

# **FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**

**2013 Annual Board Meeting**

**September 18, 2013**

**New York State Insurance Captive of**



# **FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**

## **ANNUAL BOARD MEETING**

**September 18, 2013**

### **NOTICE**

The 2013 Board of Directors of First Mutual Transportation Assurance Company (“FMTAC”) will be held at 347 Madison Avenue, New York, NY on September 18, 2013.

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# **TAB 1**



# First Mutual Transportation Assurance Company 2013 Annual Meeting Update

MTA Risk and Insurance Management presents the following update for First Mutual Transportation Assurance Company ("FMTAC") for the year ended December 31, 2012. The comparative financial statements and supporting schedules as of the same date accompany this report.

## REGULATORY COMPLIANCE

**CURRENT BUSINESS PLAN** – The First Mutual Transportation Assurance Company ("FMTAC") is a New York captive insurance company. FMTAC is approved to insure and reinsure the risks of the Metropolitan Transportation Authority ("MTA") and its family of agencies. FMTAC provides the following lines of coverage to the MTA and its agencies:

General Liability	Stations and Force Liability
Auto Liability – Paratransit and Non revenue	Property and Terrorism
All Agency Protective Liability	Excess Loss
Owner Controlled Insurance Program ("OCIP")	Builder's Risk

## **FMTAC CALENDAR:**

<i>Description</i>	<i>Completion / Due Date</i>	<i>Comments</i>
2012 New York Annual Statement	27-Feb-13	Filed with NYSDFS
2012 Loss Reserve Certification	28-Feb-13	Filed with NYSDFS
2012 Audited Financial Statements	10-May-13	Filed with NYSDFS
2013 NY Insurance License	21-May-13	Filed with NYSDFS
2013 NY Annual Meeting	18-Sep-13	Scheduled
2013 Actuarial Reserve Review - Initial	30-Sep-13	To be performed by Milliman
2013 Actuarial Reserve Review - Final	31-Dec-13	To be performed by Milliman
2013 Policy Issuance	Ongoing	Various Renewal dates
2013 Monthly Accounting Submission	30 days	After Month End
NY Premium Tax Return	N/A	Exempted *
NY Section 206 Assessments	N/A	Exempted *

(\*) - FMTAC is excluded from all state premium tax and assessments levied by the New York State Department of Financial Services ("NYSDFS")

## FINANCIAL ACTIVITY

### Summary of Selected Financial Information

(in thousands), except ratios

Period Ended 12/31/12 12/31/11 12/31/10 12/31/09

#### Balance Sheet:

Total Cash and Invested Assets	\$	527,981	\$	506,195	\$	494,849	\$	458,686
Total Insurance Reserves Recoverable		811,175		82,298		29,108		26,035
Total Other Assets		127,873		76,163		68,702		100,458
Total Assets		1,467,029		664,656		592,659		585,179
Total Insurance Reserves		1,147,800		404,735		325,941		306,087
Total Liabilities		1,291,147		505,324		446,448		458,224
Total Equity		175,882		159,332		146,212		126,954
Unrealized Gain / (Loss) on Invt		17,253		9,686		9,326		(2,199)

#### Income Statement:

Premium Written	\$	152,966	\$	95,308	\$	91,698	\$	94,026
Premium Earned		82,504		95,815		98,584		75,469
Net Investment Income		12,474		21,927		18,324		11,197
Losses and LAE Incurred Exp		75,159		95,411		99,813		72,851
Other Underwriting and Operating Exp		10,836		9,570		9,362		9,547
Net Income		8,983		12,761		7,733		4,268

#### Ratios:

Loss Ratio		91.1%		99.6%		101.2%		96.5%
Expense Ratio		13.1%		10.0%		9.5%		12.7%
Combined Ratio		104.2%		109.6%		110.7%		109.2%

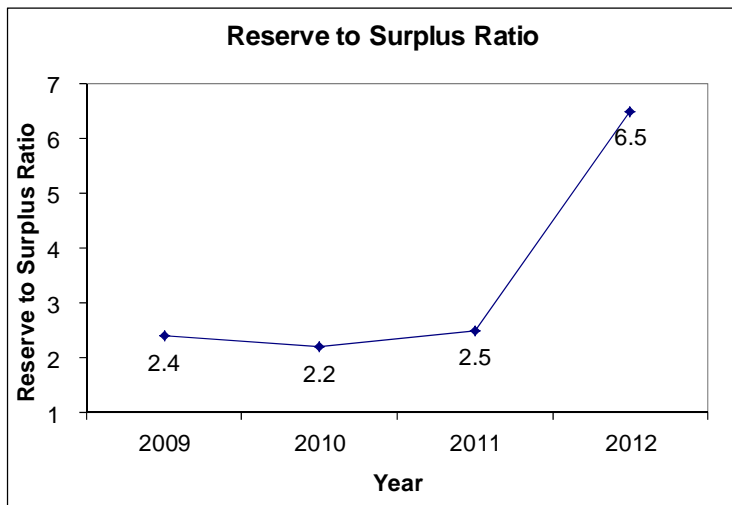
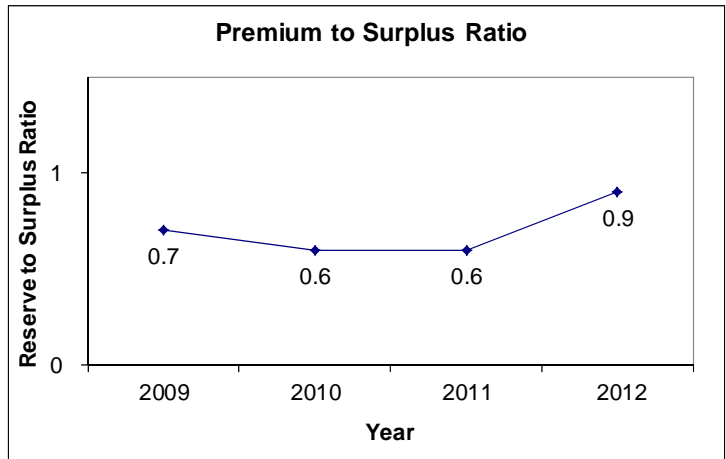
- **Total assets** have increased by \$802.3 million (121%) and **Total liabilities** have increased by \$785.8 million (156%) during 2012. The increase in total assets and total liabilities is primarily attributable to the Tropical Storm Sandy property claim which added \$774.1 million in estimated loss reserves, both recoverable (asset) and assumed (liability).
- **Total equity** was \$175.8 million at year end 2012, which included a \$17.2 million unrealized gain on investments. Total equity increased \$16.5 million (10%) from 2011, attributable to \$8.9 million of net income and a \$7.6 million increase in unrealized gain on investments.
- **Premium written** increased \$57.6 million (60%) from 2011. This increase is primarily attributable to \$63.0 million of new premium written for the new MTA Combined Construction Owner Controlled Insurance Program (“OCIP”), offset by a \$6.0 million decrease in Paratransit Auto premium due to a reduction in exposure (fewer insured vehicles). **Premium earned** was \$82.5 million for 2012, which was \$13.3 million (14%) less than 2011. The decrease is a result of reduced earned premium on older OCIP policies, which earn premium based on percentage of completion of construction projects.
- **Net investment income earned** was \$12.4 million for 2012, which was \$9.4 million (43%) less than 2011. The decrease in investment income was due to the recording of \$8 million in total net realized gains on investment sales due to repositioning of the investment portfolios in 2011.
- **Losses and LAE incurred expenses (“incurred expense”)** for 2012 decreased by \$20.2 million (21%) when compared to 2011 and is primarily attributable to a release / reduction of loss reserves on older Builder’s Risk policies.

## KEY RATIOS

➤ **Premium-to-Surplus Ratio** is a measure of an insurer's financial strength and future solvency. It measures the adequacy of an insurer's surplus, relative to its operating exposure. A 5:1 ratio or lower is suggested in the captive industry. A low ratio indicates there is surplus to support future premium written.

**Calculation:** Premium Written divided by Total Equity. The terms "Equity" and "Surplus" are used interchangeably.

**Conclusion:** FMTAC, with a Premium-to-Surplus ratio of 0.9:1 in 2012, is operating well within the accepted range of 5:1 or lower.



➤ **Reserves-to-Surplus Ratio** measures how much the insurer's surplus and capital may be impaired if loss reserves are undervalued. A 10:1 ratio or lower is suggested in the captive industry. A low ratio indicates there is surplus to support future negative fluctuations in loss reserves.

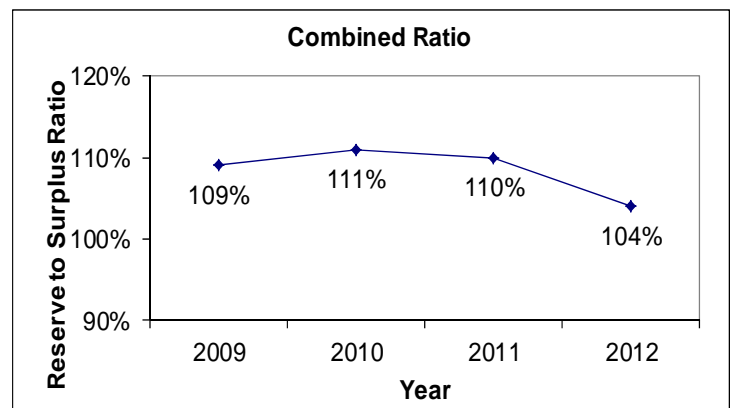
**Calculation:** Total Insurance Reserves divided by Total Equity.

**Conclusion:** In 2012, FMTAC's Reserve-to-Surplus ratio increased to 6.5:1 due to the property claim reserve for Tropical Storm Sandy, which represented fully reinsured reserves. Without the inclusion of the fully reinsured reserve for Tropical Storm Sandy, the ratio would be 2:1. FMTAC remains within the accepted range of 10:1 or lower.

➤ **Combined Claim Loss and Operating Expense Ratio** measures the percentage of premium dollars spent on claim loss and operating expenses. When the combined ratio is under 100%, incurred losses and expenses came in at under or at expected levels. When the ratio is over 100%, incurred losses and expenses were higher than expected.

**Calculation:** Losses and LAE Incurred plus Other Underwriting and Operating Expense divided by Premium Earned.

**Conclusion:** In 2012, there was a reduction in the ratio to 104%, which is primarily due to a release / reduction of loss reserves on older OCIP Builder's Risk policies (producing a lower claim loss ratio).

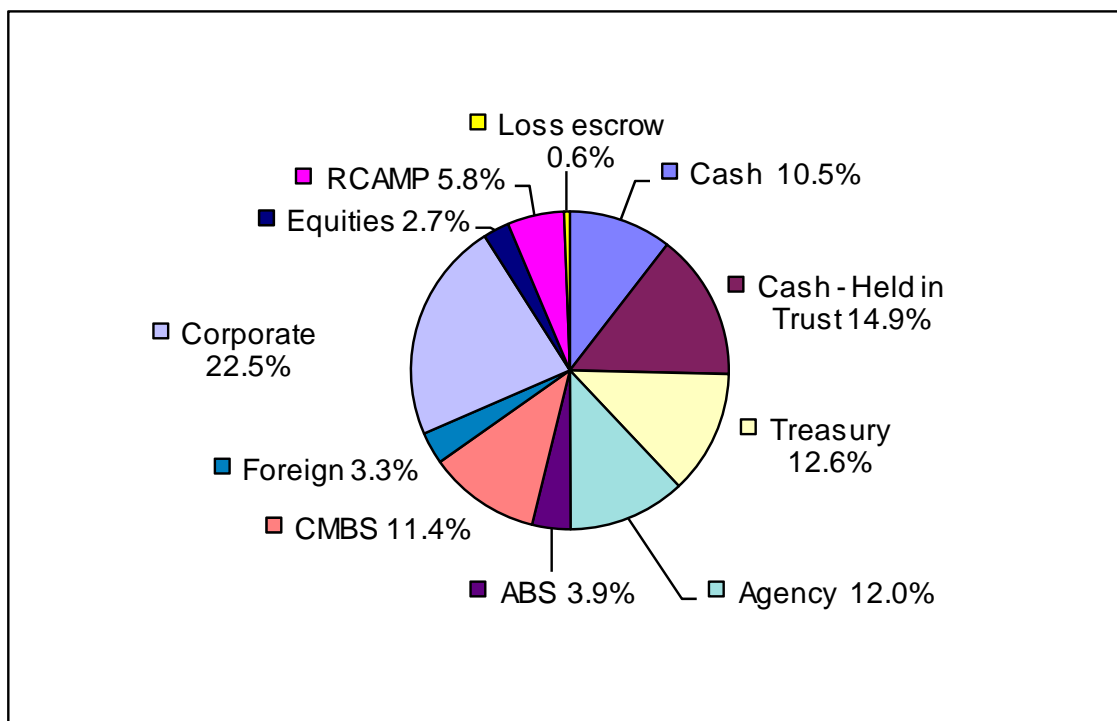


## INVESTMENTS

At December 31, 2012, FMTAC held \$527.9 million in cash, investments and loss trust or escrow accounts. Goldman Sachs Asset Management provides investment advisory services to FMTAC. For a detailed investment report, please see Tab 6.

Investment Type	MV %	Dec 31, 2012 Market Value (in thousands)
Cash	10.5%	55,360
Cash - Held in Trust	14.9%	78,588
Treasury	12.6%	66,545
Agency	12.0%	63,118
Asset Backed Securities	3.9%	20,630
Commercial Mortgage Backed Securities	11.4%	60,119
Foreign Bonds	3.3%	17,257
Corporate Bonds	22.5%	118,802
Equities	2.7%	14,019
OCIP Collateral ("RCAMP Trust")	5.8%	30,435
Loss Escrows	0.6%	3,108
<b>Total</b>	<b>100.0%</b>	<b>527,981</b>

**Cash and Invested Assets at 12/31/12 Market Values**



## **TAB 2**



**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**  
**(A NEW YORK STATE WHOLLY OWNED INSURANCE SUBSIDIARY OF MTA)**  
**COMPARATIVE BALANCE SHEET - AUDITED**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 TO DECEMBER 31, 2012**

	<u>Dec 31, 2012</u>	<u>Dec 31, 2011</u>	<u>Dec 31, 2010</u>	<u>Dec 31, 2009</u>
<b>ASSETS</b>				
Cash & Cash Equivalents	\$ 50,099,695	\$ 32,096,441	\$ 54,253,991	\$ 41,275,830
Cash & Investments - LOC Collateral	37,300,627	44,694,229	41,592,784	-
Investments - GOA	150,711,831	166,359,710	158,259,296	184,057,972
Security Trust - Liberty	27,475,209	26,163,987	24,746,232	23,102,961
Security Trust - Liberty '06	28,951,376	27,724,756	26,116,891	24,512,157
Security Trust - ELF	68,421,105	64,563,721	74,103,905	67,606,955
Security Trust - Builders Risk	52,889,961	49,943,982	46,348,524	42,730,456
Security Trust - Reliance	-	-	-	233,376
Discover Re Trust Fund	78,587,868	56,286,102	28,588,176	-
RCAMP Trust Fund	30,435,387	35,254,002	37,664,841	72,291,723
Premium Receivable	124,217,263	70,940,678	64,859,051	57,855,220
Reinsurance Reserve Recoverable	811,175,185	82,298,278	29,108,438	26,159,714
Escrow Paid Loss Deposit Funds	3,108,399	3,108,399	3,174,394	2,874,394
Interest Income Receivable	2,333,568	2,661,115	2,946,717	3,269,931
Deferred Incentive Award Receivable	1,301,505	531,547	-	128,515
Deferred Policy Acquisition Costs	19,564	-	-	-
Prepaid Losses	-	2,029,316	896,057	2,778,289
Intercompany Receivable - MTA	-	-	-	36,301,112
<b>TOTAL ASSETS</b>	<b>\$ <u>1,467,028,543</u></b>	<b>\$ <u>664,656,263</u></b>	<b>\$ <u>592,659,298</u></b>	<b>\$ <u>585,178,605</u></b>
<b>LIABILITIES</b>				
IBNR Loss Reserves	\$ 196,995,699	\$ 217,236,280	\$ 195,516,334	\$ 157,239,654
Case Loss Reserves	115,770,117	76,393,075	69,789,399	56,196,173
Reserves - Deemed Recoverable	811,175,185	82,298,278	29,108,438	26,034,714
Deferred Losses Payable - RCAMP	23,859,082	28,807,182	31,399,018	66,616,353
Losses & LAE Payable	848,487	-	-	-
Unearned Premium Reserve (net of Deferred Reinsurance Premium)	135,791,047	94,046,198	118,782,805	149,356,192
Other Due	3,942,954	5,742,757	1,598,651	2,781,066
Intercompany Payable - MTA	100,000	800,072	125,000	-
Ceded Premium Payable	2,663,887	-	-	-
Deferred Incentive Award Payable	-	-	128,049	-
<b>TOTAL LIABILITIES</b>	<b><u>1,291,146,458</u></b>	<b><u>505,323,842</u></b>	<b><u>446,447,694</u></b>	<b><u>458,224,152</u></b>
<b>STOCKHOLDER'S EQUITY</b>				
Contributed Surplus - Cash	3,000,000	3,000,000	3,000,000	3,000,000
Additional Policyholder Surplus	77,668,919	77,668,919	77,668,919	77,668,919
Retained Earnings	68,977,712	56,216,965	48,484,415	44,216,135
Net Income	8,982,856	12,760,747	7,732,551	4,268,280
Unrealized Gain / (Loss) on Investments	17,252,598	9,685,790	9,325,719	(2,198,881)
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b><u>175,882,085</u></b>	<b><u>159,332,421</u></b>	<b><u>146,211,604</u></b>	<b><u>126,954,453</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$ <u>1,467,028,543</u></b>	<b>\$ <u>664,656,263</u></b>	<b>\$ <u>592,659,298</u></b>	<b>\$ <u>585,178,605</u></b>

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**  
**(A NEW YORK STATE WHOLLY OWNED INSURANCE SUBSIDIARY OF MTA)**  
**COMPARATIVE INCOME STATEMENTS - AUDITED**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 TO DECEMBER 31, 2012**

	<u>Dec 31, 2012</u>	<u>Dec 31, 2011</u>	<u>Dec 31, 2010</u>	<u>Dec 31, 2009</u>
<b>UNDERWRITING INCOME</b>				
Gross Written Premiums				
Direct	\$ 149,956,114	\$ 95,307,684	\$ 91,698,473	\$ 94,026,021
Assumed	3,009,782	-	-	-
Total Written Premium	<u>152,965,896</u>	<u>95,307,684</u>	<u>91,698,473</u>	<u>94,026,021</u>
Premium Ceded	<u>(28,717,949)</u>	<u>(24,230,050)</u>	<u>(23,687,716)</u>	<u>(27,848,250)</u>
Net Retained Premium	<u>124,247,947</u>	<u>71,077,634</u>	<u>68,010,757</u>	<u>66,177,771</u>
Change in Unearned Premium - Net	<u>(41,744,850)</u>	<u>24,736,607</u>	<u>30,573,387</u>	<u>9,290,856</u>
Net Earned Premium	<u>82,503,097</u>	<u>95,814,241</u>	<u>98,584,144</u>	<u>75,468,627</u>
<b>LOSS &amp; LOSS ADJUSTMENT EXPENSES:</b>				
Paid Losses & LAE	55,928,689	66,746,463	48,097,121	37,492,466
Change in Case Reserves	19,382,886	10,136,302	16,905,412	22,847,693
Change in IBNR Loss Reserves	(153,043)	18,528,315	34,810,050	12,510,595
Total Incurred Losses & LAE	<u>75,158,532</u>	<u>95,411,080</u>	<u>99,812,583</u>	<u>72,850,754</u>
<b>UNDERWRITING EXPENSES:</b>				
Safety & Loss Control	1,562,805	2,055,910	2,924,217	2,795,292
Commissions	1,728,026	764,168	419,910	1,015,747
Change in Deferred Acquisition Costs	97,818	-	-	-
Total Underwriting Expenses	<u>3,388,649</u>	<u>2,820,078</u>	<u>3,344,127</u>	<u>3,811,039</u>
<b>NET UNDERWRITING INCOME / (LOSS)</b>	<u>3,955,916</u>	<u>(2,416,917)</u>	<u>(4,572,566)</u>	<u>(1,193,166)</u>
<b>OTHER EXPENSES</b>				
Risk Management Fees	6,647,473	5,958,161	5,187,309	5,000,000
Other Misc. Charges	800,031	791,835	830,925	728,608
Management Fees	-	-	-	7,750
Total Other Expenses	<u>7,447,504</u>	<u>6,749,996</u>	<u>6,018,234</u>	<u>5,736,358</u>
<b>INCOME / (LOSS) BEFORE INVESTMENT INCOME</b>	<u>(3,491,588)</u>	<u>(9,166,913)</u>	<u>(10,590,800)</u>	<u>(6,929,524)</u>
<b>INVESTMENT INCOME</b>				
Investment Income	<u>12,474,444</u>	<u>21,927,660</u>	<u>18,323,351</u>	<u>11,197,804</u>
Total Investment Income	<u>12,474,444</u>	<u>21,927,660</u>	<u>18,323,351</u>	<u>11,197,804</u>
<b>NET INCOME</b>	<u>\$ 8,982,856</u>	<u>\$ 12,760,747</u>	<u>\$ 7,732,551</u>	<u>\$ 4,268,280</u>

# **TAB 3**

# First Mutual Transportation Assurance Company

(Subsidiary of the Metropolitan Transportation  
Authority)

Financial Statements as of and for the Years  
Ended December 31, 2012 and 2011, and  
Independent Auditors' Report

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Board of  
Metropolitan Transportation Authority:

### Report on the Financial Statements

We have audited the accompanying statements of net position of the First Mutual Transportation Assurance Company (the "Company"), a wholly owned public benefit corporation subsidiary of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Company's financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

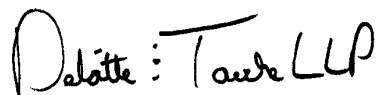
In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Company as of December 31, 2012 and 2011, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As described in Note 2 to the financial statements, the Company adopted Governmental Accounting Standards Board ("GASB") Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Deloitte : Touche LLP". The signature is written in a cursive, flowing style.

April 24, 2013

# **FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**

## **(Subsidiary of the Metropolitan Transportation Authority)**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

#### **YEARS ENDED DECEMBER 31, 2012 AND 2011**

**(In thousands)**

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## **1. OVERVIEW OF THE FINANCIAL STATEMENTS**

**Introduction** — The following is a narrative overview and analysis of the financial activities of the First Mutual Transportation Assurance Company (the “Company” or “FMTAC”) for the years ended December 31, 2012 and 2011. This discussion and analysis is intended to serve as an introduction to the Company’s financial statements which have the following components: (1) Management’s Discussion and Analysis (“MD&A”), (2) Financial Statements and (3) Notes to the Financial Statements.

**Management’s Discussion and Analysis** — This MD&A provides an assessment of how the Company’s position has improved or deteriorated and identifies the factors that, in management’s view, significantly affected the Company’s overall financial position. It may contain opinions, assumptions or conclusions by the Company’s management that should not be considered a replacement for, and must be read in conjunction with, the financial statements.

**The Financial Statements Include** — The Statements of Net Position provide information about the nature and amounts of investments in resources (assets) and the obligations to the Company’s creditors (liabilities), with the difference between the two reported as net position.

The Statements of Revenues, Expenses and Changes in net position show how the Company’s net position changed during each year and accounts for all of the revenues and expenses, measures the success of the Company’s operations from an accounting perspective over the past year, and can be used to determine how the Company has funded its costs.

The Statements of Cash Flows provide information about the Company’s cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities.

**The Notes to the Financial Statements** — The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the financial statements.

## **2. FINANCIAL REPORTING ENTITY**

On December 5, 1997, the Metropolitan Transportation Authority (“MTA”) began its operation of its newly incorporated captive insurance company, FMTAC. FMTAC was created by the MTA to engage in the business of acting as a pure captive insurance company under Section 7005, Article 70 of the Insurance Law and Section 1266 Subdivision 5 of the Public Authorities Law of the State of New York. FMTAC’s mission is to continue, develop, and improve the insurance and risk management needs as required by the MTA. The MTA and the Company are component units of the State of New York.



### 3. CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in the Company's financial position for the years ended December 31, 2012 and 2011. Additionally, examinations of major economic factors that have contributed to these changes are provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are extracted from the Company's financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America. All dollar amounts are in thousands.

(In thousands)	As of December 31,			Increase/(Decrease)	
	2012	2011	2010	2012-2011	2011-2010
<b>ASSETS</b>					
CURRENT ASSETS	\$ 339,720	\$ 285,975	\$ 250,454	\$ 53,745	\$ 35,521
NONCURRENT ASSETS	<u>1,127,308</u>	<u>378,681</u>	<u>342,205</u>	<u>748,627</u>	<u>36,476</u>
TOTAL ASSETS	<u>\$ 1,467,028</u>	<u>\$ 664,656</u>	<u>\$ 592,659</u>	<u>\$ 802,372</u>	<u>\$ 71,997</u>

#### Significant Changes in Assets:

December 31, 2012 versus 2011

Total assets have increased by \$802,372 or 120 percent, from December 31, 2011 to December 31, 2012. The fluctuations in the assets of FMTAC are a net result of i) increase in a reinsurance recovery reserve for the Tropical Storm Sandy property claim and ii) an increase in premium receivable from new OCIP casualty coverage.

December 31, 2011 versus 2010

Total assets have increased by \$71,997 or 12 percent, from December 31, 2010 to December 31, 2011. The fluctuations in the assets of FMTAC are primarily a result of a reinsurance recovery reserve for the property claim for Tropical Storm Irene.

(In thousands)	As of December 31,			Increase/(Decrease)	
	2012	2011	2010	2012-2011	2011-2010
<b>LIABILITIES AND NET ASSETS</b>					
CURRENT LIABILITIES	\$ 256,244	\$ 138,871	\$ 150,332	117,373	(11,461)
NONCURRENT LIABILITIES	1,034,902	366,451	296,116	668,451	70,335
RESTRICTED NET POSITION	<u>175,882</u>	<u>159,334</u>	<u>146,211</u>	<u>16,548</u>	<u>13,123</u>
TOTAL LIABILITIES & NET POSITION	<u>\$ 1,467,028</u>	<u>\$ 664,656</u>	<u>\$ 592,659</u>	<u>\$ 802,372</u>	<u>\$ 71,997</u>

### Significant Changes in Liabilities:

December 31, 2012 versus 2011

Total liabilities from December 31, 2011 to December 31, 2012 have increased by \$785,824 or 155 percent. The increase in liabilities is a net result of i) an increase in an estimated loss reserves for the Tropical Storm Sandy property claim and ii) an increase in unearned premiums from new OCIP casualty coverage.

December 31, 2011 versus 2010

Total liabilities from December 31, 2010 to December 31, 2011 have increased by \$58,874 or 13 percent. This increase is primarily a result of an estimate loss reserve for the property claim for Tropical Storm Irene.

### Significant Changes in Net Position:

December 31, 2012 versus 2011

In 2012, the restricted net position increase of \$16,548 is comprised of operating revenues of \$82,503 and non-operating income of \$20,041, less operating expenses of \$85,996.

December 31, 2011 versus 2010

In 2011, the restricted net position increase of \$13,123 is comprised of operating revenues of \$95,815 and non-operating income of \$22,288, less operating expenses of \$104,980.

### Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)	2012	2011	2010	Increase/(Decrease)	
				2012-2011	2011-2010
OPERATING REVENUES	\$ 82,503	\$ 95,815	\$ 98,583	\$ (13,312)	\$ (2,768)
OPERATING EXPENSES	<u>85,996</u>	<u>104,980</u>	<u>109,175</u>	<u>(18,984)</u>	<u>(4,195)</u>
OPERATING LOSS	(3,493)	(9,165)	(10,592)	5,672	1,427
NON-OPERATING INCOME	<u>20,041</u>	<u>22,288</u>	<u>29,848</u>	<u>(2,247)</u>	<u>(7,560)</u>
CHANGE IN NET POSITION	16,548	13,123	19,256	3,425	(6,133)
RESTRICTED NET POSITION — Beginning of year	<u>159,334</u>	<u>146,211</u>	<u>126,955</u>	<u>13,123</u>	<u>19,256</u>
RESTRICTED NET POSITION — End of year	<u>\$175,882</u>	<u>\$159,334</u>	<u>\$146,211</u>	<u>\$ 16,548</u>	<u>\$ 13,123</u>

**Operating Revenues** — The decrease of \$13,312 or 14 percent, over the 2011 operating revenues is due to reduced earned premium on the OCIP Liberty and paratransit programs then in prior years.

The decrease of \$2,768 or 3 percent, over the 2010 operating revenues is due to less earned premium on the OCIP Liberty programs then in prior years.

**Operating Expenses** — Operating expenses between 2011 and 2012 decreased by 18 percent, or \$18,984. This decrease is attributable to reduced total loss and loss adjustment expenses from a change in loss reserving methodology for the Builders Risk coverage.

Operating expenses between 2010 and 2011 decreased by 4 percent, or \$4,195. This decrease is due to loss reserve adjustments from the most recent actuarial analysis.

**Non-operating Income** — Non-operating income between 2011 and 2012 decreased by 10 percent, or \$2,247. The decrease is a result of a reduction in income from investments held by FMTAC.

Non-operating income between 2010 and 2011 decreased by 25 percent, or \$7,560. The decrease is a result of a reduction in income from unrealized gains on investments held by FMTAC.

#### **4. OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS**

**Results of Operations** — Operating as a pure captive insurance company domiciled in the State of New York requires that all business plans and changes to said plans have to be reviewed and approved by the New York Insurance Department. As of December 31, 2012, all programs administered by FMTAC have been reviewed and approved.

As of December 31, 2012 and 2011, FMTAC received its annual loss reserve certification. The actuary determined that reserves recorded by FMTAC were adequate and no adjustments were deemed necessary.

**U.S. Insurance Market** — The industry's financial performance through the first nine months of 2012 improved substantially over the same period in 2011, with strong earnings growth and a significant increase in net income. Catastrophe ("CAT") losses declined significantly through the third quarter of 2012 — especially when compared to the record levels posted in 2011. The arrival of Tropical Storm Sandy in the fourth quarter however, negatively affected results with the industry's underwriting loss increasing \$26 billion and net income deteriorating \$10 billion in the fourth quarter based on full year 2012 estimates. Moderate CAT losses through the first nine months of 2012, higher earned premiums, and insurers' liberal capital positions considerably offset the financial affects of Sandy for most insurers through the end of 2012.

#### **5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

Effective November 26, 2002, President Bush passed the Terrorism Risk Insurance Act ("TRIA"). Effective December 22, 2006, TRIA was extended through December 31, 2007. On December 31, 2007, the U.S. Treasury Department issued Interim Guidance Concerning the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA") which has been extended through December 31, 2014. For additional information, please refer to the property section under Note 5.

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**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2012 AND 2011**  
**(In thousands)**

	2012	2011
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash (Note 3)	\$ 137,056	\$ 105,181
Investments (Note 4)	45,658	69,909
Funds held by reinsurer (Note 5)	30,435	35,254
Premiums receivable due from affiliates (Note 7)	124,217	70,941
Interest income receivable (Note 4)	2,334	2,661
Other assets	20	2,029
Total current assets	339,720	285,975
NONCURRENT ASSETS:		
Investments (Note 4)	314,831	295,851
Reinsurance recoverable	811,175	82,298
Deferred incentive reward receivable	1,302	532
Total noncurrent assets	1,127,308	378,681
TOTAL ASSETS	\$ 1,467,028	\$ 664,656
<b>LIABILITIES AND NET POSITION</b>		
CURRENT LIABILITIES:		
Unearned premiums	\$ 135,791	\$ 94,046
Ceded premium payable	2,664	-
Reinsurance recoverable reserves — current portion (Note 6)	560	767
Loss and loss adjustment expenses (Note 6)	112,338	37,516
Losses payable	848	-
Due to affiliates	2,866	5,745
Accrued expenses	1,177	797
Total current liabilities	256,244	138,871
NONCURRENT LIABILITIES:		
Loss and loss adjustment expenses (Note 6)	200,428	256,113
Reinsurance recoverable reserves (Note 6)	810,615	81,531
Owner Controlled Insurance Programs liability (Note 5)	23,859	28,807
Total noncurrent liabilities	1,034,902	366,451
Total liabilities	1,291,146	505,322
RESTRICTED NET POSITION	175,882	159,334
TOTAL LIABILITIES AND NET POSITION	\$ 1,467,028	\$ 664,656

See notes to financial statements.

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**  
**(In thousands)**

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	<b>2012</b>	<b>2011</b>
OPERATING REVENUES:		
Gross premiums written	\$ 152,966	\$ 95,308
Premiums ceded	(28,718)	(24,230)
Change in unearned premiums	<u>(41,745)</u>	<u>24,737</u>
Total operating revenues	<u>82,503</u>	<u>95,815</u>
OPERATING EXPENSES:		
Loss and loss adjustment	75,159	95,411
Underwriting	3,389	2,820
General and administrative	<u>7,448</u>	<u>6,749</u>
Total operating expenses	<u>85,996</u>	<u>104,980</u>
OPERATING LOSS	<u>(3,493)</u>	<u>(9,165)</u>
NONOPERATING REVENUES:		
Net investment income	12,474	21,928
Net unrealized gain on investments	<u>7,567</u>	<u>360</u>
Total non-operating incomes	<u>20,041</u>	<u>22,288</u>
CHANGE IN NET POSITION	16,548	13,123
RESTRICTED NET POSITION — Beginning of year	<u>159,334</u>	<u>146,211</u>
RESTRICTED NET POSITION — End of year	<u>\$ 175,882</u>	<u>\$ 159,334</u>

See notes to financial statements.

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**  
**(Subsidiary of the Metropolitan Transportation Authority)**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2012 AND 2011**  
**(In thousands)**

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	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Premiums and other receipts	\$ 73,636	\$ 64,996
Other operating expenses	<u>(67,400)</u>	<u>(73,813)</u>
Net cash (used in) provided by operating activities	<u>6,236</u>	<u>(8,817)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(291,588)	(365,478)
Sales and maturities of investments	304,426	357,861
Earnings on investments	<u>12,801</u>	<u>22,214</u>
Net cash provided (used in) investing activities	<u>25,639</u>	<u>14,597</u>
<b>NET INCREASE IN CASH</b>	<b>31,875</b>	<b>5,780</b>
<b>CASH — Beginning of year</b>	<u><b>105,181</b></u>	<u><b>99,401</b></u>
<b>CASH — End of year</b>	<u><b>\$ 137,056</b></u>	<u><b>\$ 105,181</b></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating loss	\$ (3,493)	\$ (9,165)
Adjustments to reconcile to net cash used in operating activities:		
Net increase (decrease) in accounts payable, accrued expenses and other liabilities	785,824	58,874
Net (increase) decrease in receivables	<u>(776,095)</u>	<u>(58,526)</u>
Net cash provided by operating activities	<u><b>\$ 6,236</b></u>	<u><b>\$ (8,817)</b></u>

See notes to financial statements.

# FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY

(Subsidiary of the Metropolitan Transportation Authority)

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In thousands)

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### 1. BASIS OF PRESENTATION

**Reporting Entity** — First Mutual Transportation Assurance Company (the “Company”), a wholly owned subsidiary of the Metropolitan Transportation Authority (“MTA”), was incorporated under the laws of the State of New York (the “State”) as a pure captive insurance company on December 5, 1997, and commenced operations on that date. The Company was established to maximize the flexibility and effectiveness of the MTA’s insurance program and is governed by a Board of Directors consisting of members of the MTA. The Company’s financial position and results of operations are included in the MTA’s Comprehensive Annual Financial Report. The MTA is a component unit of the State and is included in the State of New York’s Comprehensive Annual Financial Report of the Comptroller as a public benefit corporation.

The New York captive insurance statute requires \$250 minimum unimpaired paid-in-capital and surplus be maintained by a pure captive insurance company.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

In accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, the Company applies all applicable GASB pronouncements as well as all Financial Accounting Standards Board (“FASB”) Statements and Interpretations issued on or before November 30, 1989, that do not conflict with GASB pronouncements. Subsequent to November 30, 1989, the Company exclusively applies all applicable GASB pronouncements.

FMTAC has completed the process of evaluating the impact of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement objective is to provide a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. Effective March 31, 2012, FMTAC has adopted GASB Statement No. 63 and it had no impact on its financial position, results of operations, and cash flows.

FMTAC has not completed the process of evaluating the impact of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement will reclassify and recognize certain items currently reported as assets and liabilities as one of four financial statement elements: deferred outflows of resources, outflows of resources, deferred inflows of resources, and inflows of resources. This Statement is effective for financial statements for periods beginning after December 15, 2012.

**Use of Management's Estimates** — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

**Cash** — includes highly liquid investments. Cash is stated at cost, which approximates fair value.

**Investments** — Investments are recorded on the statement of net position at fair value, which is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as revenue (either as net investment income or unrealized gain (loss) on investments) on the statement of revenues, expenses and changes in net position.

**Net Position** — Net position is restricted for payment of insurance claims.

**Operating Revenues** —

*Premiums* — Earned premiums are determined over the term of their related policies, which approximates one year, or for certain Owner Controlled Insurance Programs ("OCIP"), as a percent of completed construction costs. Accordingly, an unearned premium liability is established for the portion of premiums written applicable to the unexpired period of policies in force or uncompleted construction projects. The Company does not directly pay premium taxes in accordance with its relationship as a component of New York State.

**Operating Expenses** —

*Loss and Loss Adjustment Expenses* — Loss and loss adjustment expenses are established for amounts estimated to settle incurred losses on individual cases and estimates for losses incurred but not reported.

Loss and loss adjustment expenses are based on loss estimates for individual claims and actuarial estimates and, therefore, the ultimate liabilities may vary from such estimates. Any adjustments to these estimates, which could be significant, will be reflected in income in the period in which the estimates are changed or payments are made.

*Non-Operating Revenues and Expenses* — Investment income and unrealized gain (loss) on investments account for FMTAC's non-operating revenues and expenses.

*Income Taxes* — The Company is not subject to income taxes arising on profits since it is a wholly owned subsidiary of the MTA. The MTA and its subsidiaries are exempt from income taxes.



### 3. CASH

At December 31, 2012 and 2011, cash consisted of (in thousands):

	<b>2012</b>		<b>2011</b>	
	<b>Carrying Amount</b>	<b>Bank Balance</b>	<b>Carrying Amount</b>	<b>Bank Balance</b>
Insured deposits	\$ (96)	\$ (96)	\$ 25	\$ 25
Loss escrows	3,108	3,108	3,108	3,108
Funds for security trust	78,588	78,588	56,285	56,285
Uninsured deposits	<u>55,456</u>	<u>55,456</u>	<u>45,763</u>	<u>45,763</u>
	<u>\$ 137,056</u>	<u>\$ 137,056</u>	<u>\$ 105,181</u>	<u>\$ 105,181</u>

The Company is required to set aside funds in escrow accounts that are used to settle claims on behalf of the Company. The account balances of the target escrow are \$3,108 and \$3,108 for the years ended December 31, 2012 and 2011, respectively.

The negative balance under insured deposits is due to a delayed daily bank sweep settlement.

All other funds are invested by the Company as described in Note 4.

### 4. INVESTMENTS

The market value and cost basis of investments consist of the following at December 31, 2012 and 2011 (in thousands):

	<b>2012</b>		<b>2011</b>	
	<b>Market</b>	<b>Cost</b>	<b>Market</b>	<b>Cost</b>
Restricted for claim payments	\$ 268,453	\$ 253,473	\$ 269,938	\$ 262,195
Security trust funds	54,736	52,500	51,128	49,287
Restricted funds for letter of credit	<u>37,300</u>	<u>37,262</u>	<u>44,694</u>	<u>44,591</u>
	<u>\$ 360,489</u>	<u>\$ 343,235</u>	<u>\$ 365,760</u>	<u>\$ 356,073</u>

All investments are registered and held by the Company or its agent in the Company's name.

The Company makes funds available to claims processors to allow for adequate funding for submitted claims. The funds, in the above table, are invested primarily in fixed income investments such as U.S. Government Bonds. All investments outlined above are restricted per the statement of net position and are to be used to pay claims or pay administration expenses of the Company or as collateral for letter of credit obligations.

All funds of the Company not held as cash are invested by the Company in accordance with the Company's investment guidelines. Investments may be further limited by individual security trust agreements. The Company's investment policies comply with the New York State Comptroller's guidelines for such policies. Those policies permit investments in fixed income securities that are investment grade or higher and the policy also allows for the investment in equities.

Investments maturing and expected to be utilized within the year of December 31 have been classified as current assets in the financial statements.

All investments are recorded on the statement of net position at fair value and all investment income, including changes in the fair value of investments, is reported as revenue/(expense) on the statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values at December 31, 2012 and 2011.

The fair value of the above investments consists of \$268,453 and \$269,938 in 2012 and 2011 in investments restricted for claim payments, respectively, \$54,736 and \$51,128 in 2012 and 2011 in security trust funds, respectively and \$37,300 and \$44,694 for letter of credit obligations in 2012 and 2011, respectively. The yield to maturity rate on the above investments was 3.89% for the year ended December 31, 2012, and 3.93% for the year ended December 31, 2011. The change in net unrealized gain (loss) on investments for the years ended December 31, 2012 and 2011, was \$7,567 and \$360, respectively.

**Interest Rate Risk** — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The greater the duration of a bond or portfolio of bonds, the greater its price volatility will be in response to a change in interest rate risk and vice versa. Duration is an indicator of bond price's sensitivity to 100 basis point change in interest rates.

(In thousands) Investment Type	2012	
	Fair Value	Duration
Treasury (1)	\$ 66,616	6.60
Agency (2)	63,509	3.66
Asset backed securities	20,678	0.78
Commercial mortgage backed securities	60,292	2.43
Foreign bonds	17,447	2.08
Corporate bonds	120,263	2.48
Total	348,805	3.89
Equities (3)	14,018	
Less accrued interest	(2,334)	
Total investments	<u>\$ 360,489</u>	

Including but not limited to:

- (1) U.S. Treasury Notes
- (2) Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation
- (3) Exchange Traded Funds

(In thousands) Investment Type	2011	
	Fair Value	Duration
Treasury (1)	\$ 72,861	13.52
Agency (2)	61,715	3.09
Asset backed securities	25,823	1.67
Commercial mortgage backed securities	46,225	2.16
Foreign bonds	32,235	3.06
Corporate bonds	<u>117,089</u>	<u>2.25</u>
Total	355,948	3.93
Equities (3)	12,473	
Less accrued interest	<u>(2,661)</u>	
Total investments	<u>\$ 365,760</u>	

Including but not limited to:

- (1) U.S. Treasury Notes
- (2) Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation
- (3) Exchange Traded Funds

### Credit Risk

At December 31, 2012, the following credit quality rating has been assigned by a nationally recognized rating organization (in thousands):

Quality Rating	Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 136,675	39.2 %
AA	34,779	10.0
A	76,831	22.0
BBB	32,642	9.4
Not rated	<u>245</u>	<u>0.1</u>
Credit risk debt securities	281,172	80.7 %
U.S. Government bonds	<u>67,633</u>	19.3 %
Total fixed income securities	348,805	<u>100.0 %</u>
Equities	14,018	
Less accrued interest	<u>(2,334)</u>	
Total investments	<u>\$ 360,489</u>	

At December 31, 2011, the following credit quality rating has been assigned by a nationally recognized rating organization (in thousands):

Quality Rating	Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 68,768	19.3 %
AA	38,368	10.8
A	85,839	24.1
BBB	38,955	10.9
BB	407	0.1
C	<u>246</u>	<u>0.1</u>
Credit risk debt securities	232,583	65.3
U.S. Government bonds	<u>123,365</u>	<u>34.7</u>
Total fixed income securities	355,948	<u>100.0 %</u>
Equities	12,473	
Less accrued interest	<u>(2,661)</u>	
Total investments	<u>\$ 365,760</u>	

## 5. INSURANCE PROGRAMS

**Property and Terrorism Coverage** — Effective May 1, 2012, FMTAC renewed the all-agency property insurance program. For the period May 1, 2012 through May 1, 2013, FMTAC directly insures property damage claims of the related entities in excess of a \$25,000 per occurrence self-insured retention (“SIR”), subject to an annual \$75,000 aggregate. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7,500 per occurrence. The total program limits are \$1,075,000 per occurrence with the exception of specific coverage limits that are retained by the insureds. FMTAC’s ultimate liability under this policy is limited to its liability ceded and accepted by reinsurers.

With the exception of acts of terrorism (both domestic and foreign), and subject to certain parts of the program limit that have been retained by the MTA and FMTAC as discussed in the next paragraph, FMTAC is fully reinsured in the domestic, London, European and Bermuda marketplaces for this coverage.

The property insurance provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

With respect to acts of terrorism, FMTAC is reinsured by the United States Government for 85% of such “certified” losses, as covered by the Terrorism Risk Insurance Act of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. Until 2007, the Act only provided coverage for acts sponsored by foreign organizations. The remaining 15% of MTA losses would be covered under an additional policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed a \$100,000 (“trigger”).

To supplement the reinsurance to FMTAC through TRIA 2007, the MTA, obtained an additional commercial reinsurance policy with Lexington Insurance Company. That policy provides coverage for (1) 15% of any “certified” act of terrorism — up to a maximum recovery of \$161,250 for any one occurrence, or (2) 100% of any “certified” terrorism loss which does not reach the \$100,000 trigger” — up to a maximum recovery of \$100,000 for any occurrence. This coverage expires on May 1, 2013. Recovery under this policy is subject to retention of \$25,000 per occurrence and \$75,000 in the annual aggregate — in the event of multiple losses during the policy year. Should the MTA’s retention in any one year come to a total \$75,000, then future losses in that policy year are subject to retention of \$7,500.

**Excess Loss Fund (“ELF”)** — On October 31, 2003, the Company assumed the existing ELF program on both a retrospective and prospective basis. The retrospective portion contains the same insurance agreements, participant retentions and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. The coverage limit will remain \$50,000 per occurrence or the proceeds of the program whichever is less. On a prospective basis, effective October 31, 2003, the Company issued insurance policies indemnifying the MTA, its subsidiaries and affiliates above their specifically assigned Self-Insured Retention with a limit of \$50,000 per occurrence with \$50,000 annual aggregate. The balance of the ELF, \$77,000 was transferred to and invested by the Company in order to secure any claims assumed from the ELF, as well as to capitalize the prospective programs and insure current and future claims. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. The premium for the one-year policy, effective October 31, 2012, is \$7,200.

Effective October 31, 2012, FMTAC also provides an All-Agency Excess Liability Policy to the MTA and its subsidiaries and affiliates with the following limits: i) \$100,000 excess \$200,000 that is 100% reinsured by Iron Starr and Swiss Re and ii) \$100,000 excess of \$300,000 reinsured by Chartis Excess Limited. The limits exclude claims arising from acts of terrorism.

**Stations and Force Liability** — Effective December 15, 2012, the Company renewed its direct insurance for the first \$10,000 per occurrence losses for Long Island Rail Road Company and Metro-North Commuter Railroad Company with no aggregate stop loss protection.

**All Agency Protective Liability** — The Company issued a policy to cover MTA’s All Agency Protective Liability Program (“AAPL”), which is designed to protect the MTA and its agencies against the potential liability arising from independent contractors working on capital and noncapital projects. Effective June 1, 2012, the net retention to the Company is \$2,000. The Company also issued a policy for \$7,000 excess of \$2,000 per occurrence with a \$14,000 annual aggregate.

**Paratransit** — On March 1, 2012, the MTA renewed its one-year auto liability policy with Travelers (Discover Re). Effective March 1, 2012, the Company renewed, with the MTA, a deductible reimbursement policy for the auto liability on the NYCT Paratransit operations. The Company is responsible for the first \$1,000 per occurrence of every claim, excluding Allocated Loss Adjusted Expenses (“ALAE”), covered by the MTA / Travelers policy. Under a separate reinsurance agreement with Travelers, effective March 1, 2012, the Company assumed 100% of the Allocated Loss Adjusted Expenses.

**Non-Revenue** — Effective March 1, 2012, the Company renewed, with the MTA, a deductible reimbursement policy for the auto liability of MTA’s non-revenue fleet. The Company is responsible for the first \$500 per occurrence of every claim, excluding Allocated Loss Adjusted Expenses (“ALAE”). Under a separate reinsurance agreement with Travelers, effective March 1, 2012, the Company assumed 100% of the Allocated Loss Adjusted Expenses.

**Owner-Controlled Insurance Programs** — The MTA purchases Owner-Controlled Insurance Programs (“OCIP”) under which coverage is provided on a group basis for certain agency projects. The Company provides the collateral required by the OCIP insurers to cover deductible amounts. The Company records in the OCIP liability account the amount of principal paid by the MTA to the program. The interest earned is not recognized in the statements of operations. Rather, the amounts are recorded as Deferred Incentive Award Payable as the Company may have to make payments to contractors with favorable loss experience.

OCIP liability consists of the following at December 31, 2012 and 2011 (in thousands):

	2012	2011
NYCT structures lines	\$ 532	\$ 532
LIRR/MNCR 2000-2004 Capital Improvement Program	(1,880)	(1,813)
NYCT 2000-2004 line structures/shops, yards and depots Capital Improvements Program	2,634	3,897
NYCT 2000-2004 stations and escalators/elevators Capital Improvements Program	(490)	500
LIRR/MNR 2005-2009 Capital Improvement Program	(82)	2,405
CCC Second Ave. Subway	<u>23,145</u>	<u>23,286</u>
OCIP liability	<u>\$ 23,859</u>	<u>\$ 28,807</u>

**OCIPs Covering 2000-2004 Capital Program** — The Company entered into three agreements with AIG covering portions of the 2000-2004 MTA Capital Program effective October 1, 2000: (1) LIRR/MNCR 2000-2004 capital improvement program; (2) NYCT 2000-2004 lines structures/shops, yards and depots capital improvement program; and (3) NYCT 2000-2004 stations and escalators/elevators capital improvement program. The combined collateral requirements are \$86,094 and \$10,384 for the LIRR/MNCR OCIP, respectively; \$52,709 for the NYCT 2000-2004 lines structures/shops, yards and depots capital improvement program; and \$23,000 for the NYCT 2000-2004 stations and escalators/elevators capital improvement program. The collateral posted by the Company to secure its reimbursement of the insurer’s payments is invested by the insurer with interest returning to the Company at a guaranteed annual rate of return. The Company earned \$31 and \$42 during the years ended December 31, 2012 and 2011, respectively. The interest earned will be used to make the Contractor Safety Incentive program payments to contractors with favorable loss experience. Any monies not used to pay losses or utilized for the Contractor Safety Incentive Program will be returned to the agencies at the end of the OCIPs. As part of the initial agreement and as amended in 2005, the Company was required to make additional contributions of \$2,368 to the LIRR/MNR capital improvement program. In 2012 and 2011, respectively, the Company made claims payments totaling \$2,320 and \$4,454.

**OCIP-LIRR/MNCR 2005-2009 Capital Improvement Projects** — Effective June 1, 2006, the Company entered into a new OCIP insurance program for LIRR/MNCR for capital projects in the 2005-2009 MTA Capital Program. The Company collected \$2,192 in funding beginning in 2006 and, as of December 31, 2012, additional funding totaling \$4,376. The OCIP contracts will expire on June 1, 2014. The Company made claim payments totaling \$2,487 and \$2,268 during 2012 and 2011, respectively. Like the other programs, the interest income generated from the funds being held will be used to pay Contractor Safety Incentive program payments. The Company has earned \$4 and \$16 in interest income during the years ended December 31, 2012 and 2011, respectively.

**Second Avenue Subway Project** — Effective January 31, 2007, the Company entered into an OCIP program for the \$2,500,000 Second Avenue Subway Project. This is a multi-year agreement with AIG covering Workers' Compensation and General Liability for the Third Party contractors, MTA and all its subsidiaries up to \$500,000. This OCIP, like the others, requires the Company to post collateral for all losses related to workers' injuries. In 2012 and 2011, \$23,145 and \$23,286 has been set aside to cover this exposure. During 2012 and 2011, the Company earned \$94 and \$123 in interest with \$1,656 and \$689 in loss payments on this OCIP. All interest generated will be used to pay for additional loss control services and a contractor incentive program.

The activity of all funds held by the OCIP reinsurer consists of the following for 2012 and 2011 (in thousands):

	2012	2011
Funds held by OCIP insurers — beginning of year	\$ 35,254	\$ 37,665
Interest income	129	181
Claims payments	(6,464)	(7,411)
Additional contributions/(returned) — net	<u>1,516</u>	<u>4,819</u>
Funds held by OCIP reinsurer	<u>\$ 30,435</u>	<u>\$ 35,254</u>

**East Side Access Project (“ESA”)** — Effective April 1, 1999, the Company entered into an OCIP program for the \$6,340,000 East Side Access Project. It was a multi-year agreement with Liberty Mutual, the insurer, to insure third party contractors and the MTA and all its subsidiaries up to \$300,000 for Workers' Compensation and General Liability. The insurer required the Company to hold the collateral and loss funding for the first \$500 per occurrence.

**NYCT 2005-2009 Capital Improvements Projects** — Effective August 1, 2006, the Company entered into a multi-year agreement with Liberty Mutual whereby the Company will hold the collateral and loss funding for the first \$500 per occurrence resulting from Workers' Compensation and General Liability losses during the NYCTA's 2005-2009 Capital Improvement Projects.

**MTA 2012-2014 Combined Capital Construction Program** — Effective October 1, 2012, the Company entered into a multi-year agreement with ACE American Insurance Company whereby the Company will hold the collateral and loss funding for the first \$750 per occurrence resulting from Workers' Compensation and the first \$1,500 from General Liability losses during the MTA 2012-2014 Combined Capital Construction Program.

**Excess and Professional/Environmental** — Kemper Insurance Company issued excess and professional/environment liability policies to the MTA and LIRR, on behalf of work performed on the ESA. The original policies issued by Kemper had effective dates of April 1, 1999 through December 31, 2010, and were cancelled effective June 30, 2003. Through novation and assumption agreements, effective June 30, 2003, the Company assumed 100% of the liabilities for the period of April 1, 1999 through June 30, 2003, from Kemper for the two insurance policies referenced above. The first policy issued has limits of \$48,000 excess of \$2,000 for liability coverage on an occurrence basis and the second policy is for professional and environmental coverage with limits of \$50,000 on a claim made basis. As of the date of this report, there are no known or reported claims. The Company retained no premium for these programs, since the Company will seek reimbursement from the original insured if a claim arises.

**Builder's Risk** — Effective October 1, 2001, the Company renegotiated the terms and conditions of the reinsurance coverage it purchased from Zurich for the Builder's Risk Insurance Program ("BR") provided to cover the following 2000-2004 capital program OCIPs:

1. Long Island Rail Road/Metro-North Commuter Railroad Capital Improvement Program;
2. NYCT's Lines Structures/Shops, Yards & Depots Capital Improvement Program, and
3. NYCT's Stations & Elevators Capital Improvement Program

The Company's policy and reinsurance agreements provide the capital projects listed above with limits of \$50,000 in the aggregate. In consideration of \$950 in net retained premium, the Company issues a deductible reimbursement policy with limits of \$75 excess of \$25.

Similar to the above BR program, effective July 31, 2006, the Company entered into a new BR program for the following 2005-2009 capital program OCIPs:

1. Long Island Rail Road/Metro-North Commuter Railroad Capital Improvement Program and
2. NYCT's 2005-2009 Capital Improvement Program

The Company's policy and reinsurance agreements from Zurich provide the capital projects listed above with limits of \$50,000 in the aggregate. In consideration of \$7,500 in net retained premium, the Company issues a deductible reimbursement policy with limits of \$475 excess of \$25.

In 2005, the Company received approval to expand its Builder's Risk Insurance Program to directly insure the MTA and its agencies for property claims while various capital improvement projects are under construction. The policy will cover selected capital improvement projects and was bound June 1, 2005, with limits of \$300,000 per occurrence subject to the \$100,000 self-insured retention. In consideration of a ceded premium of \$12,750, the Company purchased reinsurance for the East Side Access Project from Zurich limiting its exposure to the \$100,000 per occurrence self-insured retention. In 2007, this limit was bought down to \$50,000 for an additional premium of \$5,053. The Company also purchased reinsurance for the Second Avenue Subway Project. In consideration of ceded premium of \$13,362, reinsurance covering losses up to \$500,000 excess of \$50,000 was purchased from Zurich. The reinsurance purchased by the Company will include an aggregate stop loss provision, whereby the Company will limit its total liability to \$125,000 in the aggregate.

Similar to the above BR programs, effective November 1, 2012, the Company entered into a new BR program for various MTA 2012-2014 combined capital program OCIPs. The Company issues a BR policy, to the MTA, with limits of \$50,000 per occurrence with a \$25 contractor deductible. The Company also purchased reinsurance from ACE with limits of \$50,000 per occurrence with at \$250 deductible.



## 6. LOSS AND LOSS ADJUSTMENT EXPENSES AND REINSURANCE

The following schedule presents changes in the loss and loss adjustment expense liabilities during 2012 and 2011 (in thousands):

	2012	2011
Loss and loss adjustment expenses — beginning of year	\$ 375,927	\$ 294,414
Loss reinsurance recoverable on unpaid losses and loss expenses	<u>(81,531)</u>	<u>(28,683)</u>
Net balance — beginning of year	294,396	265,731
Loss and loss adjustment expenses	75,159	95,411
Payments attributable to insured events of the current year	<u>(56,229)</u>	<u>(66,746)</u>
Net balance — end of year	313,326	294,396
Plus reinsurance recoverable on unpaid losses and loss expenses	<u>810,615</u>	<u>81,531</u>
Loss and loss adjustment expenses — end of year	1,123,941	375,927
Less current portion	<u>112,898</u>	<u>38,283</u>
Long-term liability	<u>\$ 1,011,043</u>	<u>\$ 337,644</u>

## 7. RELATED PARTY TRANSACTIONS

The Company provides insurance coverage for the MTA and its component and subsidiary units. The premium revenue from related parties during the period and receivable for the years ended December 31, 2012 and 2011, was as follows (in thousands):

	2012		2011	
	Receivable	Earned	Receivable	Earned
LIRR	\$ 7,812	\$ 9,375	\$ 8,121	\$ 11,198
MNCR	6,325	7,841	7,743	8,492
MTA	<u>110,080</u>	<u>65,287</u>	<u>55,077</u>	<u>76,125</u>
	<u>\$ 124,217</u>	<u>\$ 82,503</u>	<u>\$ 70,941</u>	<u>\$ 95,815</u>

For the years ended December 31, 2012 and 2011, respectively, the MTA charged \$6,647 and \$5,958, respectively, to FMTAC for risk management services provided to the Company of which \$2,766 and \$4,944 remain as a liability at December 31, 2012 and 2011, respectively.

## 8. TROPICAL STORM SANDY

On October 29, 2012, Tropical Storm Sandy made landfall just south of Atlantic City, New Jersey, as a post-tropical cyclone. The accompanying storm surge and high winds caused widespread damage to the physical transportation assets operated by MTA and its related groups. MTA expects to recoup most of the costs associated with repair or replacement of assets damaged by the storm over the next several years from a combination of insurance and federal government assistance programs.

The Disaster Relief Appropriations Act ("Sandy Relief Act") passed in late January 2013, appropriated a total of \$10.9 billion in Public Transportation Emergency Relief Program funding to the Federal Transit Administration (FTA) to assist affected public transportation facilities in connection with infrastructure repairs, debris removal, emergency protection measures, costs to restore service and hardening costs. The Sandy Relief Act also provided substantial funding for existing disaster relief programs of the Federal Emergency Management Agency ("FEMA").

FMTAC directly insures property damage claims of the physical transportation assets operated by MTA and its related groups in excess of a self-insured retention limit ("SIR") of \$25,000 per occurrence, subject to annual \$75,000 aggregate, as well as certain exceptions summarized below. The total program limit has been maintained at \$1,075,000 per occurrence covering property of the related entities collectively, including various sub limits and with the exceptions of the limits summarized below. FMTAC is 100% reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage.

In addition to the noted \$25,000 per occurrence self-insured retention, MTA self-insures above that retention for an additional \$25,880 within the overall \$1,075,000 per occurrence property program, as follows: \$1,590 (or 1.06%) of the primary \$150,000 layer, plus \$7,500 (or 3%) of the primary \$250,000 - layer, plus \$8,000 (or 4%) of the \$200,000 in excess of \$150,000 layer plus \$5,640 (or 2.82%) of the \$200,000 in excess of \$250,000 layer and \$3,150 (or 0.7%) of the \$450,000 in excess of \$350,000 layer.

The property insurance policy provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

At December 31, 2012, the MTA is evaluating the extent and magnitude of its property claim as a result of Tropical Storm Sandy. As FMTAC is 100% reinsured for its property exposure, FMTAC's ultimate liability for this claim is limited to its liability ceded and accepted by reinsurers. FMTAC has recorded a reserve of \$774,120 and a corresponding reinsurance recoverable in these financial statements as of December 31, 2012.

\* \* \* \* \*

# **BLUE SHEET**

***Statement of Actuarial Opinion***  
***Annual Statement of***  
***First Mutual Transportation Assurance Company***  
***For the Year Ended December 31, 2012***

**IDENTIFICATION**

I, Derek A. Jones, am associated with the firm of Milliman, Inc. I am a member of the American Academy of Actuaries and meet its qualification standards for Statements of Actuarial Opinion regarding property and casualty insurance company statutory Annual Statements. I am a member in good standing and a Fellow of the Casualty Actuarial Society. I was appointed by the Board of Directors of First Mutual Transportation Assurance Company ("FMTAC" or "the Company") on August 1, 2012 to render this opinion.

The loss and loss adjustment expense reserves are the responsibility of the Company's management; my responsibility is to express an opinion on those reserves based on my review.

**SCOPE**

I have examined the reserves listed in Exhibit A, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 2012. The items upon which I am expressing an opinion, as shown in Exhibit A, reflect the disclosures shown in Exhibit B. The Annual Statement was prepared in accordance with United States Generally Accepted Accounting Principles.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data evaluated as of December 31, 2012 and reviewed information provided to me by the Company through February 15, 2013. In this regard, I relied on Laureen Coyne, President of FMTAC as to the accuracy and completeness of the data. I evaluated the data used directly in my analysis for reasonableness and consistency. My evaluation did not reveal any data points materially affecting my analysis that fell outside of the range of reasonable possibilities. In performing this evaluation, I have assumed that the Company (a) used its best efforts to supply accurate and complete data and (b) did not knowingly provide any inaccurate data. I also reconciled the paid loss and loss adjustment expense amounts and case reserve amounts as of December 31, 2012 used in my analysis against the Company's current Annual Statement. In other respects, the analysis underlying my opinion included the use of such actuarial assumptions and methods and such tests of calculations as I considered necessary.

My review was limited to the items included in Exhibit A, and did not include an analysis of any income statement items or other balance sheet items. My opinion on the reserves is based upon the assumption that all reserves are backed by valid assets that have suitably scheduled maturities or adequate liquidity to meet cash flow requirements.

***Statement of Actuarial Opinion***  
***Annual Statement of***  
***First Mutual Transportation Assurance Company***  
***For the Year Ended December 31, 2012***

**OPINION**

In my opinion, the amounts carried on account of Items (3) and (5), as shown in Exhibit A:

- A. Meet the requirements of the insurance laws of the State of New York;
- B. Are consistent with reserves computed in accordance with Standards of Practice issued by the Actuarial Standards Board (including the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves); and
- C. Make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

**RELEVANT COMMENTS**

**Risk of Material Adverse Deviation**

There are a variety of risk factors that expose the Company's reserves to significant variability. I have identified the major risk factors as the long-tailed nature of the liability coverages, the uncertainty of loss emergence patterns due to the immaturity of certain programs and the potential for catastrophic claims assumed by the Excess Loss Program ("ELP"). The potential impact of these risk factors is described in more detail in the following paragraphs and in the report supporting this opinion. The absence of other risk factors from this listing does not imply that additional risk factors will not be identified in the future as being a significant influence on the Company's reserves.

Historically, auto liability, general liability and workers compensation coverage have been subject to variability and uncertainty due to the long-tailed nature of the coverage. The payment of losses will likely be made over a long period of time and are subject to a number of uncertainties, such as inflation and the legal environment. Also, for the liability coverages, there may be significant time lags between the accident date, the claim reporting date and the claim settlement date. These time lags create considerable uncertainty regarding the ultimate value of claims incurred as of a particular date, particularly with regard to claims that have occurred but have not yet been reported.

The Company began operations in 1997. Lacking sufficient historical internal experience for the Company, especially for the Non-Revenue, Paratransit, and Capital Construction programs, which started after 2001, I have relied primarily upon industry data and data for

## ***Statement of Actuarial Opinion***

### ***Annual Statement of First Mutual Transportation Assurance Company For the Year Ended December 31, 2012***

Metropolitan Transportation Authority ("MTA") agencies' self-insurance programs as appropriate sources on which to base my assumptions regarding future loss emergence patterns. In my opinion, these data are relevant to the operations of the new program. However, the uncertainty of the resulting reserve estimates for the Company is increased due to the lack of sufficient internal experience. Further, it is likely that the Company's future loss emergence patterns will not develop exactly as anticipated by the benchmark patterns.

Through the ELP, the Company retains a net limit of \$50 million per occurrence for coverage provided to MTA agencies above a self-insured retention. The agencies' self-insured retentions vary by program and year and are as large as \$10 million per occurrence. As a result, the potential exposure to the ELP is significant and increases the uncertainty of the Company's ultimate claim liabilities.

Given the risk factors above and the inherent variability in the estimation of unpaid loss and loss adjustment expense obligations, I conclude that significant risks and uncertainties exist that could result in material adverse deviation from the carried net reserve amounts. My determination is based on a materiality standard of 10% of the Company's statutory surplus, or \$17,588,209, as shown in Item (5) of Exhibit B, and my belief that the probability of adverse reserve development of this magnitude is greater than remote. I selected the materiality standard based on the fact that I prepared this opinion for the regulatory review of the Company. Other measures of materiality might be used for reserves that are being evaluated in a different context.

#### **Uncertainty**

In evaluating whether the reserves make a reasonable provision for unpaid losses and loss adjustment expenses, it is necessary to project future loss and loss adjustment expense payments. Actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, my projections make no provision for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in the Company's historical database or that are not yet quantifiable.

#### **Reinsurance**

The actuarial report in support of this opinion includes a summary of the Company's ceded reinsurance that is or could be material to the Company's ceded loss and loss adjustment expense reserves as of December 31, 2012. The Company has represented that the summary is materially accurate and complete, and that the Company has determined that these contracts should be accounted for as reinsurance

## ***Statement of Actuarial Opinion***

### ***Annual Statement of First Mutual Transportation Assurance Company For the Year Ended December 31, 2012***

under statutory accounting principles. The assessment of whether a reinsurance contract meets the requirements for reinsurance accounting is a management and accounting decision. As such, I express no opinion as to whether the Company's ceded reinsurance contracts meet the requirements for reinsurance accounting.

Based on my discussions with Company management and my understanding of the Company's ceded and assumed reinsurance, there are several assumed reinsurance treaties that are accounted for as financial reinsurance (defined as contractual arrangements that do not include transfer of both timing and underwriting risk) and, as such, use deposit accounting. Under an owner-controlled insurance program, MTA purchases insurance from AIG and Liberty Mutual for the contractors' workers compensation, general liability and builders' risk exposures related to certain capital improvement projects. This underlying coverage is then reinsured by FMTAC. The maximum loss and loss adjustment expense assumed by FMTAC is equal to the assumed premium. The majority of this exposure is 100% retroceded and the maximum loss to the retrocessionaire is equal to the premium paid under the retrocessional agreements. I am not aware of any other reinsurance contract that either has been or should have been accounted for as retroactive reinsurance or as financial reinsurance.

The Company has represented to me that it knows of no uncollectible reinsurance cessions and no disputed reinsurance balances. I also reviewed the ratings of the Company's reinsurers using the A.M. Best Insurance Reports published as of February 23, 2013. There are no material reinsurance recoverables with assuming companies that were rated vulnerable (B or lower) by A.M. Best or that were reported to be in liquidation, conservation or receivership. I am not aware of any reinsurance that the Company treated as collectible but should have treated as uncollectible.

Based on the information cited above, my opinion on the loss and loss adjustment expense reserves net of ceded reinsurance assumes that all ceded is valid and collectible. I have performed no additional review of the collectibility of the Company's reinsurance and am expressing no opinion on the financial condition of its reinsurers. I am not able to further assess the potential for uncollectible reinsurance without performing a substantial amount of additional work beyond the scope of my review. I have not anticipated any contingent liabilities that could arise if the reinsurers do not meet their obligations to the Company as reflected in the data and other information provided to me.

**Statement of Actuarial Opinion**  
**Annual Statement of**  
**First Mutual Transportation Assurance Company**  
**For the Year Ended December 31, 2012**

**Other Disclosures**

*Discounting*

I evaluated the loss and loss adjustment expense reserves on an undiscounted basis with regard to the time value of money. The Company has represented that it does not reduce reserves to reflect discounting.

*Risk Margin*

The Company has represented that the carried reserves do not include an explicit risk margin.

*Salvage and Subrogation*

The Company has represented that its total carried reserves are net of anticipated salvage and subrogation recoveries. The Company has not quantified salvage and subrogation recoverable in the Annual Statement.

*Underwriting Pools and Associations*

The Company has represented that it does not participate in pools and associations.

*Asbestos and Environmental Exposure*

I have reviewed the Company's exposure to asbestos and environmental claims. In my opinion, there is a remote chance of material liability, since the Company has represented that there have been no asbestos or environmental claims reported to date and the Company's policies have exclusions for asbestos and environmental exposure.

*Long Duration Contracts*

The Company has represented that it does not write long duration contracts, defined as policies or contracts related to single or fixed premium policies, with coverage period of thirteen months or greater that are non-cancelable and not subject to premium increase (excluding financial guaranty contracts, mortgage guaranty contracts, and surety contracts).



**Statement of Actuarial Opinion**  
**Annual Statement of**  
**First Mutual Transportation Assurance Company**  
**For the Year Ended December 31, 2012**

*Extended Loss and Expense Reserves*

The Company has represented that it does not provide extended loss and expense coverage within professional liability claims-made contracts and therefore carries no extended loss and expense reserves.

*Contractual Liability for Service Contracts*

The Company has represented that it does not provide contractual liability coverage for service contracts (vehicles, appliances, etc.).

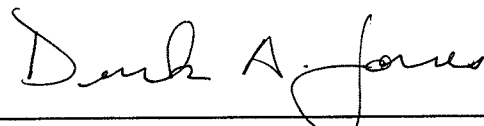
*Loss Adjustment Expenses*

The loss adjustment expense reserves carried by the Company include provisions for all loss adjustment expenses, such as coverage dispute costs, defense and investigation costs, and claims administration expenses.

**SUPPORTING DOCUMENTS AND USAGE**

An actuarial report, including underlying actuarial work papers supporting the findings expressed in this Statement of Actuarial Opinion, will be provided to the Company to be retained for a period of seven years in the administrative offices of the Company and made available for regulatory examination.

This Statement of Actuarial Opinion is intended solely for the use of, and is only to be relied upon by, the Company and the New York State Department of Financial Services with which the Company files its Annual Statement.



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Derek A. Jones, FCAS, MAAA  
Milliman, Inc.  
One Pennsylvania Plaza, 38th Floor  
New York, NY 10119  
(646) 473-3000  
Derek.Jones@Milliman.com

February 27, 2013

**Statement of Actuarial Opinion**  
**Annual Statement of**  
**First Mutual Transportation Assurance Company**  
**For the Year Ended December 31, 2012**

**Exhibit A: SCOPE**

	Column 1 <u>Amount</u>
1. Reserve for Unpaid Losses (Page 2, Line 17)	\$337,894,567
2. Reserve for Unpaid Loss Adjustment Expenses (Page 2, Line 18)	\$11,926,434
3. Total of 1. and 2.	\$349,821,001
4. Reinsurance Recoverable on Unpaid Losses and Loss Adjustment Expenses (Page 2, Line 9)	\$36,195,000
5. 3. Less 4.	\$313,626,001

**Statement of Actuarial Opinion**

**Annual Statement of  
First Mutual Transportation Assurance Company  
For the Year Ended December 31, 2012**

**Exhibit B: DISCLOSURES**

- |   |           |        |                    |
|---|-----------|--------|--------------------|
| 1. Name of the Appointed Actuary  | Jones     | Derek  | A.                 |
| 2. The Appointed Actuary's Relationship to the Company<br>Enter E or C based upon the following:<br>E if an Employee of the Company or Group; or<br>C if a Consultant   |           |        | C                  |
| 3. The Appointed Actuary has the following designation;<br>F if an FCAS;<br>A if an ACAS;<br>M if not a member of the CAS, but a Member of the<br>American Academy of Actuaries approved by the<br>Casualty Practice Council (and attach approval<br>letter as documentation); or<br>O for Other                |           |        | F                  |
| Type of Opinion, as identified in the OPINION paragraph.<br>Enter R, I, E, Q, or N based upon the following:<br>R if Reasonable;<br>I if Inadequate or Deficient Provision;<br>E if Excessive or Redundant Provision;<br>Q if Qualified (use Q when part of the opinion is<br>Qualified); or<br>N if No Opinion |           |        |                    |
|   |           |        | R                  |
| 5. Materiality Standard expressed in US dollars (used to<br>answer Question #6)   |           |        | \$17,588,209       |
| 6. Are there significant risks that could result in Material<br>Adverse Deviation?  | Yes [ X ] | No [ ] | Not Applicable [ ] |
| 7. Statutory Surplus (Page 2, Line 33)  |           |        | \$175,882,085      |

# **TAB 4**

REPORT ON EXAMINATION

OF THE

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY

AS OF

DECEMBER 31, 2010

DATE OF REPORT

JUNE 29, 2012

EXAMINER

WEI CAO

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

Honorable Benjamin M. Lawsky  
Superintendent of Financial Services  
Albany, New York 12257

June 29, 2012

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30827 dated February 10, 2012, attached hereto, I have made an examination into the condition and affairs of First Mutual Transportation Assurance Company as of December 31, 2010, and submit the following report thereon.

Wherever the designations “the Company” or “FMTAC” appear herein without qualifications, they should be understood to indicate First Mutual Transportation Assurance Company. Wherever the designations “Parent” or “MTA” appear herein without qualifications, they should be understood to refer to Metropolitan Transportation Authority.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

This examination was conducted at the Office of Marsh Management Services Inc, 48 South Service Road Suite 310, Melville, NY 11747. FMTAC was managed by Marsh Management Services Inc., at December 31, 2010.

## 1. SCOPE OF EXAMINATION

The examination covers the period from January 1, 2004 through December 31, 2010, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including invested assets, and losses and loss adjustment expense reserves. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification. Additionally, a review was performed to determine whether the captive insurer was operating within its by-laws, conforming with its plan of operation, as submitted to the New York State Department of Financial Services, and was in compliance with Article 70 of the New York Insurance Law.

Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the New York Insurance Law.

The report utilized work performed by the Company's independent certified public accountants and its opining actuary to the extent considered appropriate.

## 2. DESCRIPTION OF COMPANY

FMTCA was incorporated under the laws of New York State as a pure captive insurance company on December 5, 1997, and commenced operations on that date. The Company is a wholly-owned subsidiary of MTA and is established to insure and reinsure the risks of the MTA.

### A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 7003 of the New York Insurance Law, subject at all times to the limitation on the business of a pure captive insurance company set forth in Article 70 of the New York Insurance Law.

### B. By-Laws

It appears that the Company is in compliance with its by-laws in all material respects.



C. Capital Structure

Pursuant to Section 7004(a)(2) of the New York Insurance Law, a pure captive insurance company incorporated as a mutual insurer is required to possess, and thereafter maintain, not less than \$250,000 of total surplus as regards to policyholders, in order to be issued a license to do captive insurance business in New York State. The Company was incorporated as a mutual captive insurance company. As of December 31, 2010, the paid in capital was \$3,000,000 and contributed surplus was \$77,668,919.

D. Reinsurance

Assumed

As of December 31, 2010, FMTAC is not a party to any assumed reinsurance agreement.

Ceded

As of December 31, 2010, FMTAC ceded the following business:

All Agency Property and Terrorism Coverage

For the period May 1, 2010 through May 1, 2011, FMTAC had reinsurance coverage for its property insurance program with various carriers. The Company insures property damage claims respect to the perils of flood and earthquake in excess of a \$25,000,000 per occurrence self-insured retention, subject to an annual \$75,000,000 aggregate. The total program limit has been maintained at \$1,075,000,000 for any one peril. All losses resulting from the acts of terrorism are excluded from this policy. The policy also provides extra expense and business interruption coverage.

With respect to acts of terrorism, FMTAC is reinsured by the United States Government for 85% of such "certified" losses, as covered by the Terrorism Risk Insurance Act of 2007 ("TRIA"). The remaining 15% of MTA losses would be covered under an additional policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed \$100,000,000.

To supplement FMTAC's reinsurance coverage through TRIA, the MTA obtained an additional commercial reinsurance policy with Lexington Insurance Company. The policy provided coverage for (1) 15% of any "certified" act of terrorism up to a maximum recovery of \$161,250,000

per occurrence and \$322,500,000 in the annual aggregate part of \$1,075,000,000 reinsured policy limit, or (2) 100% of any “certified” terrorism loss which does not reach \$100,000,000 trigger up to a maximum recovery of \$100,000,000 for any occurrence. Recovery under this policy is subject to retention of \$25,000,000 per occurrence and \$75,000,000 in the aggregate with a deductible of \$7,500,000 per occurrence remaining upon the exhaustion of the \$75,000,000 aggregate deductible.

#### Excess Loss Fund- Excess Liability

Excess loss fund coverage covers excess third party liability including employee liability for occurrence arising out of or incidental to Agencies’ operation for the period October 31, 2010 to October 31, 2011. The following are the coverages:

<u>Reinsurer</u>	<u>Cession</u>
XL Insurance Company Ltd.	75% of \$100,000,000 in excess of \$200,000,000.
Torus Insurance (Bermuda) Limited	25% of \$100,000,000 in excess of \$200,000,000.
Chartis Excess Limited	100% of \$100,000,000 in excess of \$300,000,000.

#### Builder Risk

Effective July 31, 2006, the Company entered into owner-controlled insurance program (“OCIP”) for Long Island Rail Road and Metro North Rail Road for capital projects in the 2005-2009 MTA Capital Program as follows:

<u>Reinsurer</u>	<u>Cession</u>
Zurich American Insurance Company	100% of \$50,000,000 per occurrence/\$100,000,000 aggregate subject to \$500,000,000 deductible.

#### East Side Access Project

Effective June 1, 2004, the Company renewed an OCIP program for the \$6,340,000 East Side Access Project. It was a ten year agreement covering from June 1, 2004 through June 1, 2014 with Zurich and Lloyds. The agreement insured third party contractors and the MTA and all its subsidiaries up to \$300,000,000 for worker’s compensation and general liability coverages. The

insurers required the Company to hold the collateral and loss funding for the first \$1,000,000 per occurrence.

<u>Reinsurer</u>	<u>Cession</u>
Lloyds Underwriters	\$50,000,000 any one occurrence excess of a Self Insured Retention of \$50,000,000 any one occurrence and \$125,000,000 in the aggregate.
Zurich American Insurance Company	\$200,000,000 excess of a Self Insured Retention of \$100,000,000 any one occurrence/aggregate \$250,000,000 and thereafter an excess of \$25,000,000 any one occurrence to apply.

#### Second Avenue Subway

The Company entered into an OCIP program for the Second Avenue Subway Project. This agreement covered the period from March 15, 2007 to March 15, 2015. The agreement insured workers' compensation and general liability coverages for third party contractors of the MTA and all its subsidiaries up to \$500,000,000 per occurrence subject to \$1,000,000 deductible. The program is reinsured as follows:

<u>Reinsurer</u>	<u>Cession</u>
Various	100% of \$450,000,000 per occurrence in excess of \$50,000,000 any one occurrence subject to an aggregate of \$100,000,000.

#### E. Corporate Records

The corporate records reviewed appear to be substantially accurate and complete in all material respects.

#### F. Management and Control

##### (i) Captive Manager

Section 7003(b)(4) of the New York Insurance Law provides that no captive insurer shall do any captive insurance business in this state unless it utilizes a captive manager resident in the State of

New York that is licensed as an agent or broker under the provisions of the Article 21 of the New York Insurance Law or any other person approved by the Superintendent.

The Company is managed by Marsh Management Services Inc licensed by the New York Department of Financial Services. Marsh Management Services Inc took over the captive management of FMTCA from Willis Management, Ltd, an insurance consultant effective August 1, 2008.

(ii) Board of Directors

The business of this Company is managed under the direction of its board of directors. Please note that all the board of directors of the Company are also the directors of the MTA. At December 31, 2010, the board of directors was comprised of the following twenty three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Andrew Albert New York, NY	New York City Transit Riders Council
John H. Banks III Bronx, NY	Con Edison
Robert C. Bickford Cold Spring, NY	Retired
James F. Blair Ossining, NY	Permanent Citizens Advisory Committee
Norman E. Brown Brooklyn, NY	NY State Council of Machinists
Allen P. Cappelli Staten Island, NY	Attorney
Donald Cecil Harrison, NY	Cumberland Associates
Patrick J. Foye Sands Point, NY	Governor's Office
Doreen M. Frasca New York, NY	Frasca & Associates

Name and ResidencePrincipal Business Affiliation

Ira Greenberg  
Queens, NY

Leavitt, Kerson & Duane

Jeffrey A. Kay  
Queens, NY

Mayor's Office of Operations

Mark D. Lebow  
New York, NY

Lebow & Sokolow, LLP

Susan G. Metzger  
Warwick, NY

Orange County Planning Board

Charles D. Moerdler  
Bronx, NY

Stroock & Stroock & Lavan

Mark Page  
Brooklyn, NY

Office of Management and Budget  
("OMB") of the City of New York

Mitchell H. Pally  
Stony Brook, NY

Long Island Builders Institute

Andrew M. Saul  
Katonah, NY

Saul Partners, L.P.

James L. Sedore, Jr.  
Fishkill, NY

Various Certified Public Accounting  
Firms

Nancy Shevell  
New York, NY

New England Motor Freight, Inc.

Vincent Tessitore, Jr.  
East Islip, NY

United Transportation Union

Jay H. Walder  
New York, NY

Metropolitan Transportation Authority

Ed Watt  
Rockaway, NY

Transport Workers Union Local 100

Carl V. Wortendyke  
Upper Nyack, NY

Cal Mart Construction

The Company's by-laws states:

"A regular meeting of the board shall be held without other notice than these by-laws at 9:30am on the fourth Wednesday of each month except that there shall be no regular meeting in the month of August and except that in the months of November and December the regular meetings shall be held on the third Wednesday of the month."

During the period covered by this examination, it is noted that the Company's finance committee met once each year in May. The MTA board members who are also the board directors' of FMTAC met on the fourth Wednesday of every month except August. A review of the meeting minutes indicated that the Company is in compliance with its by-laws, and all the board meetings were generally well attended.

(iii) Officers

As of December 31, 2010, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Jay H. Walder	Chairman and Chief Executive Officer
Andrew M. Saul	Vice Chairman
Laureen Coyne	President
Phyllis J. Rachmuth	Vice President and Secretary
Michael J. Jaszar	Vice President

G. Certified Public Accountant ("CPA") and Actuarial Services

The Company was audited by the independent CPA firm Deloitte & Touche, Two World Financial Center, New York, NY 10281 for the years covered by this examination. The Company's opining actuary as of December 31, 2010, was Milliman Inc., One Pennsylvania Plaza, 38<sup>th</sup> Floor, New York, NY 10119.

H. Growth of Company

The following schedule sets forth a summary of the Company's significant financial information for the period covered by this examination:

<u>Year</u>	<u>New Premiums Earned</u>	<u>Net Income</u>	<u>Assets</u>	<u>Shareholders' Equity</u>
2004	\$47,425,000	\$ 8,606,000	\$333,685,000	\$ 63,889,000
2005	\$11,943,000	\$10,412,000	\$361,424,000	\$ 74,301,000
2006	\$41,898,000	\$ 9,448,000	\$443,649,000	\$ 83,749,000
2007	\$46,044,000	\$ 7,983,000	\$540,282,000	\$ 91,732,000
2008	\$72,947,000	\$ 4,610,000	\$531,762,000	\$ 96,342,000
2009	\$75,469,000	\$30,613,000	\$585,178,000	\$126,955,000
2010	\$98,583,000	\$19,256,000	\$592,659,000	\$146,211,000

### 3. FINANCIAL STATEMENTS

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America that differ from statutory accounting practices prescribed or permitted for insurance companies by the New York State Department of Financial Services. The Company's independent accounting firm concluded that the following financial statements, present fairly, in all material respects, the financial position First Mutual Transportation Assurance Company as of December 31, 2010.

#### A Balance Sheet

#### BALANCE SHEET AS OF DECEMBER 31, 2010

##### Assets

Bonds	\$341,747,000
Stocks	16,036,000
Cash	99,401,000
Deposits with reinsurer	37,665,000
Accounts and premium receivable	64,859,000
Investment income due and accrued	2,947,000
Other assets	896,000
Reinsurance recoverables	<u>29,108,000</u>
Total assets	<u>\$592,659,000</u>



Liabilities, Surplus and Other FundsLiabilities

Losses and Loss Adjustment Expenses	\$294,414,000
Unearned premiums	118,783,000
Commission, expenses and fees	1,599,000
Amounts due to affiliates	125,000
Deferred loss & safety incentive payable	<u>31,527,000</u>

Total liabilities	\$446,448,000
-------------------	---------------

Surplus and Other Funds

Paid in capital (par value)	\$3,000,000
Unrealized gain(loss)on investment	9,325,000
Contributed surplus	77,669,000
Surplus (accumulated earnings)	<u>56,217,000</u>
Total capital and surplus	<u>146,211,000</u>

Total liabilities, surplus and other funds	<u>\$592,659,000</u>
--	----------------------

B. Statement of Income

The Company's capital and surplus increased \$90,928,000 during the seven-year period detailed as follows:

STATEMENT OF INCOMEUnderwriting Income

Net premiums earned		\$394,309,000
Deductions:		
Net losses and net loss adjustment expense incurred	\$350,174,000	
Underwriting expenses	28,703,000	
General and administrative expenses	29,671,000	
Management fee	<u>900,000</u>	
Total operating deductions		<u>409,448,000</u>
Net operating loss		\$ (15,139,000)

Investment Income

Net investment income earned	\$96,748,000	
Net unrealized gains on investments	<u>9,319,000</u>	
Total investment income		<u>106,067,000</u>
Net income		<u>\$90,928,000</u>

C. Capital and Surplus Account

Capital and surplus as of December 31, 2003		\$55,283,000
	<u>Gain in Surplus</u>	
Net income	\$90,928,000	
Total gains and losses	\$90,928,000	
Net increase in surplus		<u>90,928,000</u>
Capital and surplus per report on examination as of December 31, 2010		<u>\$146,211,000</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2010, the Company reported a liability for unpaid loss and loss adjustment expenses of \$294,414,000. The Company's opining actuary states the following in its "Statement of Actuarial Opinion":

"In my opinion, the amounts of Loss and Loss Adjustment Expenses of \$294,414,000:

- Meet the requirements of the captive insurance laws of the State of New York
- Are consistent with reserves computed in accordance with the Standards of Practice issued by the Actuarial Standards Board (including the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves); and
- Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements."

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York State Insurance Law is the governing section of the law for the formation and continued operation of captive insurers in New York State. A review was performed to test the Company's compliance with all applicable parts of Article 70 of the New York Insurance Law. No significant areas of non-compliance were found.

## 6. **ORGANIZATIONAL STRUCTURE**

The Metropolitan Transportation Authority was established under the New York Public Authorities Law and is a public benefit corporation of the State of New York. The mission of MTA is to continue, develop and improve public transportation and to develop and implement a unified public transportation policy in the New York metropolitan area.

MTA carries out these responsibilities directly and through its subsidiaries and affiliates, which are also public benefit corporations. The following entities are subsidiaries of MTA:

- The Long Island Rail Road Company
- Metro-North Commuter Railroad Company
- Staten Island Rapid Transit Operating Authority
- Metropolitan Suburban Bus Authority
- First Mutual Transportation Assurance Company
- MTA Bus Company
- MTA Capital Construction Company

The following entities are affiliates of MTA:

- New York City Transit Authority and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority
- Tri-borough Bridge and Tunnel Authority

## 7. **INSURANCE PROGRAM**

As of December 31, 2010, First Mutual Transportation Assurance Company provides the following lines of coverage to the MTA and its agencies:

- Commercial Liability
- Auto Liability- Paratransit
- Stations Liability
- Force Liability
- All Agency Protective Liability
- Excess Loss Fund
- Non-Revenue
- Property and Terrorism Insurance
- Owner Controlled Insurance Programs

### Commercial Liability Policy-Premises Liability

Effective December 7, 2010, FMTAC issued a premises liability policy which covers liability arising out of the ownership, maintenance and use of various MTA locations: 341/345/347 Madison Ave and 2 Penn Plaza, NYC and 2 Broadway, NYC. The limit of insurance for each occurrence was \$1,000,000 with the general aggregate limit of \$2,000,000.

### Auto Liability- Paratransit

Effective March 1, 2010, the Company renewed its one year paratransit auto deductible reimbursement policy, covering third party liability arising out of the use of wheelchair life-equipped vans and sedans. The Company is responsible for the first \$1,000,000 per occurrence bodily injury and property damage combined single limit including allocated loss adjustment expenses and \$111,379,656 in the aggregate.

### Stations Liability

The Company renewed its direct station liability insurance effective December 15, 2010, for the first \$9,000,000 per occurrence losses for Long Island Rail Road Company and Metro-North Commuter Railroad Company with no aggregate stop loss protection. The insurance policy covered third party liability, bodily injury and property damage and personal injury at passenger stations, included moving train hazards while confined to station area, included elevators, escalators, platforms, appurtenances, land, approaches and parking lot.

### Force Liability

The Company renewed its direct force liability policy effective December 15, 2010, for one year for Long Island Rail Road Company and Metro-North Commuter Railroad Company with no aggregate stop loss protection. The single limit of the insurance is \$9,000,000. The policy covered third party liability, physical damage and medical payments on force account work reimbursed by others.

### All Agency Protective Liability

The Company issued a policy to cover MTA's all agency protective liability program ("AAPL"), which is designed to protect the MTA and its agencies against potential liability arising from independent contractors working on capital, maintenance and operating projects. The net retention to the Company is \$2,000,000. The Company also issued a policy for \$6,000,000 excess of \$2,000,000 per occurrence with a \$12,000,000 annual aggregate. Effective June 1, 2010, the Company extended its current AAPL for an additional six months to January 1, 2011.

### Excess Loss Fund

Effective October 31, 2010, the Company issued excess loss fund program indemnifying the MTA, its subsidiaries and affiliates above their specifically assigned self-insured retention with a limit of \$50,000,000 per occurrence with \$50,000,000 annual aggregate. The program covered excess third party liability including employee liability for occurrences arising out of or incidental to agencies' operations.

### Non-Revenue

Effective March 1, 2010, the Company renewed a deductible reimbursement policy, insuring the auto liability for the MTA and some of its agencies for the non-revenue automobiles including non-owned hired automobiles. The Company is responsible for the first \$500,000 per occurrence bodily injury and property damage combined single limit including allocated loss adjustment expenses and \$10,441,621 in the aggregate.

### Property and Terrorism Coverage

The property and terrorism coverage is detailed in the Section of Reinsurance.

### Owned-Controlled Insurance Programs

The MTA purchased owner controller insurance program ("OCIP") under which coverage is provided on a group basis for certain agency projects including builder risk, east side access project and second avenue subway project. The OCIP is detailed in the Section of Reinsurance.

8. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

**ITEM**

**PAGE NO.**

It is recommended that the Company either amend its by-laws or  
comply with them and have regular monthly meetings.

7

The Company has complied with this recommendation.

9. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There are no comments or recommendations in this report.

Respectfully submitted,

Cao, Wei

Wei Cao  
Senior Insurance Examiner

STATE OF NEW YORK     )  
  )ss:  
COUNTY OF NEW YORK    )

WEI CAO, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

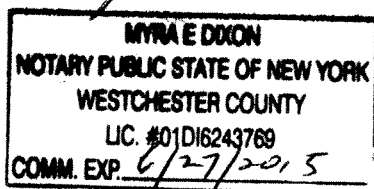
Cao, Wei

Wei Cao

Subscribed and sworn to before me

this 31<sup>st</sup> day of July, 2012.

Myra E Dixon





NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

**Wei Cao**

as a proper person to examine the affairs of the  
**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**  
and to make a report to me in writing of the condition of said  
**COMPANY**

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name  
and affixed the official Seal of the Department  
at the City of New York

this 10th day of February, 2012

BENJAMIN M. LAWSKY  
Superintendent of Financial Services



By: \_\_\_\_\_

*Jean Marie Cho*  
Deputy Superintendent

# **TAB 5**

# FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY

## New York Regulatory Compliance Report As of September 18, 2013

<i>Description</i>	<i>Requirement / Due Date</i>	<i>Comments/Date Completed</i>
<b><i>Financial Reports &amp; Examinations</i></b>		
File Annual Report with NYSDFS	Within 60 days of fiscal year end (March 1)	February 28, 2013
File Actuarial Certification of Loss Reserves.	Within 60 days of fiscal year end (March 1)	February 28, 2013
File Audited Financial Statements with NYSDFS	July 1	May 17, 2013
File Parent Company Annual Report with NYSDFS	Annually	June 24, 2013
Examination by NYSDFS	Every 3-5 years	2010 fiscal year regulatory examination completed in June 2012 with no comments or recommendations from NYSDFS
<b><i>Taxes &amp; Fees</i></b>		
File Premium Tax (Franchise Tax) Return with NYS Tax Dept	Within 2 ½ months after the reporting period (March 15 for December YE)	FMTAC is exempt from NYS taxes
Pay Premium Tax to NYS Tax Dept.	Due quarterly 3/15, 6/15, 9/15, 12/15	FMTAC is exempt from NYS taxes
NYS Department of Financial Services Examination Fees	Due at the end of an exam, based on time incurred.	Will be paid as invoiced
Pay Assessment Surcharge per Section 206 of NYSDFS Law	Due quarterly when invoiced by NYSDFS	FMTAC is exempt from NYSDFS Assessments
<b><i>Underwriting</i></b>		
Changes in insurance programs (coverage, limits, reinsurers)	Approval is required for business plan changes	In Compliance
Insurance policies and reinsurance agreements	Insurance documentation must be on file in principal office in New York	In Compliance
<b><i>Investments</i></b>		
Maintain Minimum required capital and surplus in prescribed form [Cash, LOC, or investment type as described in section 7004, section (b)(2)]	\$250,000 of total surplus (\$100,000 shall represent paid-in capital)	In Compliance
Intercompany loans	Prior approval from NYSDFS required	In Compliance
<b><i>Corporate Governance</i></b>		
Notify changes of Directors and Officers to NYSDFS	Notify within 30 days and submit biographical affidavits for any new individuals	Biographical affidavits not applicable. Notice of appointments of new MTA/FMTAC directors (made by Governor following background checks and Senate confirmation process) are made to NYSDFS within 30 days.

***Corporate Governance, con't***

File Certificate of Compliance for License Renewal with NYSDFS	Annually by June 30	May 21, 2013
Certificate of Designation	Information needs to remain current	In Compliance
NYS Resident Directors	Minimum of two NY resident directors	In Compliance
Hold Annual Meeting of Directors	Must be held annually in NYS	In Compliance – September 18, 2013

# TAB 6



**Asset  
Management**



# **First Mutual Transportation Assurance**

## **July 2013 Portfolio Review**

September 16, 2013



# Table of contents

**A. Executive Summary**

**B. Portfolio Review**

**Appendix**

**General Disclosures**



## **A. Executive Summary**





# Executive Summary

## August 2013

### Market Summary

- Recent weak US home sales data failed to spark a rally in Treasuries. However, recent data has been strong – particularly the Purchasing Managers Index (PMI) – and we expect the Fed to announce a reduction in asset purchases at its September 18<sup>th</sup> meeting.
- Speculation that Larry Summers is the favored candidate to replace Federal Reserve Chairman Bernanke is adding to upward pressure on yields, and we think the window for a corrective rally is shrinking.
- Event risk has risen, as the prospect of military intervention in Syria compounds uncertainty surrounding US monetary and fiscal policy and the approaching German elections.

### GSAM Investment Themes

- Investment grade cash and derivative spreads in the US and Europe all tightened mid month; we are modestly long corporate credit, with a bias toward high yield.
- We are modestly overweight non-agency MBS. In our view, a rise in mortgage rates won't directly translate to a slowdown in home price growth. We see a positive correlation between home prices and mortgage rates, and an even stronger correlation with job growth. As long as job growth continues to increase, we believe home prices are likely to appreciate.
- We moved to a small underweight agency MBS as we see several potential catalysts for volatility in the near term. We remain biased to underweight the coupons most sensitive to the rising rates environment. We favor fully extended lower coupons and shorter-duration high coupons over bonds with less attractive convexity profiles



## Summary of our views:

### **Fed tapering and Chairman succession are likely to drive interest rate volatility**

- We believe the Fed will likely begin to taper its purchases in September, while questions around who will succeed Bernanke as Chairman are likely to exacerbate movement in interest rates. We are short US duration.

### **Compensation for interest rate risk is unattractive**

- Compensation for rate risk is low and the risk of a prolonged rise in rates is high. We believe the ability to hedge interest rate risk in non-government bonds or short interest rate risk outright will be important to generating attractive returns in fixed income.

### **The economy is improving and credit fundamentals and valuations are attractive**

- An improving economic environment and strong credit fundamentals should be a favorable environment for corporate credit.
- Valuations are attractive but interim volatility could lead to wider spreads and more attractive opportunities later this year.

### **Global fixed income markets offer many opportunities for generating positive returns**

- Relative value strategies in mortgage-backed securities, for example, offer other opportunities to generate return independent of the direction of rates.

As of August 2013.

Source: GSAM. This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. Views and opinions expressed are for informational purposes only and do not constitute a recommendation by GSAM to buy, sell, or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice. The economic and market forecasts presented herein have been generated by GSAM for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. Please see additional disclosures at the end of this presentation.



# Upcoming events could bring more market volatility

Volatility in rates and risk assets could pick up in the next few months depending on the outcome of a number of events.

## **Fed tapering – September**

- The Fed is likely to begin tapering asset purchases in September but the magnitude of the tapering and the potential for other policy shifts could bring volatility.

## **Fed leadership – September/October**

- The consensus has been that Fed Vice Chair Janet Yellen would be nominated to replace Ben Bernanke, but Larry Summers has emerged as another possibility. Summers' views are less well known

## **Debt Ceiling and US Fiscal Policy – September/October**

- Debt ceiling discussions will resume in September. We think a major impasse is unlikely but uncertainty around the debt ceiling or future fiscal policy is another potential source of volatility.

## **European elections – September**

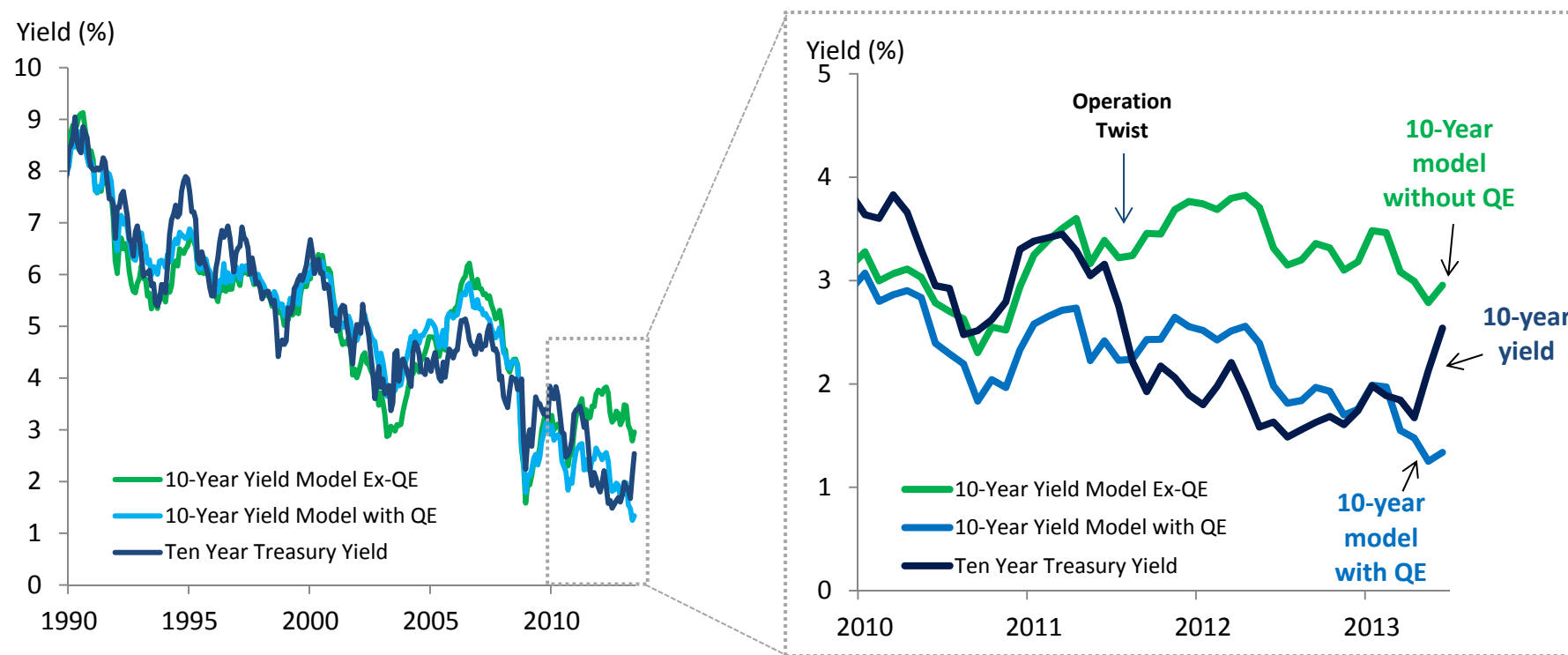
- German elections at the end of September – we anticipate volatility in the periphery around the elections.



# Interest rates are rapidly pricing out quantitative easing

10-year yields moving back to levels indicated by growth, inflation, Fed rate policy

10-year Treasury yield versus a basic yield model with and without QE



Historically: Rates could be explained by a simple model based on growth, inflation and Fed rate policy ("model ex-QE" below). Fed asset holdings did not have a significant effect.

After Operation Twist: Rate models with and without Fed asset holdings diverged (i.e., a rate model needed QE to explain the level of rates). Today: With the Fed moving to taper, the relationship has reversed.

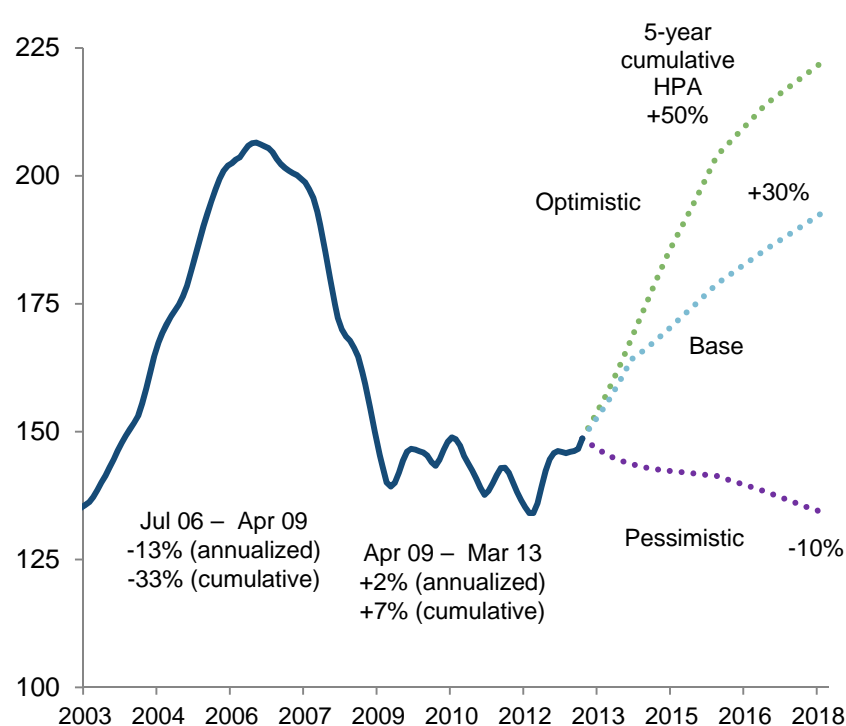
Source: GSAM, Bloomberg. As of June 2013. The 10-year yield model ex-QE uses the following variables: US ISM manufacturing index (proxy for growth), US core CPI (proxy for inflation) and the Federal Funds target rate (proxy for Fed rate policy). The model with QE employs the same three variables plus Fed long-term asset holdings (proxy for QE) as a fourth variable. This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. Past performance does not guarantee future results, which may vary. Please see additional disclosures.



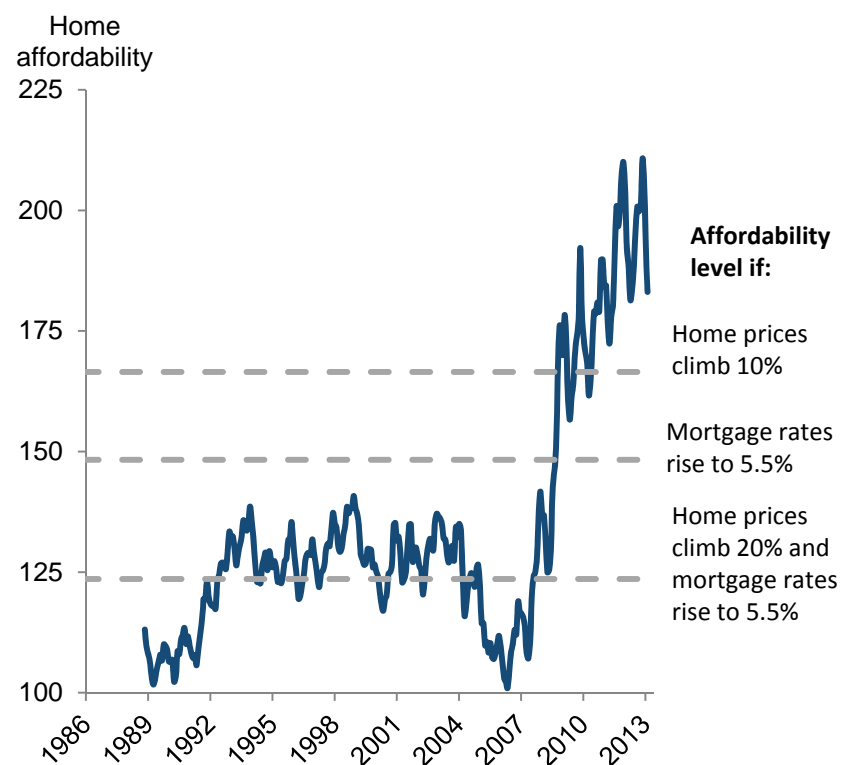
# The US housing market provides upside potential in 2H'13

We believe the housing recovery is durable and the economic effects are beginning to kick in

Case Shiller US Home Price Index  
Realized and Forward Projections



Home Affordability



Source: Bloomberg, National Association of Realtors, GSAM. As of June 2013. The economic and market forecasts have been generated by GSAM for informational purposes as of June 2013. They are based on proprietary models and there can be no assurance that the forecasts will be achieved. This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. Please see additional disclosures.



## **B. Portfolio Review**



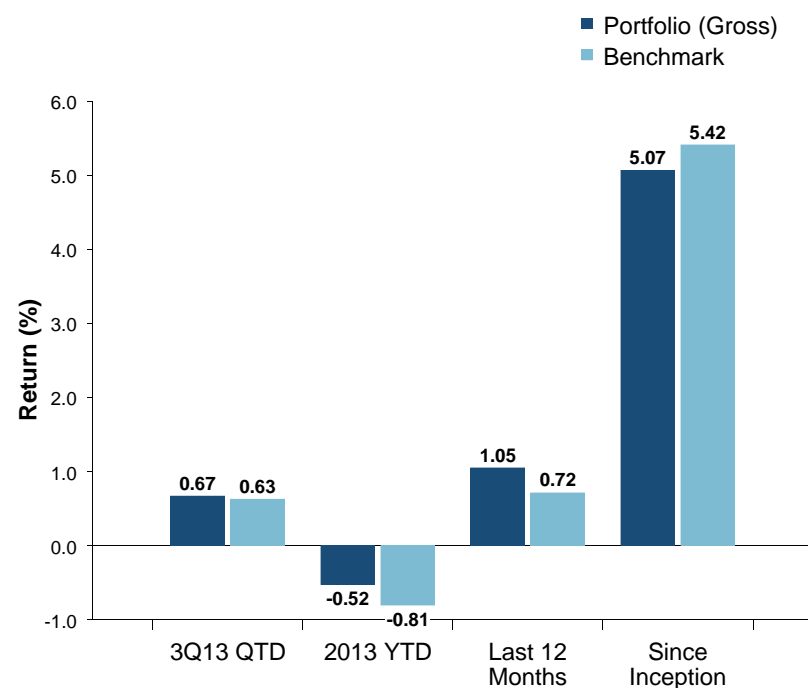
# Overall Portfolio



# Portfolio Performance

## Sector Contribution to Duration

### Portfolio Performance vs. Benchmark<sup>1</sup> (%)



	Portfolio <sup>2</sup> Gross(%)	Benchmark <sup>1</sup> (%)	Difference <sup>3</sup> Gross(bps)
<b>Monthly</b>			
Jul-13	0.67	0.63	4
Jun-13	-1.53	-1.62	8
May-13	-1.19	-1.30	11
Apr-13	0.90	1.02	-12
Mar-13	0.30	0.23	7
Feb-13	0.49	0.48	1
<b>Quarterly</b>			
3Q13 QTD	0.67	0.63	4
2Q13	-1.83	-1.91	8
1Q13	0.66	0.49	16
4Q12	0.52	0.59	-6
<b>Yearly</b>			
2013 YTD	-0.52	-0.81	28
2012	5.99	6.56	-56
2011	6.94	5.96	98
<b>Trailing</b>			
Last 6 Months	-0.38	-0.59	20
Last 12 Months	1.05	0.72	33
Last 3 Years	4.66	4.38	28
<b>Since Inception(Ann)<sup>4</sup></b>			
Return	5.07	5.42	-34
Standard Deviation	3.80	4.28	
Tracking Error <sup>5</sup>			122
Information Ratio <sup>6</sup>			-0.28

As of July 31, 2013

Benchmark: 80% (Barclays 15% US Govt 1-5yr, 15% US MBS, 10% US ABS, 35% US Int Credit A+, 10% US CMBS ERISA, 15% US Int Credit Baa) & 20% (67% S&P 500, 20% Russell 2000, MSCI ACWI).

Portfolio holdings may not be representative of current or future investments. The securities discussed do not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable. Note: allocations





# Performance Attribution

## July 31, 2012 - July 31, 2013

Strategy / Exposure	Excess Return gross (bps)
Duration	-47
Country	0
Currency	2
Sector	-10
Government/Swap	-1
Agency	-4
ABS	0
CMBS	2
RMBS	2
RMBS Credit	5
Covered Bond	0
Corporates	-15
Basis	0
Emerging Market Debt	-4
Security Selection	95
Government/Agency	60
Collateralized	27
Corporates	-1
Municipal	0
Emerging Market Debt	9
Intraday Pricing/T-costs	-13
Residual/Other	6
Official GSAM Performance	33

<sup>1</sup> The difference between the fixed income proprietary risk and attribution model and the official GSAM performance system may be due to varying pricing, valuation, and data sources, as well as ad hoc custodian and accounting reconciliations.

Note: allocations may not sum to total due to rounding

Benchmark: FMTA Consolidated Custom Bmk.

**Past performance does not guarantee future results, which may vary.**

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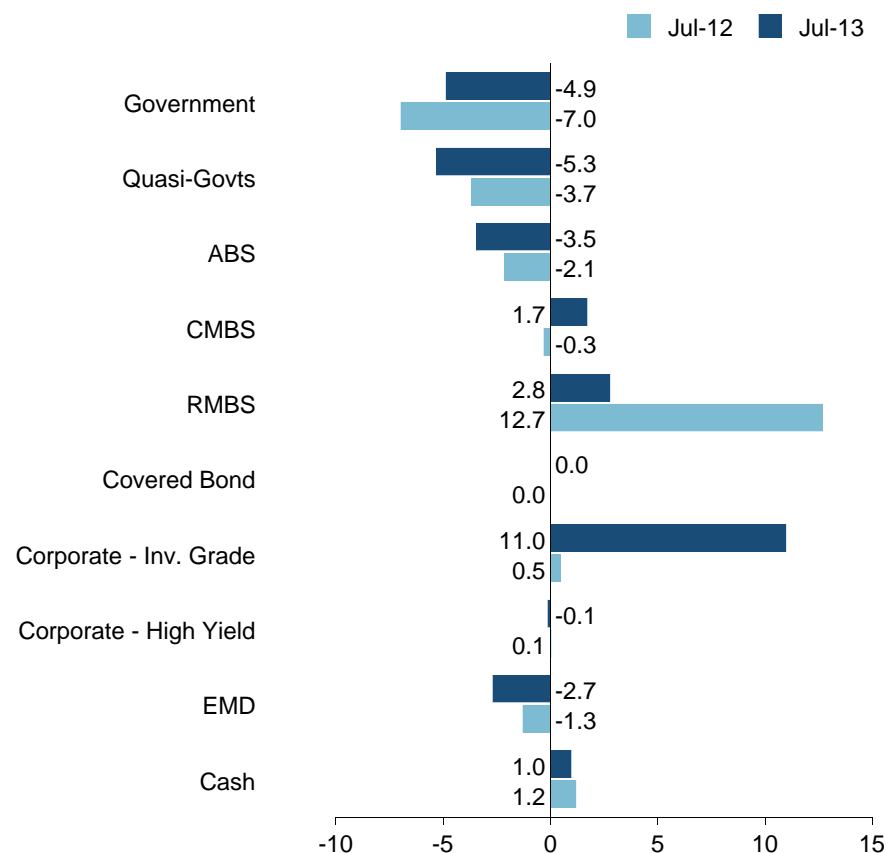
The returns presented herein are gross and do not reflect the deduction of investment advisory fees, which will reduce returns.



# Portfolio Positioning

## Sector Allocation and Statistics

### Deviation from Benchmark (MV,%)



### Portfolio Value vs. Benchmark (MV,%)

	Portfolio	Benchmark	Deviation
Government	7.8	12.6	-4.9
Quasi-Govts	4.5	9.8	-5.3
ABS	6.0	9.5	-3.5
CMBS	11.2	9.5	1.7
RMBS	17.0	14.3	2.8
Covered Bond	0.0	0.0	-0.0
Corporate - Inv. Grade	47.5	36.5	11.0
Corporate - High Yield	4.8	4.9	-0.1
EMD	0.2	2.8	-2.7
Cash	1.0	0.0	1.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

### Portfolio Statistics

	Portfolio	Benchmark
Average Rating	AA-	AA-
Duration (years)	4.09	4.29
Coupon	3.88	3.59
Yield To Worst	2.5	2.14
OAS	103	68
Market Value (\$MM)	347	n/a

As of July 31, 2013

Benchmark: FMTA Consolidated Custom Bmk.

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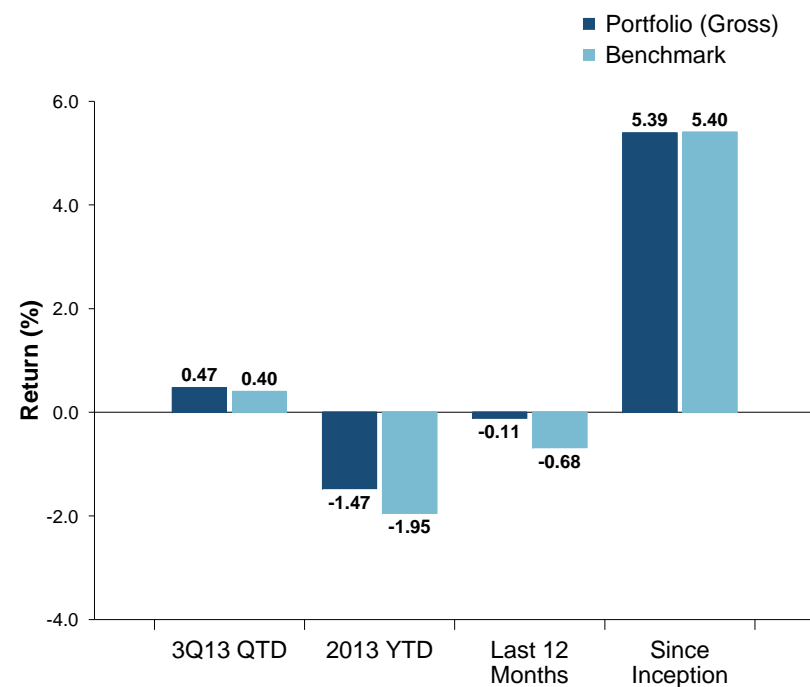
# **General Operating Account**



# Performance Summary

## As of July 31, 2013

### Portfolio Performance vs. Benchmark<sup>1</sup> (%)



	Portfolio <sup>2</sup> Gross(%)	Benchmark <sup>1</sup> (%)	Difference <sup>3</sup> Gross(bps)
<b>Monthly</b>			
Jul-13	0.47	0.40	7
Jun-13	-1.66	-1.78	13
May-13	-1.44	-1.62	18
Apr-13	0.96	1.12	-16
Mar-13	0.12	0.05	7
Feb-13	0.53	0.47	6
<b>Quarterly</b>			
3Q13 QTD	0.47	0.40	7
2Q13	-2.14	-2.29	15
1Q13	0.21	-0.05	25
4Q12	0.50	0.60	-10
<b>Yearly</b>			
2013 YTD	-1.47	-1.95	48
2012	5.83	6.39	-57
2011	7.88	6.68	120
<b>Trailing</b>			
Last 6 Months	-1.04	-1.39	35
Last 12 Months	-0.11	-0.68	57
Last 3 Years	4.34	3.92	42
<b>Since Inception(Ann)<sup>4</sup></b>			
Return	5.39	5.40	-1
Standard Deviation	3.73	4.34	
Information Ratio <sup>5</sup>			-0.01

<sup>1</sup> Benchmark: Barclays 15% US Govt 1-5yr, 10% US ABS, 10% US CMBS, 35% US Credit A+, 15% US MBS, 15% US Credit Baa.

<sup>2</sup> Gross return is the return of the portfolio calculated before the deduction of investment management fees, which will reduce returns.

<sup>3</sup> Gross difference is the difference between the portfolio gross return and the benchmark return.

<sup>4</sup> Performance Inception Date: October 1, 2006

<sup>5</sup> Information Ratio is the annualized excess return divided by the annualized tracking error.

**Past performance does not guarantee future results, which may vary.**

All Periods over 12 months are annualized.



# Performance Attribution

## July 31, 2012 - July 31, 2013

Strategy / Exposure	Excess Return gross (bps)
Duration	9
Country	-1
Currency	0
Sector	-13
Government/Swap	1
Agency	-4
ABS	0
CMBS	1
RMBS	2
RMBS Credit	6
Covered Bond	0
Corporates	-15
Basis	0
Emerging Market Debt	-5
Security Selection	81
Government/Agency	17
Collateralized	30
Corporates	21
Municipal	0
Emerging Market Debt	13
Intraday Pricing/T-costs	-19
Residual/Other	0
Official GSAM Performance	57

<sup>1</sup> The difference between the fixed income proprietary risk and attribution model and the official GSAM performance system may be due to varying pricing, valuation, and data sources, as well as ad hoc custodian and accounting reconciliations.

Note: allocations may not sum to total due to rounding

Benchmark: Barclays 15% US Govt 1-5yr, 10% US ABS, 10% US CMBS, 35% US Credit A+, 15% US MBS, 15% US Credit Baa.

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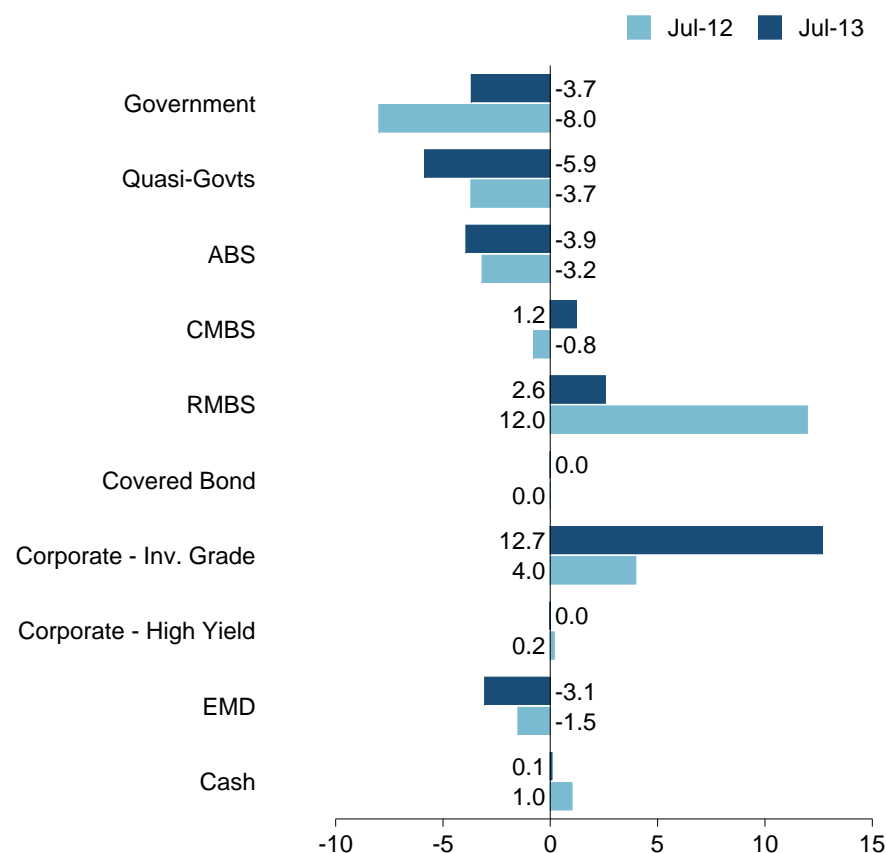
The returns presented herein are gross and do not reflect the deduction of investment advisory fees, which will reduce returns.



# Portfolio Positioning

## Sector Allocation

Deviation from Benchmark (MV,%)



Portfolio Value vs. Benchmark (MV,%)

	Portfolio	Benchmark	Deviation
Government	9.6	13.3	-3.7
Quasi-Govts	3.8	9.7	-5.9
ABS	6.1	10.0	-3.9
CMBS	11.2	10.0	1.2
RMBS	17.6	15.0	2.6
Covered Bond	0.0	0.0	-0.0
Corporate - Inv. Grade	51.3	38.6	12.7
Corporate - High Yield	0.0	0.0	-0.0
EMD	0.3	3.4	-3.1
Cash	0.1	0.0	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>-0.0</b>

Portfolio Statistics

	Portfolio	Benchmark
Average Rating	AA	AA
Duration (years)	4.68	4.85
Coupon	3.93	3.89
Yield To Worst	2.58	2.39
OAS	102	77
Market Value (\$MM)	176	n/a

As of July 31, 2013

Benchmark: Barclays 15% US Govt 1-5yr, 10% US ABS, 10% US CMBS, 35% US Credit A+, 15% US MBS, 15% US Credit Baa.

Portfolio holdings may not be representative of current or future investments. The securities discussed do not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable. Note: allocations may not sum to total due to rounding.



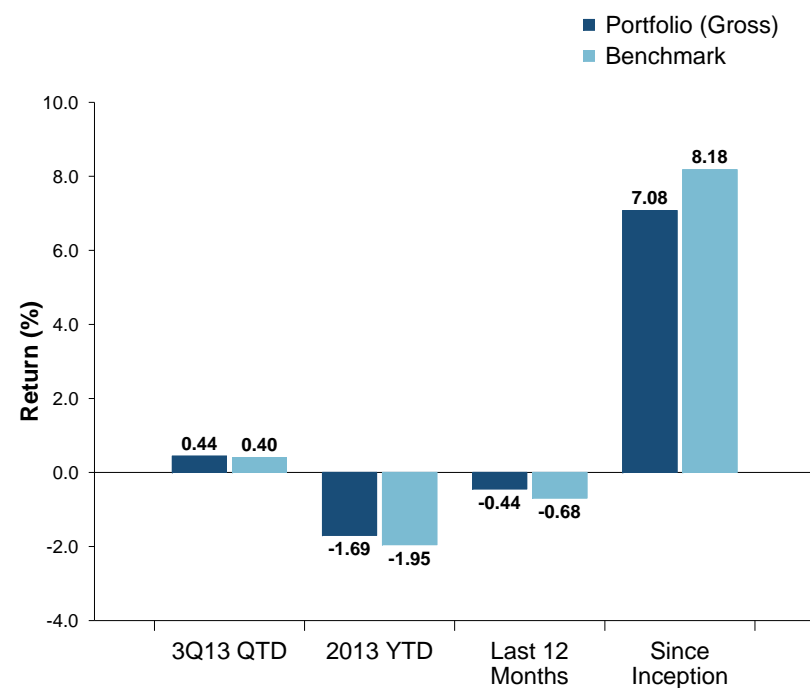
# Master Builders Risk Trust



# Performance Summary

## As of July 31, 2013

### Portfolio Performance vs. Benchmark<sup>1</sup> (%)



	Portfolio <sup>2</sup> Gross(%)	Benchmark <sup>1</sup> (%)	Difference <sup>3</sup> Gross(bps)
<b>Monthly</b>			
Jul-13	0.44	0.40	4
Jun-13	-1.72	-1.78	7
May-13	-1.51	-1.62	10
Apr-13	0.99	1.12	-13
Mar-13	0.18	0.05	13
Feb-13	0.43	0.47	-4
<b>Quarterly</b>			
3Q13 QTD	0.44	0.40	4
2Q13	-2.25	-2.29	4
1Q13	0.13	-0.05	18
4Q12	0.55	0.60	-4
<b>Yearly</b>			
2013 YTD	-1.69	-1.95	25
2012	5.63	6.39	-77
2011	7.70	6.68	102
<b>Trailing</b>			
Last 6 Months	-1.21	-1.39	18
Last 12 Months	-0.44	-0.68	24
Last 3 Years	4.09	3.92	16
<b>Since Inception(Ann)<sup>4</sup></b>			
Return	7.08	8.18	-110
Standard Deviation	3.08	3.97	
Tracking Error <sup>5</sup>			170
Information Ratio <sup>6</sup>			-0.65

<sup>1</sup> Benchmark: Barclays 15% US Govt 1-5yr, 10% US ABS, 10% US CMBS, 35% US Credit A+, 15% US MBS, 15% US Credit Baa.

<sup>2</sup> Gross return is the return of the portfolio calculated before the deduction of investment management fees, which will reduce returns.

<sup>3</sup> Gross difference is the difference between the portfolio gross return and the benchmark return.

<sup>4</sup> Performance Inception Date: December 1, 2008

<sup>5</sup> Tracking Error is the annualized standard deviation of monthly excess returns.

<sup>6</sup> Information Ratio is the annualized excess return divided by the annualized tracking error.

**Past performance does not guarantee future results, which may vary.**

All Periods over 12 months are annualized.





# Performance Attribution

## July 31, 2012 - July 31, 2013

Strategy / Exposure	Excess Return gross (bps)
Duration	-7
Country	-1
Currency	0
Sector	-23
Government/Swap	1
Agency	-3
ABS	0
CMBS	2
RMBS	3
RMBS Credit	5
Covered Bond	0
Corporates	-23
Basis	0
Emerging Market Debt	-7
Security Selection	65
Government/Agency	14
Collateralized	26
Corporates	12
Municipal	0
Emerging Market Debt	13
Intraday Pricing/T-costs	-13
Residual/Other	3
Official GSAM Performance	24

<sup>1</sup> The difference between the fixed income proprietary risk and attribution model and the official GSAM performance system may be due to varying pricing, valuation, and data sources, as well as ad hoc custodian and accounting reconciliations.

Note: allocations may not sum to total due to rounding

Benchmark: Barclays 15% US Govt 1-5yr, 10% US ABS, 10% US CMBS, 35% US Credit A+, 15% US MBS, 15% US Credit Baa.

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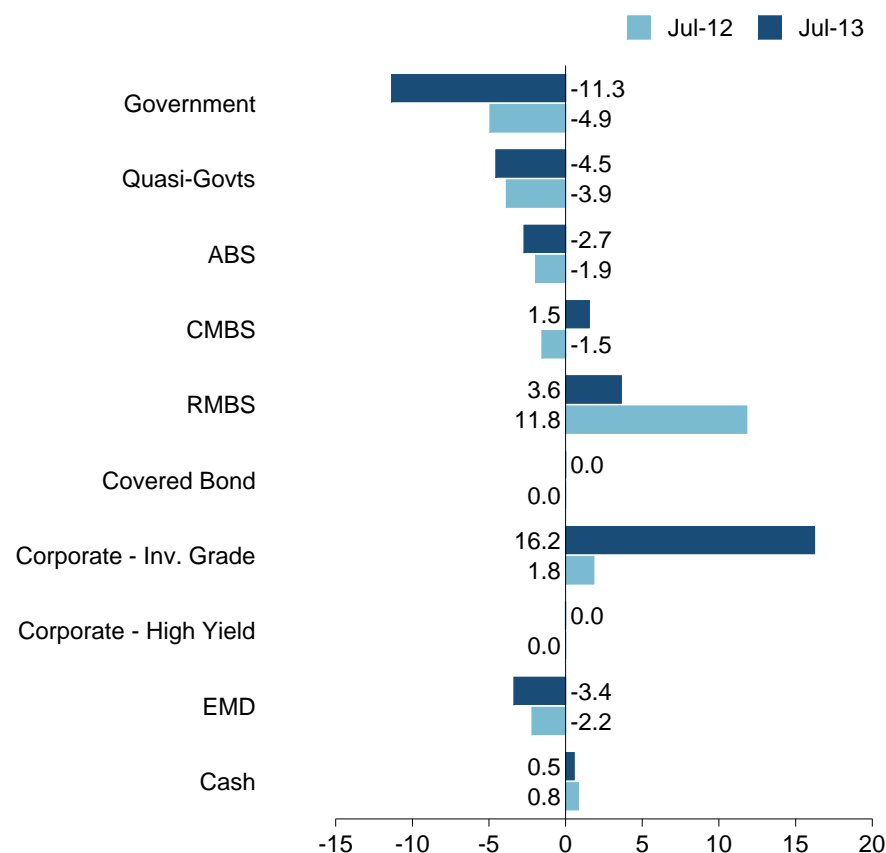
The returns presented herein are gross and do not reflect the deduction of investment advisory fees, which will reduce returns.



# Portfolio Positioning

## Sector Allocation

Deviation from Benchmark (MV,%)



Portfolio Value vs. Benchmark (MV,%)

	Portfolio	Benchmark	Deviation
Government	2.0	13.3	-11.3
Quasi-Govts	5.2	9.7	-4.5
ABS	7.3	10.0	-2.7
CMBS	11.5	10.0	1.5
RMBS	18.6	15.0	3.6
Covered Bond	0.0	0.0	-0.0
Corporate - Inv. Grade	54.8	38.6	16.2
Corporate - High Yield	0.0	0.0	-0.0
EMD	0.0	3.4	-3.4
Cash	0.5	0.0	0.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>-0.0</b>

Portfolio Statistics

	Portfolio	Benchmark
Average Rating	AA-	AA
Duration (years)	4.5	4.85
Coupon	4.11	3.89
Yield To Worst	2.65	2.39
OAS	109	77
Market Value (\$MM)	52	n/a

As of July 31, 2013

Benchmark: Barclays 15% US Govt 1-5yr, 10% US ABS, 10% US CMBS, 35% US Credit A+, 15% US MBS, 15% US Credit Baa.

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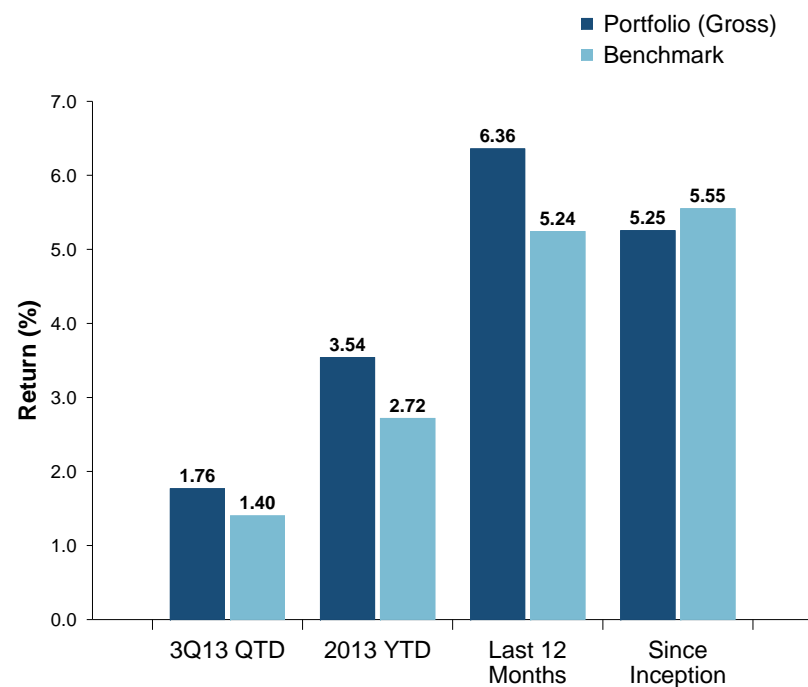
# Excess Loss Fund



# Performance Summary

## As of July 31, 2013

### Portfolio Performance vs. Benchmark<sup>1</sup> (%)



	Portfolio <sup>2</sup> Gross(%)	Benchmark <sup>1</sup> (%)	Difference <sup>3</sup> Gross(bps)
<b>Monthly</b>			
Jul-13	1.76	1.40	36
Jun-13	-1.37	-1.35	-2
May-13	-0.28	-0.49	21
Apr-13	0.97	0.95	2
Mar-13	1.03	0.82	21
Feb-13	0.50	0.54	-5
<b>Quarterly</b>			
3Q13 QTD	1.76	1.40	36
2Q13	-0.69	-0.90	21
1Q13	2.45	2.22	23
4Q12	0.68	0.66	2
<b>Yearly</b>			
2013 YTD	3.54	2.72	82
2012	8.05	7.97	8
2011	4.72	4.16	56
<b>Trailing</b>			
Last 6 Months	2.61	1.86	74
Last 12 Months	6.36	5.24	111
Last 3 Years	6.90	6.30	60
<b>Since Inception(Ann)<sup>4</sup></b>			
Return	5.25	5.55	-29
Standard Deviation	5.54	5.56	
Tracking Error <sup>5</sup>			114
Information Ratio <sup>6</sup>			-0.26

<sup>1</sup> Benchmark: 80% (Barclays 15% US Govt 1-5yr, 15% US MBS, 10% US ABS, 35% US Int Credit A+, 10% US CMBS ERISA, 15% US Int Credit Baa) & 20% (67% S&P 500, 20% Russell 2000, MSCI ACWI).

<sup>2</sup> Gross return is the return of the portfolio calculated before the deduction of investment management fees, which will reduce returns.

<sup>3</sup> Gross difference is the difference between the portfolio gross return and the benchmark return.

<sup>4</sup> Performance Inception Date: October 1, 2006

<sup>5</sup> Tracking Error is the annualized standard deviation of monthly excess returns.

<sup>6</sup> Information Ratio is the annualized excess return divided by the annualized tracking error.

**Past performance does not guarantee future results, which may vary.**

All Periods over 12 months are annualized.



# Performance Attribution

## July 31, 2012 - July 31, 2013

Strategy / Exposure	Excess Return gross (bps)
Duration	-24
Country	0
Currency	9
Sector	98
Government/Swap	-2
Agency	-5
ABS	0
CMBS	4
RMBS	2
RMBS Credit	6
Covered Bond	0
Corporates	-8
Basis	0
Emerging Market Debt	0
Security Selection	-1
Government/Agency	29
Collateralized	24
Corporates	-60
Municipal	0
Emerging Market Debt	6
Intraday Pricing/T-costs	-5
Residual/Other	34
Official GSAM Performance	111

<sup>1</sup> The difference between the fixed income proprietary risk and attribution model and the official GSAM performance system may be due to varying pricing, valuation, and data sources, as well as ad hoc custodian and accounting reconciliations.

Note: allocations may not sum to total due to rounding

Benchmark: 80% (Barclays 15% US Govt 1-5yr, 15% US MBS, 10% US ABS, 35% US Int Credit A+, 10% US CMBS ERISA, 15% US Int Credit Baa) & 20% (67% S&P 500, 20% Russell 2000, MSCI ACWI).

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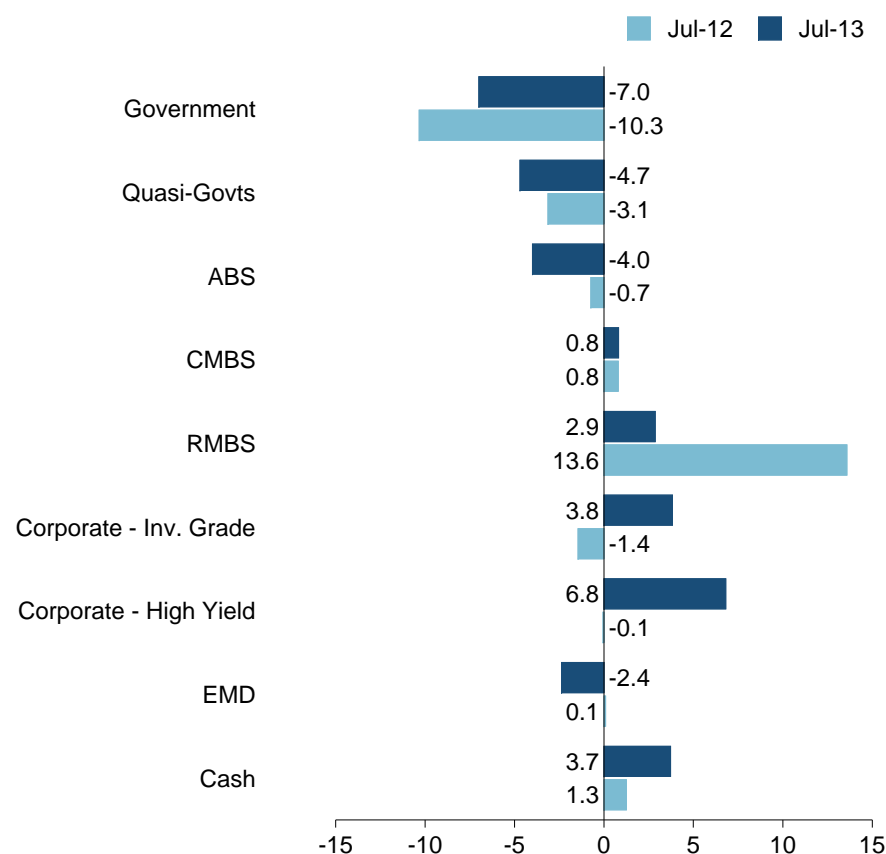
The returns presented herein are gross and do not reflect the deduction of investment advisory fees, which will reduce returns.



# Portfolio Positioning

## Sector Allocation

Deviation from Benchmark (MV,%)



Portfolio Value vs. Benchmark (MV,%)

	Portfolio	Benchmark	Deviation
Government	3.6	10.6	-7.0
Quasi-Govts	3.1	7.8	-4.7
ABS	4.0	8.0	-4.0
CMBS	8.8	8.0	0.8
RMBS	14.9	12.0	2.9
Corporate - Inv. Grade	35.0	31.2	3.8
Corporate - High Yield	26.8	20.0	6.8
EMD	0.0	2.4	-2.4
Cash	3.7	0.0	3.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>-0.0</b>

Portfolio Statistics

	Portfolio	Benchmark
Average Rating	BBB+	A-
Duration (years)	2.55	3
Coupon	3.89	2.92
Yield To Worst	2.58	1.62
OAS	126	53
Market Value (\$MM)	62	n/a

As of July 31, 2013

Benchmark: 80% (Barclays 15% US Govt 1-5yr, 15% US MBS, 10% US ABS, 35% US Int Credit A+, 10% US CMBS ERISA, 15% US Int Credit Baa) & 20% (67% S&P 500, 20% Russell 2000, MSCI ACWI).

Portfolio holdings may not be representative of current or future investments. The securities discussed do not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable. Note: allocations may not sum to total due to rounding.



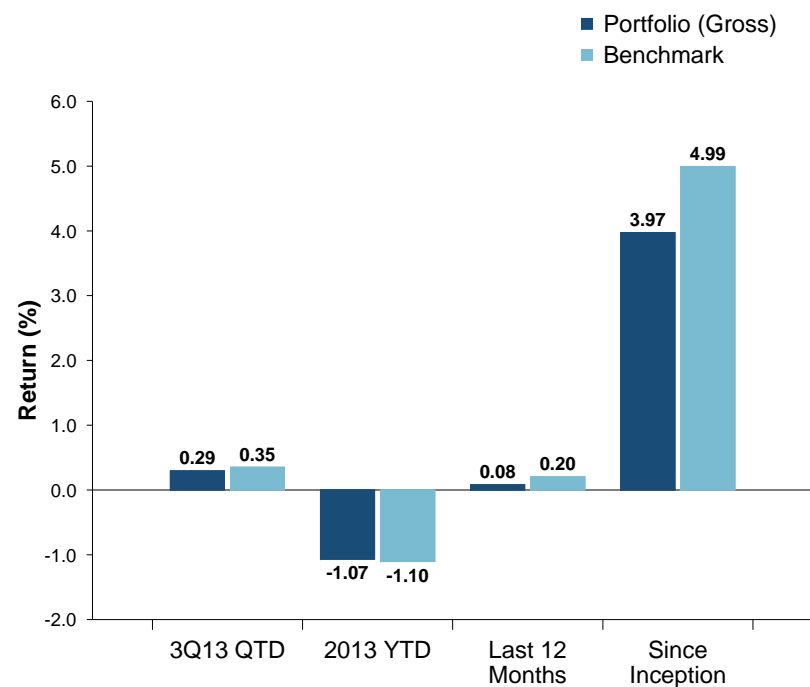
# Liberty



# Performance Summary

## As of July 31, 2013

### Portfolio Performance vs. Benchmark<sup>1</sup> (%)



	Portfolio <sup>2</sup> Gross(%)	Benchmark <sup>1</sup> (%)	Difference <sup>3</sup> Gross(bps)
<b>Monthly</b>			
Jul-13	0.29	0.35	-6
Jun-13	-1.15	-1.21	6
May-13	-1.07	-1.10	3
Apr-13	0.57	0.66	-8
Mar-13	0.15	0.10	5
Feb-13	0.47	0.42	5
<b>Quarterly</b>			
3Q13 QTD	0.29	0.35	-6
2Q13	-1.65	-1.65	-0
1Q13	0.30	0.20	10
4Q12	0.37	0.48	-11
<b>Yearly</b>			
2013 YTD	-1.07	-1.10	4
2012	4.70	5.48	-78
2011	5.57	4.88	69
<b>Trailing</b>			
Last 6 Months	-0.75	-0.79	4
Last 12 Months	0.08	0.20	-12
Last 3 Years	3.29	3.33	-4
<b>Since Inception(Ann)<sup>4</sup></b>			
Return	3.97	4.99	-102
Standard Deviation	3.77	3.57	
Tracking Error <sup>5</sup>			193
Information Ratio <sup>6</sup>			-0.53

<sup>1</sup> Benchmark: Barclays 50% US Credit Intermediate A+, 10% US CMBS Agg ERISA, 15% US MBS, 10% US ABS, 15% US Govt 1-5 yr.

<sup>2</sup> Gross return is the return of the portfolio calculated before the deduction of investment management fees, which will reduce returns.

<sup>3</sup> Gross difference is the difference between the portfolio gross return and the benchmark return.

<sup>4</sup> Performance Inception Date: October 1, 2006

<sup>5</sup> Tracking Error is the annualized standard deviation of monthly excess returns.

<sup>6</sup> Information Ratio is the annualized excess return divided by the annualized tracking error.

**Past performance does not guarantee future results, which may vary.**

All Periods over 12 months are annualized.





# Performance Attribution

## July 31, 2012 - July 31, 2013

Strategy / Exposure	Excess Return gross (bps)
Duration	-34
Country	3
Currency	0
Sector	-12
Government/Swap	2
Agency	-7
ABS	0
CMBS	2
RMBS	3
RMBS Credit	3
Covered Bond	0
Corporates	-15
Basis	0
Emerging Market Debt	-2
Security Selection	36
Government/Agency	22
Collateralized	12
Corporates	3
Municipal	0
Emerging Market Debt	-1
Intraday Pricing/T-costs	-10
Residual/Other	5
Official GSAM Performance	-12

<sup>1</sup> The difference between the fixed income proprietary risk and attribution model and the official GSAM performance system may be due to varying pricing, valuation, and data sources, as well as ad hoc custodian and accounting reconciliations.

Note: allocations may not sum to total due to rounding

Benchmark: Barclays 50% US Credit Intermediate A+, 10% US CMBS Agg ERISA, 15% US MBS, 10% US ABS, 15% US Govt 1-5 yr.

**Past performance does not guarantee future results, which may vary.**

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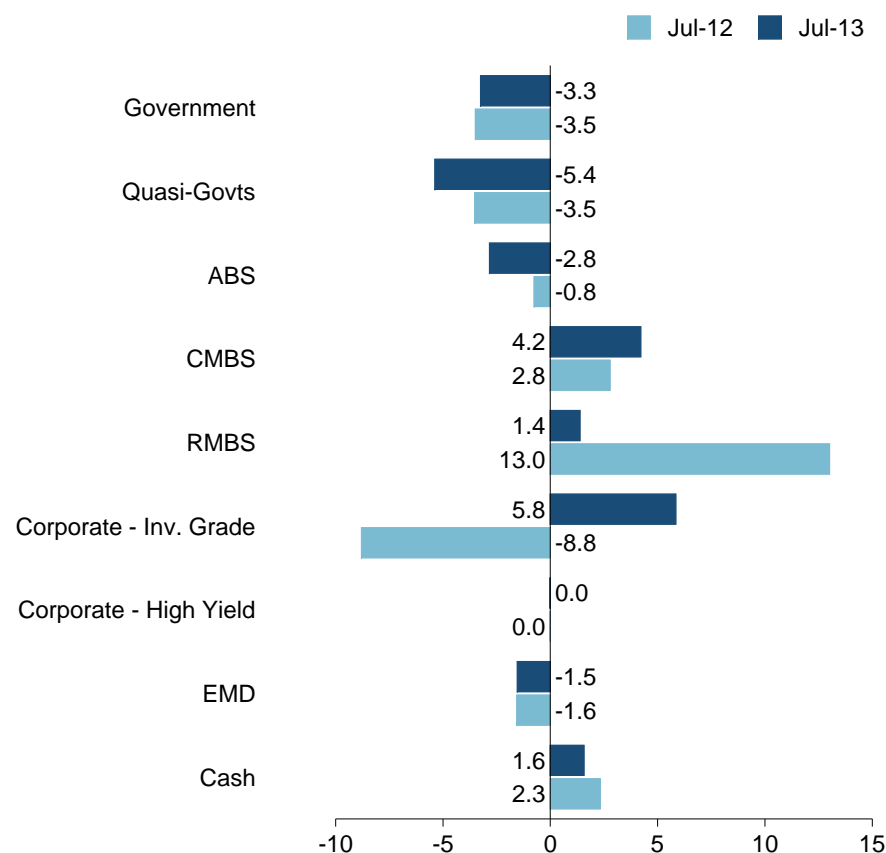
The returns presented herein are gross and do not reflect the deduction of investment advisory fees, which will reduce returns.



# Portfolio Positioning

## Sector Allocation

Deviation from Benchmark (MV,%)



Portfolio Value vs. Benchmark (MV,%)

	Portfolio	Benchmark	Deviation
Government	9.9	13.2	-3.3
Quasi-Govts	7.8	13.1	-5.4
ABS	7.2	10.0	-2.8
CMBS	14.2	10.0	4.2
RMBS	16.4	15.0	1.4
Corporate - Inv. Grade	42.9	37.1	5.8
Corporate - High Yield	0.0	0.0	-0.0
EMD	0.0	1.5	-1.5
Cash	1.6	0.0	1.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>-0.0</b>

Portfolio Statistics

	Portfolio	Benchmark
Average Rating	AA+	AA+
Duration (years)	3.49	3.71
Coupon	3.67	3.4
Yield To Worst	2.12	1.86
OAS	89	54
Market Value (\$MM)	27	n/a

As of July 31, 2013

Benchmark: Barclays 50% US Credit Intermediate A+, 10% US CMBS Agg ERISA, 15% US MBS, 10% US ABS, 15% US Govt 1-5 yr.

Portfolio holdings may not be representative of current or future investments. The securities discussed do not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable. Note: allocations may not sum to total due to rounding.



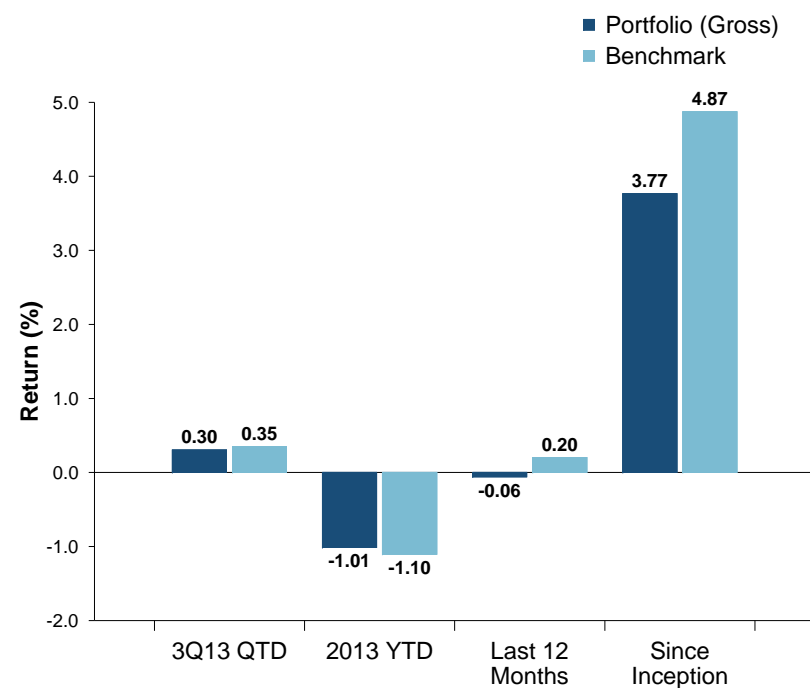
# **Liberty 2006**



# Performance Summary

## As of July 31, 2013

### Portfolio Performance vs. Benchmark<sup>1</sup> (%)



	Portfolio <sup>2</sup> Gross(%)	Benchmark <sup>1</sup> (%)	Difference <sup>3</sup> Gross(bps)
<b>Monthly</b>			
Jul-13	0.30	0.35	-5
Jun-13	-1.12	-1.21	9
May-13	-1.13	-1.10	-3
Apr-13	0.65	0.66	-1
Mar-13	0.14	0.10	4
Feb-13	0.43	0.42	1
<b>Quarterly</b>			
3Q13 QTD	0.30	0.35	-5
2Q13	-1.60	-1.65	5
1Q13	0.30	0.20	9
4Q12	0.39	0.48	-9
<b>Yearly</b>			
2013 YTD	-1.01	-1.10	9
2012	4.19	5.48	-129
2011	6.12	4.88	125
<b>Trailing</b>			
Last 6 Months	-0.74	-0.79	5
Last 12 Months	-0.06	0.20	-26
Last 3 Years	3.40	3.33	7
<b>Since Inception(Ann)<sup>4</sup></b>			
Return	3.77	4.87	-111
Standard Deviation	3.25	3.61	
Tracking Error <sup>5</sup>			171
Information Ratio <sup>6</sup>			-0.65

<sup>1</sup> Benchmark: Barclays 50% US Credit Intermediate A+, 10% US CMBS Agg ERISA, 15% US MBS, 10% US ABS, 15% US Govt 1-5 yr.

<sup>2</sup> Gross return is the return of the portfolio calculated before the deduction of investment management fees, which will reduce returns.

<sup>3</sup> Gross difference is the difference between the portfolio gross return and the benchmark return.

<sup>4</sup> Performance Inception Date: December 1, 2006

<sup>5</sup> Tracking Error is the annualized standard deviation of monthly excess returns.

<sup>6</sup> Information Ratio is the annualized excess return divided by the annualized tracking error.

**Past performance does not guarantee future results, which may vary.**

All Periods over 12 months are annualized.



# Performance Attribution

## July 31, 2012 - July 31, 2013

Strategy / Exposure	Excess Return gross (bps)
Duration	-31
Country	3
Currency	0
Sector	-23
Government/Swap	2
Agency	-7
ABS	0
CMBS	2
RMBS	3
RMBS Credit	3
Covered Bond	0
Corporates	-24
Basis	0
Emerging Market Debt	-2
Security Selection	31
Government/Agency	11
Collateralized	30
Corporates	-9
Municipal	0
Emerging Market Debt	-1
Intraday Pricing/T-costs	-7
Residual/Other	-1
Official GSAM Performance	-26

<sup>1</sup> The difference between the fixed income proprietary risk and attribution model and the official GSAM performance system may be due to varying pricing, valuation, and data sources, as well as ad hoc custodian and accounting reconciliations.

Note: allocations may not sum to total due to rounding

Benchmark: Barclays 50% US Credit Intermediate A+, 10% US CMBS Agg ERISA, 15% US MBS, 10% US ABS, 15% US Govt 1-5 yr.

**Past performance does not guarantee future results, which may vary.**

Portfolio holdings may not be representative of current or future investments. The securities discussed do not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.

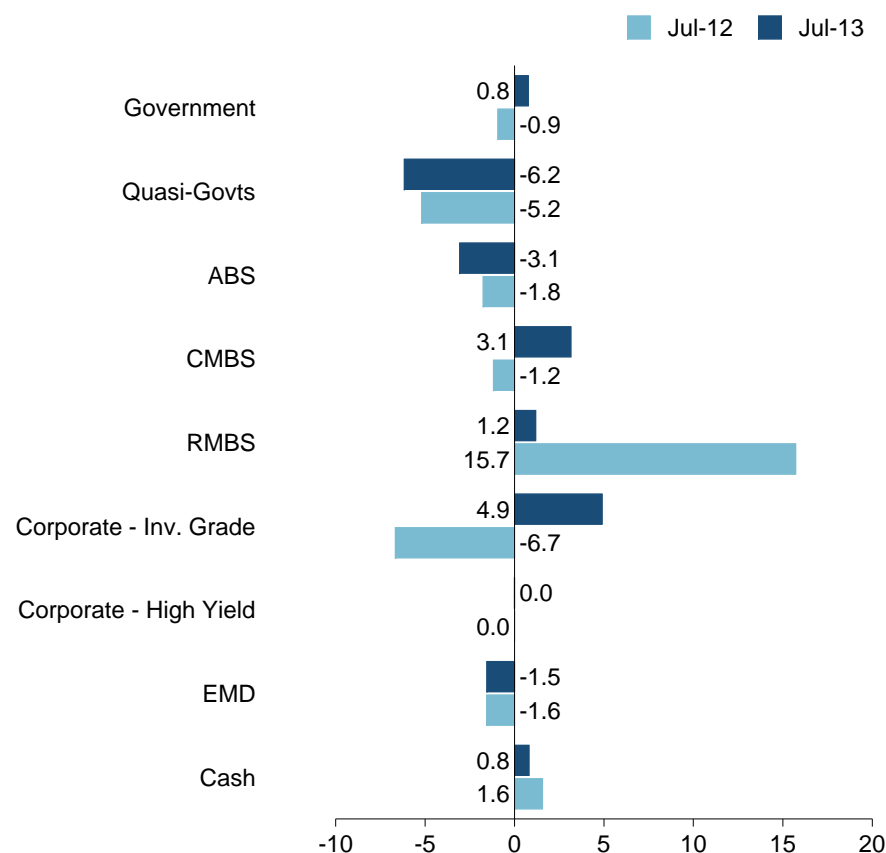
The returns presented herein are gross and do not reflect the deduction of investment advisory fees, which will reduce returns.



# Portfolio Positioning

## Sector Allocation

### Deviation from Benchmark (MV,%)



### Portfolio Value vs. Benchmark (MV,%)

	Portfolio	Benchmark	Deviation
Government	14.0	13.2	0.8
Quasi-Govts	7.0	13.1	-6.2
ABS	6.9	10.0	-3.1
CMBS	13.1	10.0	3.1
RMBS	16.2	15.0	1.2
Corporate - Inv. Grade	42.0	37.1	4.9
Corporate - High Yield	0.0	0.0	-0.0
EMD	0.0	1.5	-1.5
Cash	0.8	0.0	0.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>-0.0</b>

### Portfolio Statistics

	Portfolio	Benchmark
Average Rating	AA+	AA+
Duration (years)	3.63	3.71
Coupon	3.33	3.4
Yield To Worst	2.01	1.86
OAS	73	54
Market Value (\$MM)	29	n/a

As of July 31, 2013

Benchmark: Barclays 50% US Credit Intermediate A+, 10% US CMBS Agg ERISA, 15% US MBS, 10% US ABS, 15% US Govt 1-5 yr.

Portfolio holdings may not be representative of current or future investments. The securities discussed do not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable. Note: allocations may not sum to total due to rounding.



# Appendix



# General Disclosures





## Disclosures

This material is provided at your request solely for your use.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. The index composition may not reflect the manner in which a portfolio is constructed. While an adviser seeks to design a portfolio which reflects appropriate risk and return features, portfolio characteristics may deviate from those of the benchmark.

The portfolio risk management process includes an effort to monitor and manage risk, but does not imply low risk.

**Past performance does not guarantee future results, which may vary. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur. Opinions expressed are current opinions as of the date appearing in this material only.**

Although certain information has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness. We have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public sources.

GSAM does not provide legal, tax or accounting advice and therefore expresses no view as to the legal, tax or accounting treatment of the information described herein or any related transaction, nor are we providing any assurance as to the adequacy or appropriateness of this information or our procedures for your purposes. This material is not a substitute for the professional advice or services of your own financial, tax, accounting and legal advisors.

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Portfolio Holdings may not be representative of current or future investments. The securities discussed do not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.

Valuation levels for the assets listed in the Account statements and other documents containing prices reflect GSAM's good faith effort to ascertain fair market levels (including accrued income, if any) for all positions. The valuation information is believed by GSAM to be reliable for round lot sizes. The prices are indicative only of the assumed fair value of the positions on the relevant date. These valuation levels may not be realized by the Account upon liquidation. Market conditions and transaction size will affect liquidity and price received upon liquidation. Current exchange rates will be applied in valuing positions in foreign currency.

For portfolio valuation purposes it is the responsibility of the custodian, administrator or such other third party appointed by the client, to obtain accurate and reliable information concerning the valuation of any securities including derivative instruments which are comprised in the portfolio. The information that GSAM provides should not be deemed the official pricing and valuation for the Account. GSAM is not obligated to provide pricing information to satisfy any regulatory, tax or accounting requirements to which the Client may be subject

Views and opinions expressed are for informational purposes only and do not constitute a recommendation by GSAM to buy, sell, or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice.

Tracking Error (TE) is one possible measurement of the dispersion of a portfolio's returns from its stated benchmark. More specifically, it is the standard deviation of such excess returns. TE figures are representations of statistical expectations falling within "normal" distributions of return patterns. Normal statistical distributions of returns suggests that approximately two thirds of the time the annual gross returns of the accounts will lie in a range equal to the benchmark return plus or minus the TE if the market behaves in a manner suggested by historical returns. Targeted TE therefore applies statistical probabilities (and the language of uncertainty) and so cannot be predictive of actual results. In addition, past tracking error is not indicative of future TE and there can be no assurance that the TE actually reflected in your accounts will be at levels either specified in the investment objectives or suggested by our forecasts.



# General Disclosures

## Index Benchmarks

Indices are unmanaged. The figures for the index reflect the reinvestment of all income or dividends, as applicable, but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indices.

The indices referenced herein have been selected because they are well known, easily recognized by investors, and reflect those indices that the Investment Manager believes, in part based on industry practice, provide a suitable benchmark against which to evaluate the investment or broader market described herein. The exclusion of “failed” or closed hedge funds may mean that each index overstates the performance of hedge funds generally

High-yield, lower-rated securities involve greater price volatility and present greater credit risks than higher-rated fixed income securities

The strategy may include the use of derivatives. Derivatives often involve a high degree of financial risk because a relatively small movement in the price of the underlying security or benchmark may result in a disproportionately large movement in the price of the derivative and are not suitable for all investors. No representation regarding the suitability of these instruments and strategies for a particular investor is made.

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Compliance Review **97673.SA.OTU**

**TAB 7**

## **GSAM Insurance Asset Management**

### **Sean Saia**

#### ***Vice President; Lead Insurance Portfolio Manager; GSAM Insurance Asset Management***

Sean joined the GSAM portfolio management team as a Lead Portfolio Manager upon GSAM's acquisition of Dwight Asset Management. While at Dwight, Sean served as Head of Insurance responsible for portfolio construction, client service, business planning and marketing strategy since 2009. Prior to serving as Head of Insurance, Sean was the primary insurance client portfolio manager for six years. Sean had been with Dwight for over 20 years and his prior experience included serving as both a stable value and total return fixed income portfolio manager as well as President of Dwight Analytics, a retirement benefits consulting division of Dwight Asset Management.

### **Brian Rapino**

#### ***Vice President; Client Relationship Manager; GSAM Insurance Asset Management***

Brian Rapino is a member of the GSAM Insurance Asset Management team in the capacity of Relationship Manager for GSAM's Insurance clients. In this role, he is responsible for covering Life, Property and Casualty, and Reinsurance companies in the US and Bermuda. Prior to joining the team in 2012, Brian spent six years on the Institutional Client Relationship Management team within Goldman Sachs Asset Management as a senior member of the group focusing on client account implementations. He previously worked in the Portfolio Control & Analysis group within GSAM Operations from 2001- 2006. Brian received a B.S. in Mass Communications from Towson University.

# MARSH CAPTIVE SOLUTIONS GROUP

## Who We Are

- Captive advisory and management unit of the world's leading insurance broker
- Assisting organizations achieve their financial and strategic objectives with a complete array of captive management resources for more than 40 years
- Largest captive manager with over 1,220 clients in 37 domiciles
- More than 450 highly qualified professionals worldwide, including MBAs, CPCUs, CPAs, and JDs
- Global captive benchmarking report
- Commitment and excellence in information technology

## New York Operations

- Largest captive manager in New York State
  - As measured by number of captives, premium volume and capita/surplus under management
- Dedicated office and staff in New York
  - Office established in 2004
  - Devoted to New York State captives only
- Extensive captive experience
  - Qualified and committed professional staff with more than 30 years of combined captive management experience
- Expansive knowledge of New York State captive regulatory environment
  - Scheduled bi-weekly conversations with New York State Insurance Department (NYSID) captive regulator
  - Keep abreast of changes in regulatory requirements

## Marsh Client Service Team

### First Mutual Transportation Assurance Company ("FMTAC")

Team Member & Role	Responsibilities	Qualifications
<b>Nisala Weerasooriya</b> Head of Office, Captive Management	<ul style="list-style-type: none"><li>• Oversees the performance of the MTA's FMTAC captive management service team</li></ul>	<ul style="list-style-type: none"><li>• Over 20 years with Marsh captive management</li><li>• Over 30 years in the insurance, financial and audit industries</li><li>• 5 years with the MTA / Marsh Team</li><li>• Certified Public Accountant</li></ul>
<b>Gemma Mah</b> Client Team Leader	<ul style="list-style-type: none"><li>• Serves as the primary point of contact for the MTA</li><li>• Reviews all financial statements, budget reports and policies</li><li>• Oversees annual financial statement audit with Deloitte</li><li>• Ensures regulatory compliance with NYS Department of Financial Services</li></ul>	<ul style="list-style-type: none"><li>• 13 years with Marsh captive management</li><li>• Over 15 years in the captive insurance and audit industries</li><li>• 5 years with the MTA / Marsh Team</li><li>• Chartered Accountant</li></ul>
<b>Feiona Churaman</b> Account Manager  and <b>Heather Fogarty</b> Account Administrator	<ul style="list-style-type: none"><li>• Manages the day-to-day administration of FMTAC's payment process, accounting, premium invoicing and policy issuance</li><li>• Prepares financial statements, budget reports and bank reconciliations</li><li>• Prepares FMTAC payments and acts as liaison to the MTA Treasury department for all disbursements</li></ul>	<ul style="list-style-type: none"><li>• Combined 9 years with Marsh captive management</li><li>• Combined 6 years with the MTA / Marsh Team</li><li>• Feiona has passed all four parts of the Certified Public Accountant exam</li></ul>

# Marsh USA Inc

## MTA – Master Broker

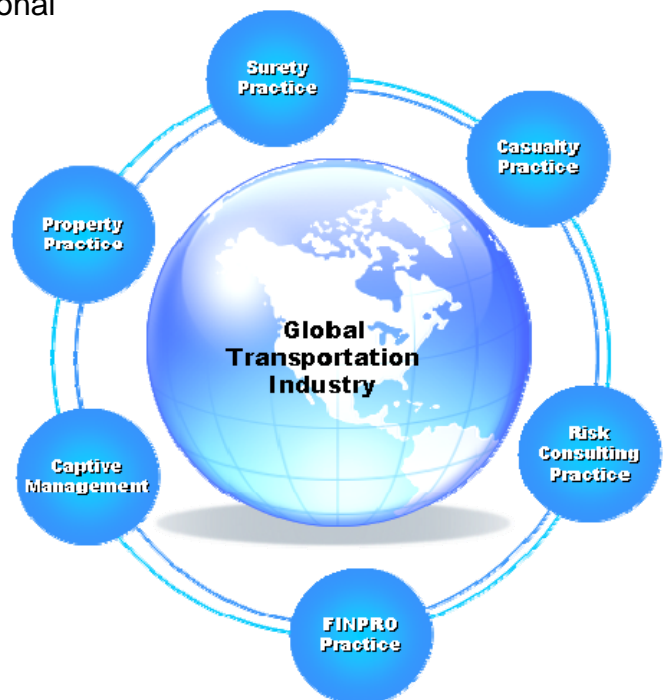
### About Marsh

Marsh USA Inc., the world's leading risk and insurance services firm, provides global risk management, risk consulting, insurance broking, financial solutions, and insurance program management services for businesses, public entities, associations, professional services organizations, and private clients in over 120 countries. Marsh is the largest operating company of Marsh & McLennan Companies ("MMC"), a publicly-traded company (NYSE Euronext: MMC).

MMC is a global professional services firm providing advice and solutions in the areas of risk, strategy and human capital. It is the parent company of some of the world's leading risk experts and specialty consultants. With more than 56,000 employees worldwide and annual revenue of approximately \$11 billion, MMC provides analysis, advice, and transactional capabilities to clients around the world.

### Industry Resources

Marsh combines traditional Risk Practices with Industry Specializations. The MTA is serviced by risk professionals in Marsh's Property, Casualty, Financial, Professional Liability, Surety, and Risk Consulting departments, while benefiting from the expertise of the Global Transportation Industry Practice. This structure enables Marsh to provide focused insurance advice founded on a solid understanding of the MTA.



### MTA Client Service Team

#### ACCOUNT MANAGEMENT

##### Jerry Harley – Client Executive

Mr. Harley is a specialist in transportation and construction risk management. He is responsible for the overall account strategy and delivery of the risk management support services to the MTA.

## **CLIENT ADVISORY SERVICES**

**Michaela Grasshoff/Veronica Hernandez – Casualty Insurance Advisors**

**Kathy Bettencourt/John Byrnes – Property Insurance Advisors**

These individuals provide support and expertise in coverage, exposures, and financial analysis with the goal of providing maximized coverage while reducing the MTA's total cost of risk. They also provide the MTA with information on emerging risk issues and industry, carrier and market trends.

## **GLOBAL PLACEMENT SERVICES**

**Anne Ffrench – Zurich**

**Neil Robb – Bermuda**

**Tom Davies – London**

**Jonathan Fennelly - Dublin**

Marsh's Global Placement teams interact with the Client Advisors to design and place insurance for and reinsurance of FMTAC. Global Placement Specialists support the MTA in the placement of numerous general liability, environmental, automobile, property, terrorism, and excess liability coverages.

## **MARSH'S RISK CONSULTING PRACTICE**

**John Kanouse – Casualty Loss Control Manager**

**Carl Patchke – Casualty Claims Manager**

These individuals support the MTA's pre- and post-loss initiatives with over 20 team members who specialize in risk analysis and cost of risk reduction. They are specialists in their respective disciplines and apply their knowledge of the transportation industry to create effective workforce, loss control, claims, and business continuity solutions for the MTA.

## **MILLIMAN, INC.**

Milliman was founded in 1947, and was officially incorporated on July 5, 1957. We provide a full range of actuarial and other consulting services to our clients in the areas of Property & Casualty Insurance, Employee Benefits & Investment Consulting, Healthcare, and Life Insurance & Financial Services. Founded by Wendell Milliman and Stuart Robertson, Milliman has grown into a global firm of consultants and actuaries with more than 50 offices in the US and overseas.

In the alternative insurance market, Milliman advises clients on establishing and maintaining reserves for high-deductible retentions, self-insurance retentions, captive insurance companies and risk retention groups. Our services include independent evaluations of loss and loss adjustment expense liabilities and reserve opinions similar to what we provide to First Mutual Transportation Assurance Company. We also assist various agencies of the Metropolitan Transportation Authority, FMTAC's parent, in managing their self-insured claim obligations.

Our New York Metro practice is among the largest property/casualty insurance consulting practices in the Northeast and consists of over 35 actuaries, plus other highly qualified consulting professionals in several other fields, including: economics, claims management and underwriting management. With wide-ranging expertise, practical business intelligence, and the depth of resources to manage projects of any size, we deliver solutions tailored to our clients' needs. Our experience includes: mass tort reserve reviews, expert testimony, insurance product design and pricing, funding level estimation, financial forecasting, asset/liability management, and operational reviews.

### Client Service Team:

Will Carbone, FCAS, is the lead analyst for Milliman's actuarial review and is responsible for developing reserve estimates for the captive.

Dana Jackson, Actuarial Analyst, is responsible for data management and implementation of the actuarial models that underlie our analyses of claim liabilities for FMTAC.

Derek Jones, FCAS and Principal, manages the day-to-day operation for Milliman and signs the Statement of Actuarial Opinion for the captive.



# TAB 8

## **Glossary of Captive Insurance Terms**

**Actuarial Report** - An analysis intended to project ultimate loss costs using probability theory and other methods of statistical analysis. Used to determine the adequacy of a property and casualty insurer's statutory loss reserves and life insurer's unearned premium (technical) reserves.

**Adjuster** - A person who settles claims for insurers or self-insurance pools who may be either an employee of the insurance company or an independent contractor engaged by the insurer or self-insured.

**Admitted Company** - A company licensed or authorized to sell insurance to the general public. In the U.S., admitted companies are licensed on a state-by-state basis and differentiated from surplus lines insurers, which are authorized to sell insurance in a state on a non-admitted basis,

**Affiliated Risk** - The risks of the owners of the captive or their affiliates or of the participant in a captive cell when describing risks insured in a captive,

**Aggregate** - The greatest amount recoverable under a policy or reinsurance agreement from a single loss or all losses incurred during the contract period (can be multiyear or annual).

**Aggregate Excess** - Short for aggregate excess of loss. A method by which an insurer may recover excess losses after a policy or reinsurance aggregate or underlying deductible has been exhausted.

**Broker** - An intermediary who represents the insured in the purchase of insurance or reinsurance. Therefore, the broker's compensation should be from the insured, not the insurer, to prevent conflicts of interest.

**Captive** - An insurance company that has as its primary purpose the financing of the risks of its owners or participants. Typically licensed under special purpose insurer laws and operated under a different regulatory system than commercial insurers. The intention of such special purpose licensing laws and regulations is that the captive provides insurance to sophisticated insureds that require less policyholder protection than the general public.

**Case Reserves** - Loss reserves set up for an identified claim, with each claim assigned a case number.

**Claims-made Insurance** - Insurance that provides coverage for claims made against an insured within the policy period, regardless of when the action or accident giving rise to the claim occurred. The insured must have been notified of the claim after the retroactive date and must report it to the insurer before the expiration of the policy or any extended reporting period.

**Deductible** - An amount that an insured agrees to pay, per occurrence or on a per-policy basis, toward the total amount of the insured loss or losses. Insurance is written on this basis at reduced rates since the insured is responsible for the deductible payments as losses occur.

**Deferred Acquisitions Cost** - The amount of an insurer's acquisition costs incurred as premium is written but earned and expensed over the term of the policy. The deferred portion is capitalized and recognized as an asset on the insurer's balance sheet.

**Deferred Tax Asset** - The amount of loss reserves or unearned premium that is not deducted from an insurer's income when calculating income taxes. The deferral in the tax deduction arises because of the requirement to discount loss and unearned premium reserves. The insurer records an asset equal to the expected future amount of the tax deduction,

**Earned Premium** - The amount of premium covering the period a policy has been in force. Usually property, casualty, and health premium is earned in equal proportion to the amount of time elapsed since policy inception, i.e., 1/12 per month, but life insurance and some property and casualty policies insuring seasonal risks may earn in proportion to the amount of exposure.

**Gross Written Premium (GWP)** - The total premium written and assumed by an insurer before deductions for reinsurance and ceding commissions.

**Incurred but not reported (IBNR)** - The loss reserve value established by insurance and reinsurance companies in recognition of their liability for future payments on losses that have occurred but that have not yet been reported to them.

**Incurred Loss** - Total amount of a loss, including amounts paid and reserves for future payments.

**Insured** - Person or organization covered by an insurance policy, including the "named insured" and any additional insureds for-whom protection is provided under the policy term.

**Liability Limits** - The stipulated sum or sums beyond which an insurance company is not liable for payments due to a third party. The insured remains legally liable above the limits.

**Limitation of Risk** - The maximum amount an insurer or reinsurer must pay in any one loss event.

**Loss** - The destruction, reduction, or disappearance of value of tangible or intangible property; bodily or emotional injury; or reduction in income

**Loss Adjustment Expense (LAE)** - The expense incurred by the insurer in the investigation, defense, and settlement of claims under its policies.

**Occurrence** - An accident or incident, including continuous or repeated exposure to conditions that result in a loss neither expected nor intended from the standpoint of the insured, or an act or related series of acts that result in the same.

**Premium** - The sum paid for an insurance policy or consideration in the insurance contract. As income to the insurer, it is therefore the basis for taxes on the insurer.

**Pure Premium** - The amount of premium calculated for the risk to be insured, net of policy expenses. The amount of premium available to pay losses and allocated loss adjustment expenses (ALAEs).

**Sponsor** - The legal entity that contributes statutory capital to form a sponsored or association captive.

**Standard Premium** - Premium established by using rates believed by underwriters to reflect the standard or average risk for the class, before application of retrospective rating formulas. When debits and credits based on the insureds loss history or exposure are applied, the standard premium equals the pure premium.

**Underwriting Expenses** - 1. The cost incurred by an insurer when deciding whether to accept or decline a risk; may include meetings with the insureds or brokers, actuarial review of loss history, or physical inspections of exposures. 2. Expenses deducted from insurance company revenues (including incurred losses and acquisition costs) to determine underwriting profit.

**Underwriting Profit**- Insurer profit before investment income and income taxes.

**Underwriting Risk** - Uncertainty about whether or when a loss will occur and its amount.

**Unearned Premium (UEP)** - In property and casualty insurance, the fraction of written premium corresponding to the unexpired paid-up portion of the policy. If a policy has cancellation provisions, this is reserved on either a gross or short-rate basis (both discounted for income tax calculations).

**Yellow Book** - The annual reporting form for property and casualty insurers in the U.S.