2025