

ORGANIZATIONAL EXAMINATION
OF
KNIGHT SPECIALTY INSURANCE COMPANY
AS OF
OCTOBER 18, 2013

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached ORGANIZATIONAL EXAMINATION, made as of October 18, 2013 of the

KNIGHT SPECIALTY INSURANCE COMPANY

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

Attest By:

Janell J. Wade

Date: December 18, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 18th day of December, 2013.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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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.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 18th day of December, 2013

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SALUTATION

October 18, 2013

Honorable Karen Weldin Stewart
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 13.040, dated October 14, 2013, an Organizational Examination has been conducted of the

KNIGHT SPECIALTY INSURANCE COMPANY

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware as a stock company with its statutory office located at Brandywine Village, 1807 North Market St., Wilmington, Delaware 19802. The registered agent at such address is Diane J. Bartels, Esq. The Company's main administrative offices are located at 4751 Wilshire Blvd., Suite 111, Los Angeles, CA, 90010. This examination was conducted at the Company's administrative office and included meetings with management and a review of information regarding its formation, incorporation, capitalization, and its application with the Delaware Department of Insurance to become a newly licensed domestic surplus lines insurer in accordance with Bulletin No. 45, of the Delaware Non-Admitted Insurance Act.

The report of this examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

This Organizational Examination was conducted in conjunction with the Company's application for a domestic Certificate of Authority in the State of Delaware. I have reviewed the Company's corporate records, records applicable to and attendant with, its application, as well as financial data as of October 18, 2013. I have also met with Company management and members of the Board of Directors (Board) and where questions arose within this review, I have accepted representations made by management to the extent supported by related material and facts contained within documents reviewed.

HISTORY

The Company was incorporated on July 10, 2013, under the laws of the State of Delaware and authorized to issue one million (1,000,000) shares of \$1.00 par value stock. As evidenced by Certificate No. 1, all shares of the Company have been issued to Knight Insurance Company, Ltd. (Cayman), giving the Company paid up capital of \$1,000,000.

MANAGEMENT AND CONTROL

The Company's bylaws, adopted August 22, 2013, state that the business and affairs of the Company shall be managed by a Board of Directors consisting of "not less than three (3) nor more than ten (10) Directors", elected annually by the shareholder. Directors of the Company are not required to be residents of the United States. As of the October 18, 2013 examination date, the Company maintained five (5) Directors. The Directors are to be elected at the annual meeting of the Company's stockholder, to be held either within or outside the State of Delaware, and called by either the Board or shareholder representing a majority of shares outstanding. The following individuals were elected and qualified members of the Board as of this Organization Examination date:

Directors

Don Robert Hankey	Chairman
Eric David Jarvis	
Don Rufus Hankey	
Brett Conrad Hankey	
Richard Alan Dillon	

All Directors of the Company were employees of Knight Management Insurance Services, LLC, Knight Holdings, Inc. and related affiliate companies of the ultimate controlling entity, the Don R. Hankey Trust.

Committees

Pursuant to Article IV, Section 10 of the bylaws, the Board may elect from its own members, an Executive Committee and such other committees as the Board may from time to time determine. As of the Organization Examination date, no committees had been established.

Officers

In accordance with Article V of the Company’s bylaws, the officers of the Company shall be a Chairman of the Board, a President, a Secretary, a Treasurer, a Chief Executive Officer, a Chief Financial Officer, a Chief Operating Officer, and other officers as may be designated by the Board and deemed advisable. Any two (2) or more Officers may be held by the same person, but no Officer may act in more than one (1) capacity where action of two (2) or more Officers is required. Each Officer shall be elected annually by the Board at their first meeting held immediately following the annual meeting of the shareholder and shall hold office at the pleasure of the Board and until their successors shall have been duly elected and qualified. Elected officers serving the Company as of the Organizational Examination date were as follows:

<u>Officer</u>	<u>Position</u>
Eric David Jarvis	President
Don Robert Hankey	Chief Executive Officer and Secretary
Richard Alan Dillon	Chief Financial Officer and Treasurer
John Martin Rygh	Chief Operating Officer

Signed Conflict of Interest Statements and the National Association of Insurance Commissioners (NAIC) Biographical Affidavits of the Company's Officers and Directors as included in its Primary Application were reviewed during this examination without exception.

FIDELITY BOND COVERAGE

The Company is a named participant under a \$1,000,000 limit, \$50,000 deductible Crime policy covering individual affiliate companies and naming the Hankey Group of Companies as the insured. The limit amount was considered acceptable given the size of the Company in accordance with NAIC guidelines.

HOLDING COMPANY SYSTEM

The Company is owned by Knight Insurance Company, Ltd., (KIC) a Cayman domiciled company. The ultimate controlling parent is the Don Robert Hankey Trust (The Hankey Group), a privately held company located in Los Angeles with assets of \$3 billion and employing approximately 1,925 people primarily in Los Angeles and the state of California. The Hankey Group conducts business operations in financial services and investments, real estate, commercial leasing, real estate lending and real estate services, commercial and private auto sales, leasing and rental, as well as auto finance and insurance. The Hankey Group is not publically rated by either Standard and Poor's or Moody's.

An abbreviated organizational chart of the Hankey Group domestic and offshore insurance operations, as of October 18, 2013 is presented below:

Don Robert Hankey Trust (93.04%)
Don Rufus Hankey (2.56%)
Bret Conrad Hankey (2.56%)
Eric David Jarvis (1.83%)
 Knight Holdings, Inc. (Nevada)
 Knight Insurance Co. (Cayman)

***Knight Specialty Ins. Co. (Delaware)**
Hankley, LLC
Knightbrook, LLC (68% total)
Knightbrook Ins. Co. (Delaware)
Guilderland Reinsurance Co. (NY)

* Co. detailed within this Organizational Examination

As evidenced by its Board minutes, dated August 19, 2013, the Board authorized and directed that the President and Secretary of the Company sign and execute the Uniform Consent to Service of Process in jurisdictions requiring it, and to seek Company licensing or authorization to operate and write surplus lines insurance business.

PLAN OF OPERATION

The Company is being formed for the primary purpose of permitting excess and surplus (E&S) lines insurance currently reinsured by its parent, KIC to be written on a direct basis. KIC currently reinsures more than \$50 million of E&S lines of business, which is currently written by arrangement on the paper of an unaffiliated E&S carrier, United Specialty Insurance Company (USIC) (a Delaware domestic company). Program business currently being written through USIC and reinsured by KIC are the described below:

- Allstar/Venture Program (\$25 million net written premium) provides general liability and product liability insurance to contractors, subcontractors and manufacturers.
- Equity Protection Program (\$13 million net written premium) provides borrower default insurance to regional and national banks and home finance institutions.
- Appraisal E&O Program (\$2 million net written premium) provides errors and omissions insurance to appraisal management companies.

- Mortgage Service Providers Program (\$4 million net written premium) provides errors and omissions insurance to 2nd mortgage loan lenders and mortgage loan service providers.

It is the overall intention of management to realize cost savings in writing this business on its own company paper, to utilize capital more efficiently, and to position the Company for additional growth in lines of business written on an E&S basis as future opportunities arise either; within existing Programs, future additional Programs, or additional future growth in E&S lines of business as opportunities arise and as allowed by the Delaware Department of Insurance and other State Regulation.

Tax and Management Services

As represented and/or as described in the Company's Plan of Operations attendant with its' application for licensing, it is planned that the Company will be included within the Consolidated Federal Income Tax Agreement currently in place between affiliated companies and that all management and services required by the Company will be provided through existing Management and Services agreements, primarily with Knight Management Insurance Services (KMIS). KMIS provides services to KIC, Knightbrook Insurance Company, Guilderland Reinsurance Company, and other companies within the Hankey Group.

Reinsurance

KIC will be the primary reinsurer for the Company, replicating the existing reinsurance arrangement currently in place with USIC. KIC will reinsure 100% of the programs described, with the exception of the Allstar/Venture Program, which will be reinsured 50% by KIC, and through an existing 50% quota share agreement with JRG Reinsurance Company, Ltd.

CAPITAL AND SURPLUS REQUIREMENTS

As required in Delaware Insurance Commissioners **Domestic/Foreign Insurers Bulletin No. 45** – Newly Formed or Foreign Non-admitted Company (6), a newly formed company shall have minimum capital and surplus of \$15,000,000. As shown in the section Financial Data, the Company possessed Capital of \$1,000,000 and Surplus as Regards Policyholders of \$19,000,000. The Company was capitalized on October 15, 2013, through a wire transfer of \$20,000,000 into its named bank account held at Wells Fargo Bank, N.A. As reflected through the issuance of shares, all capital stock of the Company has been issued to its Parent, KIC.

FINANCIAL DATA

The financial position of the Company as of October 18, 2013, as determined by this examination was as follows:

<u>Assets</u>		
Note 1: Cash		<u>\$20,000,000</u>
Total Admitted Assets		<u>\$20,000,000</u>
<u>Liabilities, Surplus and Other Funds</u>		
Total Liabilities		\$ <u>-0-</u>
Common Capital Stock	\$ 1,000,000	
Gross Paid in and Contributed Surplus	19,000,000	
Surplus as Regards Policyholders		<u>\$ 20,000,000</u>
Total Liabilities and Surplus as Regards Policyholders		<u>\$ 20,000,000</u>

NOTES TO FINANCIAL STATEMENTS

Note 1: Cash \$20,000,000

Total cash consisted of \$20,000,000 deposited into the named account of the Company maintained at Wells Fargo Bank, N.A, and deposited by wire transfer on October 15, 2013.

CONCLUSION

Based on the organizational examination conducted as of October 18, 2013, the financial condition of Knight Specialty Ins. Co. was found to be as follows:

Assets	\$20,000,000
Liabilities	\$ -0-
Capital	1,000,000
Gross Paid in and Contributed Surplus	<u>19,000,000</u>
Total Surplus as Regards Policyholders	<u>20,000,000</u>
Total Liabilities and Surplus as Regards Policyholders	<u>20,000,000</u>

Upon completion of the organizational examination, the Company has complied with application requirements detailed in Delaware Insurance Commissioners **Domestic/Foreign Insurers Bulletin No. 45** – Newly Formed or Foreign Non-admitted Company and has met the capitalization requirements of that bulletin for the State of Delaware Department of Insurance. The examination was conducted by the undersigned.

Respectfully Submitted,



Steven E. Guest, CPA, CFE
Supervising Insurance Examiner
Department of Insurance
State of Delaware