

Report on the Examination

of

CASTLE HILL INSURANCE COMPANY
Warwick, Rhode Island

as of

December 31, 2011



State of Rhode Island and Providence Plantations
Department of Business Regulation
Insurance Division



State of Rhode Island and Providence Plantations
DEPARTMENT OF BUSINESS REGULATION
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Insurance Division

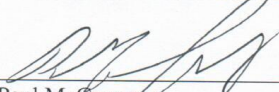
DIRECTOR'S ORDER

The attached Report of Examination as of December 31, 2011, of the condition and affairs of CASTLE HILL INSURANCE COMPANY, was recently completed by duly qualified examiners, pursuant to the provisions of the Rhode Island General Laws.

Due consideration has been given to the comments of the examiners regarding the operation of the Company and its financial condition, as reflected in the report.

It is therefore ORDERED that said Report be, and it is hereby, adopted and filed and made an official record of this Department as of this date.

DEPARTMENT OF BUSINESS REGULATION



Paul McGreevy
Director / Insurance Commissioner

ORDER # 12-073

DATED: 12-14-12

TABLE OF CONTENTS

	<u>Page</u>
SALUTATION	1
SCOPE OF EXAMINATION	2
HISTORY AND CORPORATE RECORDS	3
MANAGEMENT	5
Shareholders	5
Board of Directors	5
Committees	8
Officers	8
Conflict of Interest	9
Corporate Records	10
FIDELITY BONDS AND OTHER INSURANCE	10
OFFICERS' AND EMPLOYEES' WELFARE AND PENSION PLANS	11
STATUTORY DEPOSITS	11
TERRITORY AND PLAN OF OPERATION	12
REINSURANCE	12
Ceded Reinsurance	12
ACCOUNTS AND RECORDS	13
INSURANCE HOLDING COMPANY SYSTEM	13
Organizational Structure	14
Intercompany Service Agreement	15
FINANCIAL STATEMENTS	16
Comparative Statement of Assets, Liabilities and Surplus and Other Funds	17
Statement of Income	18
Capital and Surplus Account	19
Reconciliation of Surplus	20
Analysis of Examination Adjustments	21
ASSETS	22
Bonds	22
POLICYHOLDERS' SURPLUS	23
SUBSEQUENT EVENTS	24
CONCLUSION	25

December 4, 2012

Honorable Paul McGreevy
Insurance Commissioner
State of Rhode Island and Providence Plantations
Department of Business Regulation
1511 Pontiac Avenue, Bldg. 68-2
Cranston, Rhode Island 02920

Dear Commissioner:

In accordance with your instructions and pursuant to Chapters 13, 13.1 and 35 of Title 27 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2011 of the financial condition and affairs of

CASTLE HILL INSURANCE COMPANY

at its home office located at One Beacon Centre, Warwick, Rhode Island. The report of such examination is herewith submitted.

Castle Hill Insurance Company, hereinafter referred to as “Castle Hill” or the “Company,” was previously examined as of December 31, 2007 by the Insurance Division of the State of Rhode Island (“Insurance Division”). The current examination was also conducted by the Insurance Division.

SCOPE OF EXAMINATION

The current examination was performed in compliance with the above-mentioned sections of the General Laws of the State of Rhode Island, and covered the intervening four-year period ended December 31, 2011. The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”), Risk-Focused Examination Process. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about corporate governance, identifying and assessing inherent risks, and evaluating the controls and procedures used to mitigate those risks. The examination included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, and management’s compliance with Statutory Accounting Principles and the NAIC *Annual Statement Instructions*. The examination process included a business risk assessment to focus examination procedures on those areas considered to have greater risk in order to identify significant operating issues and/or deviations from statutory accounting practices that may affect solvency. All accounts and activities of the Company were considered in accordance with the Risk-Focused Examination Process.

The Company is a wholly owned subsidiary of The Beacon Mutual Insurance Company (“Beacon Mutual”). A concurrent examination was made of Beacon Mutual, and a report thereon is submitted under separate cover.

HISTORY AND CORPORATE RECORDS

Castle Hill Insurance Company was incorporated on October 17, 2003, through the actions of its sole incorporator, Joseph A. Solomon (“Sole Incorporator”) and pursuant to the filing of its original Articles of Incorporation with the Secretary of State, as approved by the Director of the Department of Business Regulation.

On October 17, 2003, acting pursuant to the authority contained in Rhode Island General Laws §7-1-5 and §27-1, the Sole Incorporator consented to various actions for and on behalf of the Company in connection with the organization of the Company and authorized certain other actions relating to the formation of the Company. The Sole Incorporator resigned immediately following his functions and duties as sole incorporator.

Subsequent to the Sole Incorporator’s resignation, the sole shareholder, Beacon Mutual and its directors executed a written consent as authorized by the provisions of Rhode Island General Laws §7-1-5, §27-1, the Rhode Island Business Corporation Act, the Articles of Incorporation and the bylaws of the Company to, among other things, ratify, approve and confirm all actions taken by the Sole Incorporator as set forth in the Consent of Sole Incorporator dated October 17, 2003. This written consent constituted the first meeting of the sole shareholder and Board of Directors of the Company.

The Articles of Incorporation give the Company the authority to engage in the business of workers’ compensation and employers’ liability insurance and further provide that the

authorized capital stock of the Company shall be divided into two classes of stock: (i) five-thousand (5,000) shares of common stock with a one-thousand dollar (\$1,000) par value, and (ii), fifteen-thousand (15,000) shares of cumulative preferred stock with a one-thousand dollar (\$1,000) par value.

On November 5, 2003, the Company issued twenty-million dollars (\$20,000,000) of capital stock to The Beacon Mutual Insurance Company consisting of five-thousand (5,000) shares of common stock with a one-thousand dollar (\$1,000) par share representing aggregate consideration of five-million dollars (\$5,000,000) in the form of cash, and fifteen-thousand (15,000) shares of preferred stock with a one-thousand dollar (\$1,000) par value representing aggregate consideration of fifteen-million dollars (\$15,000,000) in the form of cash.

The principal office of the Company is located within the home office of its parent, Beacon Mutual, in Warwick, Rhode Island.

The records of meetings of the Sole Shareholder and Board of Directors were reviewed as part of this examination. The meetings appeared to be held in accordance with the Company's bylaws and did not contain evidence of any actions contrary to the Company's Articles of Incorporation, bylaws, or the Rhode Island General Laws.

MANAGEMENT

Shareholders

The bylaws provide that the annual meeting of the shareholders shall be held at a time and place in June in each year to be determined by the Board of Directors for the purpose of electing directors and for the transaction of such other business as may come before the meeting.

Special meetings of the shareholders may be called by the President or by the Board of Directors, and shall be called by the President at the request of the holders of not less than ten percent (10%) of all outstanding shares of capital stock of the Company entitled to vote at the meeting. The holders of a majority of the issued and outstanding shares of capital stock of the Company entitled to vote, represented in person or by proxy, shall constitute a quorum at all meetings of the shareholders except as otherwise provided in the bylaws or by the Articles of Incorporation.

Any action taken at a meeting of the shareholders may be taken without a meeting if all of the shareholders entitled to vote consent to such action in writing.

Board of Directors

The bylaws provide that the business and affairs of the Company shall be managed by its Board of Directors. The initial number of directors shall be eleven (11) and shall serve a term that expires at the first annual meeting of the shareholders. At the first annual meeting

of the shareholders, the directors shall be divided into three (3) classes of approximately equal size. The term of office of the directors in the first class shall expire at the second annual meeting of the shareholders; the term of office of the second class of directors shall expire at the third annual meeting of the shareholders; and the term of office of the third class of directors shall expire at the fourth annual meeting of the shareholders. Beginning with the election of directors at the second annual meeting of the shareholders, all directors shall be elected to serve for a term of three (3) years.

Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though not less than a quorum of the Board of Directors. A director elected to fill a vacancy shall be elected for the unexpired term of such director's predecessor in office.

A regular meeting of the Board of Directors shall be held immediately after and at the same time and place as the annual meeting of the shareholders. The Board of Directors may provide by resolution the time and place for the holding of additional regular meetings without notice other than such resolution.

Special meetings of the Board of Directors may be called by or at the request of the President or any one director.

A majority of the number of directors of the Company shall constitute a quorum for the

transaction of business at any meeting of the Board of Directors.

The act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be the act of the Board of Directors, unless a greater number is required by law or by the Articles of Incorporation. Meetings of directors may be held by means of a telephone conference, and connection to such conference shall constitute presence at such meeting.

The members of the Board of Directors serving at December 31, 2011 are as follows:

Name	Business Affiliation	Term Expires
Richard J. DeRienzo (Chair)	Principal Lefkowitz, Garfinkel, Champi & DeRienzo, P.C.	2012
Raymond C. Coia (Vice Chair)	Coordinator New England Laborer's Tri-Funds	2014
H. Robert Bacon (Secretary)	Owner Gregg's Restaurants, Inc.	2014
Sister M. Therese Antone	Chancellor Salve Regina University	2014
James V. Rosati	President and Chief Executive Officer The Beacon Mutual Insurance Company	2012
Michael J. Ruggieri	Business Manager Iron Workers Union Local No. 37	2013
Carol E. Saccucci	Attorney Saccucci Lincoln Mercury, Inc.	2013
John F. Treanor	Board Member Washington Trust Company	2013

Committees

The bylaws stipulate that, the Board of Directors may, by resolution adopted by a majority of the full Board of Directors, designate from amongst its members an Executive Committee and one or more other committees each of which, to the extent provided in such resolution, shall have and may exercise any or all of the authority of the Board of Directors. At December 31, 2011, there were no committees of the Board of Directors.

Officers

The bylaws provide that the officers of the Company shall be a President, one or more Vice-Presidents if elected, a Secretary, a Treasurer and such other officers and agents as may be deemed necessary by the Board of Directors.

The officers shall be elected annually by the Board of Directors. Each officer shall hold office until his or her successor shall have been duly elected and qualified or until such officer's death, resignation or removal. A vacancy in any office may be filled in the manner prescribed in the bylaws and any such vacancy shall be filled for the unexpired portion of the term.

The officers serving and their respective titles at December 31, 2011 are as follows:

James V. Rosati	President and Chief Executive Officer
Clifford L Parent, Jr.	Executive Vice President, Chief Operating Officer and Secretary
Cynthia L. Lawlor	Chief Financial Officer and Treasurer
Brian Spero	Vice President, General Counsel and Assistant Secretary
Michael D. Lynch	Vice President and Assistant Secretary

Conflict of Interest

The Company is included under the conflict of interest policies and procedures adopted by its parent, Beacon Mutual. On October 17, 2007, the Beacon Mutual Board of Directors approved an Employee Code of Ethics and Conflict of Interest Policy (“Policy”) which supersedes a similar Policy that had been in effect since March 15, 1995. The Policy informs employees of their responsibilities regarding unethical behavior, expense reimbursement policies, related parties, and agreements entered into on the Company’s behalf. On an annual basis, all employees are required to acknowledge in writing that they have not violated the Policy and have reported any violations as required by the Policy. Members of the Board of Directors and senior management sign a separate Conflict and Disclosure Policy and Form that provides general guidelines for the discharge of their duties pursuant to the Principles of Corporate Governance adopted by the Company, and are an affirmation of the ethical and professional standards that should govern each director’s business relationship with the Company, vendors and third parties.

As part of this examination, a sample of completed conflict of interest questionnaires was reviewed to verify that they were properly completed in accordance with the Policy. In addition, a review of the minutes to the meetings of the Beacon Mutual Governance

Committee and other related documentation was made to determine whether potential conflicts of interest are being adequately addressed. Although potential conflicts of interest could exist, there is no indication in the documentation examined of a situation involving an actual conflict of interest that has not been adequately disclosed and addressed by the Company.

Corporate Records

The records of the meetings of the Sole Stockholder and Board of Directors were reviewed as part of this examination. The meetings appeared to be held in accordance with the Company’s bylaws and did not contain evidence of any actions contrary to the Company’s Articles of Incorporation, bylaws, or the Rhode Island General Laws.

FIDELITY BONDS AND OTHER INSURANCE

At December 31, 2011, the Company and its parent, Beacon Mutual, were named insureds on a Financial Institution Bond (“Bond”) issued by an insurer authorized to transact business in Rhode Island. The following is a summary of the coverages provided under the Bond:

Insuring Clause	Single Loss Limit of Liability	Single Loss Deductible
Employee Dishonesty and Fraudulent Acts	\$5,000,000	\$50,000
On Premises	5,000,000	50,000
In Transit	5,000,000	50,000
Forgery or Alteration	5,000,000	50,000
Securities	5,000,000	50,000
Computer Systems	5,000,000	50,000
Computer Systems Fraud	5,000,000	50,000

The coverage provided under the Bond to Beacon Mutual and its subsidiaries exceeds the minimum amount suggested by the NAIC for the level of exposure.

The Company is also protected by additional insurance policies providing coverage for workers' compensation, general liability, property, automobile liability, umbrella, directors and officers' liability, employment practices liability, and pension and employee welfare fiduciary responsibility. Management has determined the adequacy of these coverages.

OFFICERS' AND EMPLOYEES' WELFARE AND PENSION PLANS

The Company does not have any direct employees. Personnel and business services for the Company are provided by Beacon Mutual. Beacon Mutual employees who provide services to the Company are covered by the provisions of the employee benefit plans instituted by Beacon Mutual.

The majority of pension expense and liability is incurred by Beacon Mutual and allocated to the Company via an Intercompany Service Agreement. This agreement is discussed in further detail under the section of this report entitled "Insurance Holding Company System."

STATUTORY DEPOSITS

At December 31, 2011, a U.S. Treasury Note with a statement value of \$1,008,299 was on deposit with State Street Bank and Trust Company on behalf of the Rhode Island General Treasurer's Office, for the protection of all policyholders of the Company.

TERRITORY AND PLAN OF OPERATION

Pursuant to its Articles of Incorporation, the Company was primarily organized to engage in the business of workers' compensation and employers' liability insurance and related coverages within and without the State of Rhode Island, primarily for Rhode Island employers who maintain a workforce outside of the state. To date, the Company has not written any business and is licensed only in the State of Rhode Island.

REINSURANCE

Ceded Reinsurance

At December 31, 2011, Beacon Mutual and Castle Hill's ceded reinsurance program consisted of per occurrence Excess of Loss coverage provided in three layers for up to \$20,000,000 in excess of a \$1,000,000 retention. A second agreement with various property and casualty insurance companies, provides \$80,000,000 of coverage in two layers up to \$100,000,000. All excess of loss coverage above \$10,000,000 contains a maximum on any one life of \$10,000,000 per employee. A summary of the ceded reinsurance program is provided in the following table:

<i>Layer</i>	<i>Limit and Retention</i>
<i>Beacon Retention</i>	<i>\$1,000,000</i>
<i>First Layer</i>	<i>\$4,000,000 in excess of \$1,000,000</i>
<i>Second Layer</i>	<i>\$5,000,000 in excess of \$5,000,000</i>
<i>Third Layer</i>	<i>\$10,000,000 in excess of \$10,000,000 for multiple person claims</i>
<i>Fourth Layer</i>	<i>\$20,000,000 in excess of \$20,000,000 for catastrophe claims</i>

<i>Fifth Layer</i>	<i>\$60,000,000 in excess of \$40,000,000 for catastrophe claims</i>
--------------------	--

For the fourth and fifth layers of the ceded reinsurance program, the Company utilizes a reinsurance intermediary broker, to procure and administer reinsurance on the Company's behalf and in accordance with an agreement effective July 1, 2011.

Although Castle Hill does not currently write any business, it is a named reinsured under the above reinsurance agreements.

ACCOUNTS AND RECORDS

The accounts and records of the Company are processed by Beacon Mutual personnel and maintained on information systems owned by Beacon Mutual and located at its home office located in Warwick, Rhode Island.

INSURANCE HOLDING COMPANY SYSTEM

Beacon Mutual, as required under Title 27, Chapter 35 of the Rhode Island General Laws entitled "Insurance Holding Company Systems," filed consolidated registration statements "Form B" and "Form C" with the Rhode Island Insurance Division on its own behalf, and on behalf of its affiliates, for all years under examination.

A review of the Company's records indicated that information required by the registration statements had been properly filed with the State of Rhode Island Insurance Division for the

period under examination.

Organizational Structure

Beacon Mutual is the ultimate parent in The Beacon Mutual Insurance Group Insurance Holding Company System. At December 31, 2011, Beacon Mutual owns 100% of the outstanding capital stock of Castle Hill Insurance Company and BMIC Service Corporation.

Castle Hill Insurance Company was incorporated on October 17, 2003 as a domestic stock insurance company to provide workers' compensation and employers' liability coverage to Rhode Island employers who maintain a workforce outside Rhode Island.

On November 5, 2003, Beacon Mutual purchased 100% of the issued and outstanding capital stock of Castle Hill for a total initial investment of \$20,000,000. (Refer to the "History and Corporate Records" section for further details).

BMIC Service Corporation was incorporated on July 24, 1997, and was organized to act as an agent for the purposes of the arrangement and sale of workers' compensation insurance, employer indemnity insurance and related insurances covering risk for employers with employees within and without the State of Rhode Island, and, for all other purposes that are necessary and desirable for the sale of such insurance.

On July 29, 1997, Beacon Mutual purchased one-hundred (100) shares of BMIC's common stock and received BMIC's Share Certificate No. 1. This action resulted in Beacon Mutual

becoming the sole shareholder of BMIC.

Intercompany Service Agreement

Effective October 22, 2003, Beacon Mutual entered into an Intercompany Service Agreement (“Agreement”) with Castle Hill under which Beacon Mutual provides accounting, underwriting, claims, investment and functional support services to Castle Hill, as well the use of its equipment and facilities. Under the terms of the Agreement, Castle Hill reimburses Beacon Mutual for all direct and directly allocable expenses attributable to Castle Hill, plus a reasonable charge for direct overhead. The basis for calculating these charges are those used by Beacon Mutual for internal cost distribution including time records, where appropriate, designed to reflect fairly and equitably the actual costs incurred by Beacon Mutual on behalf of Castle Hill.

FINANCIAL STATEMENTS

The results of the examination are set forth in the following exhibits and schedules:

Comparative Statement of Assets, Liabilities and Surplus and Other Funds
December 31, 2011 and December 31, 2007

Statement of Income
Year ended December 31, 2011

Capital and Surplus Account
December 31, 2010 to December 31, 2011

Reconciliation of Surplus
December 31, 2007 to December 31, 2011

Analysis of Examination Adjustments
December 31, 2011

CASTLE HILL INSURANCE COMPANY
Comparative Statement of Assets, Liabilities and Surplus and Other Funds
December 31, 2011 and December 31, 2007

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2007</u>	<u>Increase</u> <u>(Decrease)</u>
<u>ASSETS</u>			
Bonds	\$23,015,009	\$21,482,545	\$1,532,464
Cash	4,416	5,575	(1,159)
Short-term investments	1,284,566	411,115	873,451
Investment income due and accrued	220,208	220,946	(738)
Current federal and foreign income tax recoverable and interest thereon	76,304	315	75,989
Total Assets	<u>\$24,600,503</u>	<u>\$22,120,496</u>	<u>\$2,480,007</u>
	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2007</u>	<u>Increase</u> <u>(Decrease)</u>
<u>LIABILITIES, SURPLUS AND OTHER FUNDS</u>			
Other expenses	\$12,764	\$39,805	(\$27,041)
Taxes, licenses and fees	21,500	0	21,500
Net deferred tax liability	9,866	27,100	(17,234)
Payable to parent, subsidiaries and affiliates	14,321	24,262	(9,941)
Total Liabilities	<u>58,451</u>	<u>91,167</u>	<u>(32,716)</u>
Common capital stock	5,000,000	5,000,000	0
Preferred capital stock	15,000,000	15,000,000	0
Unassigned funds (surplus)	4,542,052	2,029,329	2,512,723
Surplus as regards policyholders	24,542,052	22,029,329	2,512,723
Total Liabilities, Surplus and Other Funds	<u>\$24,600,503</u>	<u>\$22,120,496</u>	<u>\$2,480,007</u>

CASTLE HILL INSURANCE COMPANY
Statement of Income
Year Ended December 31, 2011

UNDERWRITING INCOME

Premiums earned		\$0
-----------------	--	-----

DEDUCTIONS

Losses incurred	0	
Loss adjustment expenses incurred	0	
Other underwriting expenses incurred	48,228	

Total underwriting deductions		48,228
-------------------------------	--	--------

Net underwriting gain or (loss)		(48,228)
---------------------------------	--	----------

INVESTMENT INCOME

Net investment income earned	770,176	
Net realized capital gains or (losses)	29,361	

Net investment gain or (loss)		799,537
-------------------------------	--	---------

OTHER INCOME

Total other income		0
--------------------	--	---

Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		751,309
--	--	---------

Less: Federal and foreign income taxes incurred		177,203
---	--	---------

Net Income		\$574,106
------------	--	-----------

CASTLE HILL INSURANCE COMPANY
Capital and Surplus Account
December 31, 2010 to December 31, 2011

Surplus as regards policyholders, December 31, 2010	\$23,965,866
Net income	574,106
Change in net deferred income tax	<u>2,080</u>
Change in surplus as regards policyholders for the year	<u>576,186</u>
Surplus as regards policyholders, December 31, 2011	<u><u>\$24,542,052</u></u>

CASTLE HILL INSURANCE COMPANY
Reconciliation of Surplus
December 31, 2007 to December 31, 2011

Surplus as regards policyholders, December 31, 2007			\$22,029,329
	<u>Gains</u>	<u>Losses</u>	
Net income	\$2,495,487		
Change in net unrealized capital gains or losses	2		
Change in net deferred income tax	<u>17,234</u>	<u> </u>	
Total gains and losses	<u>\$2,512,723</u>	<u>\$0</u>	
Net increase in surplus as regards policyholders			<u>2,512,723</u>
Surplus as regards policyholders, December 31, 2011			<u><u>\$24,542,052</u></u>

CASTLE HILL INSURANCE COMPANY
Analysis of Examination Adjustments
December 31, 2011

The examination of the Company, performed as of December 31, 2011, did not disclose any material misstatements to the financial statements contained in its 2011 Annual Statement filing. Accordingly, the amounts reported by the Company have been accepted for purposes of this report.

ASSETS

Bonds

\$23,015,009

The above amount is the net admitted value of bonds held by the Company at December 31, 2011, and is the same as that reported in its 2011 Annual Statement. The majority of the Company's bonds are held by Bank of America, N.A. under the terms of a custodial agreement. Approximately 4.4% of the Company's bond portfolio which amounts to \$1,008,299, is held in the form of a special deposit by State Street Bank and Trust Company, custodian for the State of Rhode Island.

The quality ratings of all securities included in the Company's bond portfolio were reviewed based upon criteria established by the National Association of Insurance Commissioners ("NAIC"). It was noted that 100% of the bond portfolio represents either class 1 or class 2 securities which are bonds of the "highest" and "high" quality respectively, according to the NAIC rating system.

The book value, par value, fair value and actual cost of the bond portfolio as of December 31, 2011, are as follows:

<u>Book Value</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>
<u>\$23,015,009</u>	<u>\$22,406,675</u>	<u>\$24,289,771</u>	<u>\$23,447,728</u>

POLICYHOLDERS' SURPLUS

Policyholders' Surplus

\$24,542,052

The above amount is the same as that reported by the Company in its 2011 Annual Statement, and consists of the following:

Common Capital Stock	5,000,000
Preferred Capital Stock	15,000,000
Unassigned Funds (Surplus)	<u>4,542,052</u>
Surplus as Regards Policyholders	<u>\$24,542,052</u>

SUBSEQUENT EVENTS

A review of the minutes of the Board of Directors' and Sole Shareholder's meetings for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Company's operations or financial statements. In addition, an inquiry was made of the Company's management regarding subsequent events. Based upon our review, the following significant events occurred subsequent to the period covered by this examination:

Change in Management

Pursuant to a resolution adopted by the Board of Directors on March 14, 2012, Brian Spero was appointed Executive Vice President, Chief Operating Officer, General Counsel and Assistant Secretary, effective April 16, 2012. It was also resolved that Clifford L. Parent, Jr. would remain as Executive Vice President until his retirement which became effective May 18, 2012.

CONCLUSION

We have applied verification procedures to the data contained in this report using both subjective and statistical sampling techniques as deemed appropriate. While sampling techniques do not give complete assurance that all errors and irregularities will be detected, had any been detected during the course of this examination, such errors and/or irregularities would have been disclosed in this report. We were not informed of, and did not become aware of any error or irregularity that could have a material effect on the financial condition of the Company as presented in this report.

Assisting in the examination with the undersigned were David Paolantonio, CFE, CFSA, CISA, AES, Insurance Examiner-In-Charge; and Anthony Humphrey, Insurance Examiner, representatives of the Rhode Island Insurance Division.

Respectfully submitted,

John Tudino Jr.

John Tudino Jr., CFE, CIE, CFSA
Insurance Examiner-In-Charge
State of Rhode Island