

**Report On Examination**  
**of**  
**AAA Southern New England Insurance Company**  
**Providence, Rhode Island**  
**as of**  
**December 31, 2009**

**State of Rhode Island**  
**Department of Business Regulation**  
**Insurance Division**

**STATE OF RHODE ISLAND**  
**DEPARTMENT OF BUSINESS REGULATION**  
*Insurance Division*

**DIRECTOR'S ORDER**

The attached Report of Examination as of December 31, 2009, of the condition and affairs of *AAA Southern New England 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  
Acting Director/Insurance Commissioner

ORDER # 11-010

DATED: 2/8/11

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December 9, 2010

Honorable Paul McGreevy  
Insurance Commissioner  
State of Rhode Island  
1511 Pontiac Avenue  
Cranston, Rhode Island 02920

Dear Commissioner McGreevy:

Pursuant to your instructions, and in accordance with the provisions of Section §27-13.1-3 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2009, of the financial condition and affairs of

**AAA SOUTHERN NEW ENGLAND INSURANCE COMPANY**

hereinafter referred to as the “Company,” or “Corporation”. The examination was conducted at the main administrative office of the Company, located at 110 Royal Little Drive, Providence, Rhode Island.

**SCOPE OF EXAMINATION**

This is the first examination of the Company. An organizational examination was performed by the Insurance Division of the Department of Business Regulation with a report dated November 28, 2005. The current examination, also performed by the Insurance Division of the Department of Business Regulation, is in compliance with Rhode Island General Laws, and covers the four-year period January 1, 2006 through December 31, 2009.

This examination consisted of a verification and evaluation on a test basis, of assets and liabilities, as reported by the Corporation in its 2009 Annual Statement. Verification procedures were also applied to cash receipts and disbursements, policy and claim transactions, and other matters as deemed appropriate during the period of this examination. Transactions subsequent to December 31, 2009 were reviewed where deemed necessary.

The Company instructed their independent accounting firm to make available for review, all work papers concerning procedures followed, tests performed, information obtained, and conclusions reached pertinent to the firm's statutory audit of the Company's financial statements for the year ended December 31, 2009. The work papers of the independent accounting firm were reviewed in order to ascertain the extent to which procedures were employed to determine compliance with statutory guidelines. To the extent possible, these work papers and analyses were utilized to supplement the examination process.

### **COMPANY HISTORY**

AAA Southern New England Insurance Company came into existence on September 14, 2005, through the actions of its incorporator, John J. Partridge ("Incorporator") and pursuant to the filing of its Articles of Incorporation with the Secretary of State, as approved by the Director of the Department of Business Regulation for the State of Rhode Island.

The Articles of Incorporation allow the Company to provide that the authorized capital stock of the Company shall be in more than one class of stock: one thousand (1,000) shares of common stock, no par value per share, and one hundred thousand (100,000) shares of cumulative preferred stock, \$100 par value per share.

On September 16, 2005, the Company issued one million dollars (\$1,000,000) of capital stock to AAA SNE Holding, Inc. as follows: one hundred (100) shares of common stock, no par value.

Also, on September 16, 2005, AAA SNE Holding, Inc. made a surplus contribution in the amount of two million five hundred thousand dollars (\$2,500,000). The principal office of the Company is located within property occupied by its parent, AAA SNE Holding, Inc. in the City of Providence, State of Rhode Island.

On April 1, 2007, five shares of authorized no par value common stock of the Company were issued to AAA Merrimack Valley, Inc., in exchange for one million dollars (\$1,000,000). On June 30, 2008, two additional shares of authorized no par value common stock of the Company were issued to AAA Merrimack Valley, Inc., in exchange for five hundred thousand dollars (\$500,000). The no par value common stock has a stated value of \$10,000 per share.

The Company has 1,000 shares, no par value common shares authorized, of which 162 are issued and outstanding as of December 31, 2009. As of this same date, AAA SNE Holding, Inc. owns 95.7% of the common stock issued by the Company. On December 31, 2009, AAA Merrimack Valley, Inc. exercised its put option pursuant to a Stock Purchase and Shareholder Agreement whereby AAA SNE Holding, Inc. will purchase AAA Merrimack Valley Inc.'s outstanding shares for \$1,600,421 in the year 2010 and will own 100% of the outstanding shares of the Company.

## **MANAGEMENT AND CONTROL**

### **General Powers**

The business and affairs of the Corporation shall be managed by its Board of Directors. Any action that may be taken by the Board of Directors at a meeting may be taken without a meeting if a consent or consents in writing, setting forth the action taken, shall be signed before or after such action by all of the directors.

## **Shareholders**

The annual meeting of the shareholders shall be held on the first Thursday in the month of April each year, 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, for any purpose or purposes, unless prescribed by the Rhode Island Business Corporation Act (the “Act”), 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 corporation entitled to vote at the meeting.

The holders of a majority of the issued and outstanding shares of capital stock of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at all meetings of the shareholders except as otherwise provided by the Act or by the Articles of Incorporation. Each issued and outstanding share of capital stock with voting rights, unless limited, enlarged or denied by the Articles of Incorporation, shall be entitled to vote upon each matter submitted to vote at a meeting of shareholders. If a quorum is present at a meeting of shareholders, the affirmative vote of a majority of the shares represented in person or by proxy at the meeting shall be the act of the shareholders unless the vote of a greater number of shares is required by the Act or the Articles of Incorporation.

## **Board of Directors**

The number of directors of the Corporation shall from time to time be established by a resolution of shareholders, provided that there shall be at least five (5) directors and not more than twenty-one (21) directors of the Corporation. Directors need be neither residents of Rhode Island nor shareholders of the Corporation. The directors shall be elected at the annual meeting of shareholders and each director elected shall serve until the next succeeding annual meeting or until his or her successor shall have been elected and qualified or until such director’s death or resignation or removal.



A regular meeting of the Board of Directors shall be held without notice after the shareholders' meeting and at the same place as the annual meeting of 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. At least two (2) meetings of the Board of Directors shall be held in each calendar year. 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 Corporation from time to time shall constitute a quorum for the transaction of business at any meeting of the Board of Directors.

The Board of Directors serving as of December 31, 2009 is as follows:

J. Michael Costello  
David I. Finnegan, Chairman  
Paul A. McCraven  
William A. Mekrut  
Mark A. Shaw  
Joseph F. Whinery, Jr.

### **Officers**

The officers of the Corporation shall be a President, one or more Vice-Presidents if elected (the number thereof to be determined by the Board of Directors), a Secretary, a Treasurer and such other officers and agents as may be deemed necessary by the Board of Directors. Any two or more offices may be held by the same person. No officer need be a director or shareholder of the Corporation.

The officers of the Corporation shall be elected annually by the Board of Directors at its regular meeting held after the annual meeting of shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as is practicable. Each officer

shall hold office until his or her successor shall have been duly elected and qualified or until such officer's death or resignation or removal in the manner hereinafter provided.

The President shall be the principal executive officer of the Corporation and, subject to the direction and under the supervision of the Board of Directors, shall have general charge of the business, affairs and property of the Corporation, and control over its officers, agents and employees. The Secretary shall perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to the Secretary by the President or by the Board of Directors. The Treasurer shall perform all duties incident to the office of the Treasurer and such other duties as from time to time may be assigned to the Treasurer by the President or by the Board of Directors.

The Board of Directors may elect or appoint such other officers, including one or more Vice-Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers, as it shall deem necessary, each of whom shall hold office for such period shall exercise such powers and perform such duties as are provided in the Corporations by-laws or as the Board of Directors may from time to time determine. The Board of Directors may delegate to any officer the power to appoint any such officers and to prescribe their respective powers, duties and salaries.

The officers elected by the Board of Directors and serving at December 31, 2009, were as follows:

Mark A. Shaw	President
Francis X. Doyle	Vice President and Secretary
R. Stephen Manty	Treasurer
Caroline M. Gilroy	Assistant Secretary

## **Committees**

The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among 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 and all of the authority of the Board of Directors, provided that no such committee shall have the authority of the Board of Directors in reference to amending the articles of incorporation, adopting a plan of merger or consolidation, recommending to the shareholders the sale, lease, exchange or other disposition of all or substantially all the property and assets of the corporation other than in the regular course of business. The designation of any such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law.

As of December 31, 2009, the Board of Directors had not established an Executive Committee or any other committee. In accordance with Section §27-1.-2.1(a)(5) of the General Laws of the State of Rhode Island, the entire Board of Directors shall act as the audit committee of the Corporation.

## **CORPORATE RECORDS**

The Corporation filed its original Articles of Incorporation on September 14, 2005 with the Office of the Secretary of State in the State of Rhode Island to incorporate as a business corporation named AAA Southern New England Insurance Company. The Articles of Incorporation state that the Corporation was organized for the following purposes:

- (a) To engage in the business of property and casualty insurance and related coverages within and without the State of Rhode Island, except life insurance, annuities, title, mortgage guaranty, financial guaranty and workers' compensation;

- (b) To accept and to cede reinsurance of the kind or kinds of business insurance in which the corporation is authorized to engage by the terms of the Articles of Incorporation, as they may be amended from time to time, or otherwise as permitted by law;
- (c) To engage in any and all kinds of business to the extent necessarily or properly incidental to the kind or kinds of insurance business in which it is authorized to engage by the terms of the Articles of Incorporation, as amended from time to time, or otherwise as permitted by law; and
- (d) To exercise all the rights and privileges of a domestic insurance company and to transact any and all business which a domestic insurance company may engage in pursuant to the Rhode Island Business Corporation Act, and Chapter §27-1, of the General Laws of the State of Rhode Island, as amended from time to time.

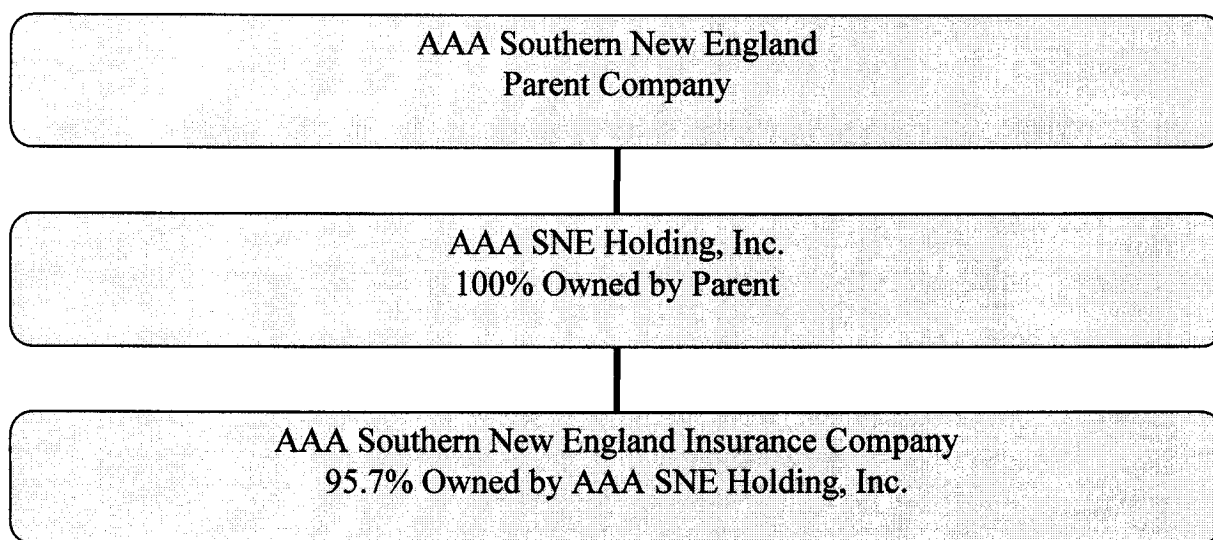
A Certificate of Compliance was issued by the State of Rhode Island, Department of Business Regulation, Insurance Division dated January 1, 2006, authorizing the Company to issue policies and transact business of any and all risks except life, annuities, title, mortgage guaranty, financial guaranty insurance, and workers' compensation insurance in the State of Rhode Island.

### **INSURANCE HOLDING COMPANY SYSTEM**

The Company, as required under Title 27, Chapter 35 of the Rhode Island General Laws entitled "Insurance Holding Company Systems," filed registration statements "Form B" and "Form C" with the Rhode Island Insurance Division, for all years under examination. A review of the Company's records indicated that the required information had been included in the registration statements filed with the Insurance Division for the period under examination.

**Organizational Structure**

At December 31, 2009, AAA Southern New England Insurance Company was 95.7% owned by AAA SNE Holding, Inc., which is 100% owned by the ultimate parent, AAA Southern New England. To facilitate an understanding of the corporate structure comprising the affiliated companies, the following organizational chart is provided. The chart is not inclusive of the entire organizational structure, but only of the Company and its controlling affiliates.



**Intercompany Agreements**

*Intercompany Service Agreement*

Effective September 14, 2005, the Company entered into an Intercompany Service Agreement with AAA Southern New England. Under the terms of the agreement, AAA Southern New England agrees to provide accounting, tax, auditing, investment, and functional support services to the Company. The Company agrees to reimburse AAA Southern New England for all services, property, equipment and facilities provided to the Company. Within thirty (30) days after the end of each calendar quarter, AAA Southern New England will submit a detailed written statement for services provided to the Company. Any balance payable shall be paid within thirty (30) days following the receipt of such written statement.

### *Tax Allocation Agreement*

Effective December 31, 2006, the Company entered into a Tax Allocation Agreement with AAA SNE Holding, Inc. and AAA Southern New England. The agreement provides for the allocation of the consolidated tax balances of AAA Southern New England and its subsidiaries based upon each subsidiary's contribution to taxable income. To the extent that a payor member of the consolidated group has net operating losses that it cannot absorb in the year incurred, other members within the group will refund payments to the payor. If adjustments are made to a consolidated U.S. federal income tax return that results in a final deficiency or overpayment that would have been required a larger or smaller payment by subsidiary or parent, or by parent to subsidiary, then the parent shall pay to the subsidiary, or the subsidiary shall pay to the parent, within forty-five (45) days of receipt of written request therefore, an appropriate amount to reflect the deficiency or overpayment, as the case may be.

### **CONFLICT OF INTEREST**

AAA Southern New England ("AAA SNE", the ultimate parent of the Company), its subsidiaries and affiliates, has instituted a Director Code of Conduct providing directors with general guidance for the discharge of their duties. The Director Code of Conduct applies to directors of affiliates and subsidiaries of AAA SNE. The two primary obligations to which directors are subject in discharging their duties as directors are a Duty of Care and Duty of Loyalty. Duty of Care is comprised of The Duty of Care Standard and The Business Judgment Rule. Duty of Loyalty is comprised the following concepts: Conflicts of Interest, Corporate Opportunity, and Confidentiality.

As part of the Director Code of Conduct, there is an Annual Director Conflict of Interest Disclosure Policy, which is required to be completed and signed by each Director on an annual basis affirming that to the best of his or her knowledge:

1. He or she has complied with the Code;
2. He or she has no knowledge of relationships or transactions between AAA SNE suppliers, vendors, contractors or service providers and any AAA SNE Director that are in violation of the Code; and
3. The receipt of any reportable gift, entertainment, accommodation or other consideration in excess of \$250 has been disclosed in the Director's Conflict of Interest Disclosure Statement.

AAA Southern New England, its subsidiaries and affiliates, has instituted a Code of Conduct providing Club employees with general guidance for their conduct of business operations and for the discharge of their duties. The Code of Conduct further defines the ethical and professional standards that should govern every employee's business relationships with AAA Southern New England and all of its subsidiaries and affiliates.

As part of the Code of Conduct, there is an Annual Employee Conflict of Interest Disclosure Statement, which is required to be signed by each Club employee on an annual basis affirming that to the best of his or her knowledge:

1. He or she has complied with the policies within the Code of Conduct;
2. He or she has no knowledge of relationships with existing or potential Providers or competitors by any AAA SNE employee that are in violation of the policies nor of any transactions with existing or potential Providers that do not seem to have been "arm's length transactions";
3. He or she has not received anything from a mortgage related Provider; and

4. He or she has disclosed the receipt of any consideration in excess of \$100 in the employee's Conflict of Interest Disclosure Statement.

A review of signed conflict of interest statements did not reveal any apparent conflicts of interest.

### **INFORMATION SYSTEMS CONTROLS**

In conjunction with the statutory examination of the Company, the Insurance Division conducted a limited general control review of the information technology environment surrounding the Corporation's financially significant information systems. The review was performed in accordance with standards established by the National Association of Insurance Commissioners ("NAIC") and included procedures to obtain reasonable assurance that:

1. The Company's responses to the NAIC's "Evaluation of Controls in Information Systems Questionnaire" ("Exhibit C") presents fairly, in all material respects, the aspects of policies and procedures that may be relevant to its internal control structure;
2. The control structure policies and procedures were suitably designed to achieve the control objectives implicit in Exhibit C; and
3. Such policies and procedures have been in operation from January 1, 2009 to December 31, 2009.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is insured by an insurance company blanket bond with a limit of \$2,000,000, which is above the minimum amount of fidelity insurance suggested by the National Association



of Insurance Commissioners (“NAIC”). Management has determined the adequacy of coverage for all insurable assets of the Corporation.

### **OFFICER AND EMPLOYEE WELFARE AND PENSION PLANS**

The Company has no employees. The Company maintains an Intercompany Service Agreement with AAA Southern New England to provide managerial and office-related support. The Intercompany Service Agreement is further discussed in the previous section Insurance Holding Company System.

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed only in the State of Rhode Island. Its Certificate of Compliance authorizes the Company to issue policies and transact business of any and all risks except life, annuities, title, mortgage guaranty, financial guaranty insurance, and workers’ compensation insurance in the State of Rhode Island. Since the Company’s inception, it has not issued any policies.

The Company maintained a quota share reinsurance agreement (“the Agreement”) with The Commerce Insurance Company (“CIC”) through June 30, 2009. CIC provides principally property and casualty insurance primarily in the State of Massachusetts and, to a lesser extent, other states. Under the terms of the Agreement, the Company assumed up to a 2.25% proportionate share of premiums and underwriting expenses through June 30, 2009, which included losses paid, loss adjustment expenses, and related reserves for incurred losses, on policies written by CIC in force on or after January 1, 2007 through June 30, 2009. The Company’s underwriting activities for the period under examination were limited to amounts assumed under the Agreement.

## **REINSURANCE**

### **Ceded Reinsurance**

The Company does not currently reinsure any of its underwriting risk.

### **Assumed Reinsurance**

As previously discussed above in the Territory and Plan of Operation section of the report, the Company maintained a quota share reinsurance agreement (“the Agreement”) with The Commerce Insurance Company (“CIC”) through June 30, 2009. Effective July 1, 2009, the Company terminated the agreement with CIC. Under the provisions of the agreement, the Company is settling the remaining claims by reimbursing CIC, on a quarterly basis, for losses and loss adjustment expenses paid by CIC on policies in force through June 30, 2009.

In connection with the termination, the Company made a payment in the amount of \$13,333,664 to refund unearned premiums of \$18,993,823, net of deferred acquisition costs totaling \$5,660,159.

## **FINANCIAL STATEMENTS**

The financial condition of the Company and the results of its operations are presented in the following financial statements and exhibits:

Statement of Assets, Liabilities, Surplus and Other Funds  
December 31, 2009

Statement of Income  
Year ended December 31, 2009

Reconciliation of Capital and Surplus  
October 25, 2005 to December 31, 2009

AAA SOUTHERN NEW ENGLAND INSURANCE COMPANY  
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS  
DECEMBER 31, 2009

<b><u>ASSETS</u></b>	<u>December 31, 2009</u>
Bonds	\$35,435,003
Common stocks	9,002,684
Cash \$363,292; and short-term investments \$2,155,083	2,518,375
Investment income due and accrued	483,551
Net deferred tax asset	114,780
	\$47,554,393
Total Assets	\$47,554,393

<b><u>LIABILITIES, CAPITAL AND SURPLUS</u></b>	<u>December 31, 2009</u>
Losses	\$5,881,174
Loss adjustment expenses	3,134,187
Other expenses	57,293
Current federal income taxes	989,564
Payable to parent, subsidiaries and affiliates	2,760
Payable for securities	297,767
Payable on quota share agreement	1,715,009
	12,077,754
Total Liabilities	12,077,754
Common capital stock	1,620,000
Gross paid in and contributed surplus	30,880,000
Unassigned funds (surplus)	2,976,639
	\$35,476,639
Total Capital and Surplus	\$35,476,639
Total Liabilities, Capital and Surplus	\$47,554,393

AAA SOUTHERN NEW ENGLAND INSURANCE COMPANY  
STATEMENT OF INCOME  
YEAR ENDED DECEMBER 31, 2009

**Underwriting Income:**

Premiums earned		\$18,595,752
Deductions:		
Losses incurred	\$10,813,660	
Loss adjustment expenses incurred	2,460,147	
Other underwriting expenses incurred	(666,574)	
Aggregate write-ins for underwriting deductions	<u>55,000</u>	
Total underwriting deductions		<u>12,662,233</u>
Net underwriting gain or (loss)		5,933,519

**Investment Income:**

Net investment income earned	1,673,290	
Net realized capital gains or (losses)	<u>380,153</u>	
Net investment gain or (loss)		<u>2,053,443</u>
Net income before federal income taxes		7,986,962
Federal income taxes incurred		<u>735,520</u>
Net income (loss)		<u>\$7,251,442</u>

AAA SOUTHERN NEW ENGLAND INSURANCE COMPANY  
RECONCILIATION OF CAPITAL AND SURPLUS  
OCTOBER 25, 2005 TO DECEMBER 31, 2009

Capital and Surplus, October 25, 2005 \$ 3,500,000

Gains and Losses to Capital and Surplus

Net income or (loss)	\$ 1,951,229
Change in unrealized capital gains or (losses)	591,910
Change in net deferred income tax	1,129,414
Change in nonadmitted assets	(695,913)
Capital changes – paid in	620,000
Surplus adjustments – paid in	<u>28,380,000</u>

Net change in capital and surplus 31,976,640

Capital and Surplus, December 31, 2009 \$35,476,640

## ASSETS

<u>Bonds</u>	<u>\$35,435,003</u>
<u>Common Stocks</u>	<u>\$9,002,684</u>
<u>Short-Term Investments</u>	<u>\$2,155,083</u>

The above amounts are the same amounts reported by the Company in its 2009 Annual Statement. At December 31, 2009, 98.2% of the bonds and short-term investments in the Company's portfolio were rated "1" by the NAIC Securities Valuation Office (SVO). A rating of "1" is assigned to those bonds exhibiting the "highest" credit quality. The Company's common stock portfolio consists of 67.0% classified as unaffiliated industrial and miscellaneous, and 33.0% classified as mutual funds. The market value rates used for all common stocks within the portfolio were obtained from a listed exchange.

The book/adjusted carrying value of bonds, common stocks, and short-term investments owned at December 31, 2009, represents 74.5%, 18.9%, and 4.5% of the Company's total admitted assets, respectively. The book/adjusted carrying value, fair value, actual cost and par value for the bond, common stocks and short-term investment portfolio at December 31, 2009 are as follows:

<u>Category</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>	<u>Par Value</u>
Bonds	\$35,435,003	\$36,768,479	\$35,856,956	\$33,635,000
Short-Term Investments	<u>2,155,083</u>	<u>2,155,083</u>	<u>2,162,131</u>	<u>2,146,102</u>
Total	<u>\$37,590,086</u>	<u>\$38,923,562</u>	<u>\$38,019,087</u>	<u>\$35,781,102</u>
Common Stocks	<u>\$9,002,684</u>	<u>\$9,002,684</u>	<u>\$8,092,052</u>	N/A

## LIABILITIES

<u>Losses</u>	<u>\$5,881,174</u>
<u>Loss Adjustment Expenses</u>	<u>\$3,134,187</u>

The liabilities for losses and loss adjustment expenses are the same as reported in its 2009 Annual Statement. Bartlett Actuarial Group, Ltd. (“Bartlett”), consulting actuaries for the Rhode Island Insurance Division, has reviewed these reserves. Bartlett’s review of losses and loss adjustment expenses was primarily based on the reserve analysis and development documentation provided by the Company and its opining actuary.

Based on Bartlett’s review of the documentation provided by the Company and its opining actuary, it was concluded that the losses and loss adjustment expenses reported by the Company in the 2009 Annual Statement are reasonable, and were determined using reasonable actuarial methods and assumptions.

In assisting Bartlett with the reserve analysis, the examiners performed various procedures to verify the integrity of the Company’s loss data. A combination of subjective and statistical sampling techniques was used in testing the loss data. There were no material errors or irregularities detected by the examiners while testing the loss data.



**CAPITAL AND SURPLUS**

**Total Capital and Surplus**

**\$35,476,639**

The total capital and surplus as shown above is the same as that reported by the Company in its 2009 Annual Statement.

Capital and surplus balances as of December 31, 2009 are as follows:

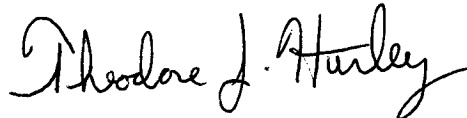
Common capital stock	\$ 1,620,000
Gross paid in and contributed surplus	30,880,000
Unassigned funds (surplus)	<u>2,976,639</u>
Total Capital and Surplus	<u>\$35,476,639</u>

## 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, those that were detected during the course of this examination have been disclosed in this report. We were not informed of, and did not become aware of any other error or irregularity which 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 Gianfranco Monaco, CISA, Principal Insurance Examiner, and Douglas Fowler, Insurance Examiner, both of the Rhode Island Insurance Division. Acknowledgment is also made of the assistance rendered by Bartlett Actuarial Group, Ltd., the Rhode Island Insurance Division's consulting actuaries.

Respectfully submitted,

A handwritten signature in cursive script that reads "Theodore J. Hurley".

Theodore J. Hurley, CPA, CFE  
Insurance Examiner-in-Charge  
Rhode Island Insurance Division