



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the First State Insurance Pool Examination Report (the "Report") of the First State Insurance Company, New England Reinsurance Corporation and the New England Insurance Company as of December 31, 2017, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions.

TO WIT:

1. I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("C.G.S.").
2. The Companies are domestic insurers authorized to transact the business of insurance in the State of Connecticut.
3. On April 1, 2019, the verified Report of the First State Insurance Pool was filed with the Connecticut Insurance Department (the "Department").
4. In accordance with C.G.S. §38a-14(e)(3), the Companies were afforded a period of thirty (30) days within which to submit to the Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On April 24, 2019, the Companies notified the Department of certain responses and comments relating to matters contained in the Report.
6. Following review of the Report, it was deemed necessary and appropriate to modify the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

NOW, THEREFORE, it is ordered as follows:

1. That the Report of the Companies is hereby adopted as modified with the Department.
2. That the Companies shall comply with the recommendations set forth in the Report, and that failure by the Companies to so comply shall result in sanctions or administrative action as provided by Title 38a of the C.G.S.
3. Section 38a-14(e)(4)(A) of the CGS requires that:

"The secretary of the Board of Directors or similar governing body of the entity shall provide a copy of the report or summary to each director and shall certify to the Commissioner, in writing, that a copy of the report or summary has been provided to each director. "

Please address the certification to the Commissioner, but send said certification to the care/attention of Mark Murphy, Supervising Examiner, of the Financial Regulation Division.

4. Section 38a-14(e)(4)(B) of the CGS requires that:

"Not later than one hundred twenty days after receiving the report or summary the chief executive officer or the chief financial officer of the entity examined shall present the report of summary to the entity's Board of Directors or similar governing body at a regular or special meeting. "

This will be verified by the Insurance Department either through analysis or examination follow-up.

Dated at Hartford, Connecticut, this 10th day of May, 2019.



Andrew N. Mais
Insurance Commissioner

Exhibit A

MULTI-ENTITY EXAMINATION REPORT OF:

NAIC#

21822 First State Insurance Company
41629 New England Reinsurance Corporation
21830 New England Insurance Company

(collectively defined as The First State Insurance Pool)

AS OF DECEMBER 31, 2017

BY THE

CONNECTICUT INSURANCE DEPARTMENT



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March 1, 2019

The Honorable Andrew N. Mais
Commissioner of Insurance
State of Connecticut Insurance Department
153 Market Street
Hartford, Connecticut 06103

Dear Commissioner:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the General Statutes of the State of Connecticut (CGS), the undersigned has conducted a financial examination of the condition and affairs of the Connecticut companies within

THE FIRST STATE INSURANCE POOL

(hereinafter referred to as the Group or FSIP) incorporated under the laws of the State of Connecticut and having its statutory home office located at One Hartford Plaza, Hartford, Connecticut and its main administrative office located at 100 High Street, Boston, Massachusetts. The report on such examination is submitted herewith.

SCOPE OF EXAMINATION

The previous examination of the Group was conducted by the Financial Regulation Division of the Connecticut Insurance Department (Department), as of December 31, 2012. The current examination, which covers the period from January 1, 2013 to December 31, 2017, was conducted at the statutory home office in Hartford, Connecticut.

As part of the examination planning procedures, the Department reviewed the following materials submitted by the Group:

- Board of Director (Board) minutes from 2013 through the latest 2018 meeting;
- statutory audit reports from 2013 through 2017, completed by the Group's independent certified public accountants, Deloitte & Touche LLP (Deloitte);
- Management's Discussion and Analysis from 2013 through 2017;
- Statements of Actuarial Opinion from 2013 through 2017;
- documentation supporting Section 404 of the Sarbanes-Oxley Act of 2002;
- Annual Statements from 2013 through 2017; and
- reports of the Group's Internal Audit Department from 2013 through 2017.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department, reports from the National Association of Insurance Commissioners (NAIC) database, which indicated no material concerns with respect to financial condition or regulatory compliance issues.

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Work papers prepared by Deloitte in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

Jennan Enterprises LLC (Jennan) was engaged by the Department to conduct an evaluation of the Information Technology (IT) controls.

Oliver Wyman Actuarial Consulting, Inc. (Oliver Wyman) was engaged by the Department to conduct an evaluation of the Group's reserving and underwriting processes.

Baker Tilly Virchow Krause, LLP (Baker Tilly) was engaged by the Department to conduct an evaluation of the Group's investment holdings and provided staff accounting services.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (the Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Group by obtaining information about the Group, including corporate governance, identifying inherent risks within the Group, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management compliance with the NAIC Accounting Practices & Procedures Manual and the NAIC Property and Casualty Annual Statement Instructions.

Concurrent examinations were made of the following Connecticut and non-Connecticut domestic property and casualty companies within The Hartford Financial Services Group, Inc. (HFSG), collectively referred to as the Hartford Fire Insurance Pool (HFIP):

- Hartford Fire Insurance Company (CT)
- Trumbull Insurance Company (CT)
- Hartford Accident and Indemnity Company (CT)
- Hartford Insurance Company of Illinois (IL)
- Hartford Casualty Insurance Company (IN)
- Hartford Underwriters Insurance Company (CT)
- Pacific Insurance Company, Limited (CT)
- Twin City Fire Insurance Company (IN)
- Nutmeg Insurance Company (CT)
- Hartford Insurance Company of the Midwest (IN)
- Hartford Insurance Company of the Southeast (CT)
- Property and Casualty Insurance Company of Hartford (IN)
- Hartford Lloyd's Insurance Company (TX)
- Sentinel Insurance Company, Ltd. (CT)

The Department also performed concurrent financial examinations of two Connecticut domestic affiliates:

- Maxum Casualty Insurance Company (MCIC)
- Maxum Indemnity Company (MIC)

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These companies are collectively referred to as the Maxum Insurance Pool (Maxum).

The Department also performed an examination of the following Connecticut domestic life insurance affiliates:

Hartford Life Insurance Company
Hartford Life and Accident Insurance Company
Hartford Life and Annuity Insurance Company
Hartford International Life Reassurance Corporation
American Maturity Life Insurance Company

All accounts and activities of the Group were considered in accordance with the risk focused examination process.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

HISTORY

First State Insurance Company (FSIC)

FSIC was originally incorporated as the Lexington Insurance Company (Lexington) in the State of Delaware on November 10, 1948, and commenced business on January 2, 1949. In 1965, FSIC changed its name from Lexington to its present name. On February 3, 1971, all of FSIC's outstanding stock was acquired by International Telephone and Telegraph Corporation (ITT Corporation), and ownership was transferred to another ITT Corporation affiliate, Hartford Fire Insurance Company (HFIC or Hartford Fire). In early 1982, Hartford Fire contributed stock ownership of FSIC to Hartford Accident and Indemnity Company (Hartford A&I) which immediately transferred the shares as a contribution to New England Reinsurance Corporation (NERC), formerly known as Tower Insurance Company of Connecticut, a newly formed subsidiary.

Effective September 30, 1992, the Group's ownership was transferred directly to ITT Corporation and FSIC was re-domesticated to the State of Connecticut. This transfer was accomplished via an \$813 million dividend, representing the total equity of the three companies in the Group. The Department also approved the simultaneous establishment of the Pooling Agreement between the Group effective December 31, 1992.

In December 1992, the Group ceased writing new and renewal property and casualty business and was placed into runoff. Since then, the Group has focused on the proper disposition of claims, resolving disputes and collecting reinsurance proceeds related to the business underwritten and reinsured prior to year-end 1992. In December 1995, as part of HFSG's spinoff from ITT Corporation, ownership was returned to HFSG. In 1997, ownership of the Group was transferred to Heritage Holdings, Inc., a direct subsidiary of HFSG.

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All existing business is managed in runoff under a contract between the Group, Hartford Fire and Horizon Management Group, LLC (Horizon Management), a member company of HFSG. Also in 1992, Hartford Fire issued a stop loss reinsurance agreement to the Group to support the runoff of the Group's insurance obligations. The terms of this agreement were modified in 1995 and obligated Hartford Fire to make payments up to \$600 million to the Group to the extent that (i) the Group's aggregate net retained paid losses exceeded a stipulated dollar amount (which was exhausted in 2006), and (ii) statutory capital and surplus fell below \$25 million. This agreement was further amended on February 28, 2012, increasing the limit from \$600 million to \$800 million. In 2004, the Department approved an agreement between the parties to maintain a level of statutory-basis surplus within a range above \$25 million to \$35 million.

New England Insurance Company (NEIC)

NEIC was incorporated under the laws of Connecticut on August 25, 1989, as the New England Insurance Company of Connecticut. The words "of Connecticut" were dropped subsequent to its merger with NEIC on July 1, 1990.

The former New England Insurance Company was incorporated as the Plymouth Insurance Company on August 23, 1954, under the laws of the Commonwealth of Massachusetts. The corporate name was changed to Plymouth Reinsurance Company, in November 1957, to NERC on August 22, 1968, and to NEIC on January 3, 1984. On July 1, 1990, it was merged with New England Insurance Company of Connecticut, the purpose being to re-domesticate from Massachusetts to Connecticut.

New England Reinsurance Corporation

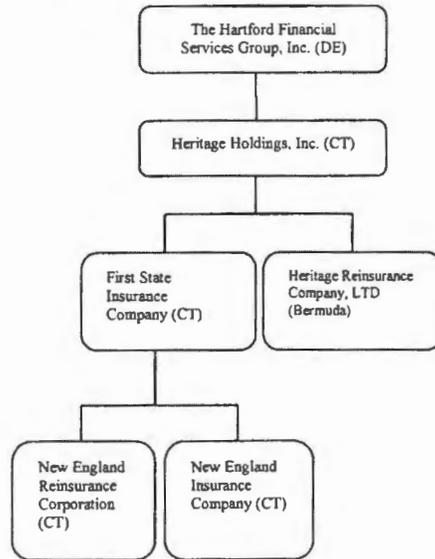
NERC was incorporated as the Tower Insurance Company of Connecticut (TICC) on December 29, 1981, under the laws of the state of Connecticut. On February 5, 1982, Hartford Fire contributed \$116,623,759, to TICC surplus in the form of a stock ownership transfer of 100% of the stock of FSIC and NERC. TICC commenced business on April 2, 1982. On the same date, Hartford Fire purchased one share of capital stock for \$5,000 par value, and then passed the one share revalued at \$116,628,759 inclusive of the 100% stock of FSIC and NERC to an affiliate, Hartford A&I.

On January 3, 1984, the certificate of incorporation was amended and TICC changed its name to NERC. In July 1989, ownership of NERC was transferred from Hartford A&I to Hartford Fire. The charter and certificate of incorporation were amended further in September 1995, to increase NERC's capital stock from \$3,000,000 to \$4,200,000.

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ORGANIZATIONAL CHART

The following is a partial organizational chart of the Group and its parent, subsidiaries and affiliated companies within the HFSG as of December 31, 2017:



MANAGEMENT AND CONTROL

Annual Shareholders Meetings

The bylaws state that the annual meeting of the shareholders shall be held at such place (within or outside the state of Connecticut), date and hour as shall be determined by the Board to elect members of the Board for the succeeding year and to transact any business properly brought before said meeting. Special meetings of the shareholders may be called at any time by the chairman of the Board (Chairman), the president, the secretary, or any assistant secretary, or by a majority of the entire board. Written notice of every meeting of the shareholders and the time and place thereof shall be given by the secretary or any assistant secretary of the individual companies within the Group, no fewer than ten and no more than sixty days prior to the time appointed for such meeting, which notice shall also state in the case of a special meeting, the purpose or purposes for which the meeting is called.

Board of Directors

The management of the property and affairs of the companies within the Group shall be vested in the Board. The number of directors shall not be fewer than three. Regular and special meetings of the Board shall be held either within or outside the state of Connecticut, or such place as may be designated by the Board or the officer or directors requesting any such meeting to be called. A majority of the members of the Board, present at a regular or special meeting, shall constitute a quorum for the transaction of business.

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Directors serving the Group as of December 31, 2017 were:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
Michael Edward Hotaling	President and Chairman of the Board First State Insurance Group
William Paul Teich	Vice President First State Insurance Group
Glenn Alan Frankel	Vice President First State Insurance Group
Brendon Robert Kelly	Vice President First State Insurance Group
Matthew Jude Scott	Senior Vice President First State Insurance Group

Officers

The president, a vice president, a secretary, and a treasurer shall be elected by the Board. The Board may also elect one of its members to serve as Chairman, and if there is a finance committee, the Board shall elect one of its members to serve as chairman of such committee. The president, or an officer appointed by him, shall have authority to appoint all other officers, except as stated herein, including one or more vice presidents and assistant vice presidents, one or more associate or assistant treasurers, one or more secretaries and assistant secretaries and such other officers as the president may from time to time designate. All officers of the companies within the Group shall hold office at the pleasure of the Board.

Senior officers of the Group as of December 31, 2017 were:

<u>Officer</u>	<u>Title</u>
Michael Edward Hotaling	President
Lisa Sue Levin	Assistant Vice President and Corporate Secretary
Sabra Rose Purtill	Treasurer
Omar Arif Kitchlew	Vice President and Appointed Actuary
James Cubanski	Vice President
Raymond Joseph Godin	Vice President and Controller

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Board Committee

HFSG Board has a standing Audit Committee (HFSG Audit Committee). The HFSG Board determined that all members of the HFSG Audit Committee qualify as “independent” under applicable laws. HFSG’s Audit Committee’s principal responsibility is one of oversight. In addition, the HFSG Audit Committee reviews with management significant deficiencies, material weaknesses or significant solvency concerns identified at the group level for its insurance companies.

The Board of the insurance company has an audit committee (the Company Audit Committee) with the directors serving as its members. The Company Audit Committee oversees the accounting and financial reporting processes for the Company as appropriate and the audit of the financial statements for the Company or the Group as appropriate. In addition the Company Audit Committee received quarterly communication from management with respect to significant deficiencies, material weaknesses or significant solvency concerns, if any, and significant transactions, and financial results of the Company.

RELATED PARTY AGREEMENTS

Investment Pooling Agreement

FSIG, as well as other affiliates, participate in a Second Amended and Restated Investment Pooling Agreement (Agreement) with Hartford Investment Management Company (HIMCO). HIMCO acts as the investment manager to invest certain cash balances available to the participants in the investment pool known as the “Hartford Short-Term Investment Pool”. HIMCO is compensated at least quarterly for all incurred direct and indirect costs related to the services provided to the Group.

Liquidity Agreement

On June 4, 2018, FSIC was added as a participant to an existing intercompany liquidity agreement with insurance company affiliates domiciled in the states of Connecticut, Illinois and Indiana. The agreement allows for short term advances of funds between affiliates for liquidity and other general corporate purposes.

Tax Allocation Agreement (TAA)

The Group is party to a TAA with HFSG and its direct and indirect subsidiaries. The TAA governs the tax return filing, payment and allocation of federal, state and local income tax liability between HFSG and its subsidiaries. Each member will calculate its separate tax liability, and the consolidated federal regular income tax liability will be apportioned among the members in accordance with the ratio which is consistent with the taxable income. Payment to the parent will be made by the due date of the consolidated return payment to the Internal Revenue Service.

Administrative and Support Services Agreement

The Group and its direct affiliates entered into a services agreement with Hartford Fire and Horizon Management, an indirect affiliate of Hartford Fire. Pursuant to the terms of the agreement, Hartford Fire and Horizon provide all management and administrative services required to conduct

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its business operation. These services relate, without limitation, to the handling and servicing of claims, losses and loss adjustment expenses to the Group.

INSURANCE COVERAGE

The Group is insured under a fidelity policy issued by three insurers (Travelers Casualty and Surety Company of America, Continental Casualty Insurance Company and Berkeley Regional Insurance Company). HFSG and its affiliates are listed as named insureds. The coverages also include an aggregate liability of \$40 million, a single loss limit of liability of \$20 million and a single loss deductible of \$5 million. These limits exceed the suggested minimum as outlined in the Handbook.

TERRITORY AND PLAN OF OPERATION

The Group is currently licensed in a limited number of states, however, since the operations are currently in runoff, there were no direct premiums written.

REINSURANCE

Intercompany

Effective December 31, 1992, the Group entered into an inter-company Reinsurance and Pooling Agreement (Pooling Agreement) to which NERC and NEIC will cede 100% of their business to FSIC which will then retrocede percentages thereof to each of its subsidiaries. The Group will share premiums, losses and underwriting expenses in an amount equal to each participant's retrocessional quota share. FSIC acts as the lead participant in the Group's intercompany pool.

The following is a summary of the companies and the respective participation percentages in the Pooling Agreement.

FSIC	98%
NEIC	1%
NERC	<u>1%</u>
Total	100%

External

Effective February 28, 2012, the Group amended its stop loss reinsurance agreement with Hartford Fire. The terms of this agreement obligated Hartford Fire to make payments to the Group of no more than \$800 million to the extent that a) the Group's net retained paid losses exceeded a stipulated dollar amount (which was exhausted in 2006), and b) the Group's statutory capital and surplus fell below \$25 million. The existing practice between the parties to the agreement is to maintain a level of statutory surplus for the Group within a reasonable range above \$25 million to \$35 million.

The current cession to the stop loss reinsurance agreement was first triggered during the first quarter of 2003, when Hartford Fire, including the Group, concluded a comprehensive review of its asbestos exposures and as a result, additional loss and loss adjustment expenses (LAE)

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reserves were recorded at the Group level. As of December 31, 2017, First State's total cession to Hartford Fire was \$797 million in loss and LAE reserves.

INFORMATION TECHNOLOGY CONTROLS

Jennan performed a risk-focused assessment and review of the Group's IT general controls (ITGCs) in accordance with NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the Group's ITGCs was derived from Exhibit C Part One – Information Technology Planning Questionnaire (ITPQ) and Exhibit C Part Two – Information Technology Work Program (collectively Exhibit C). The Group's responses to the ITPQ were evaluated, and certain controls within the IT control environment were tested to assess whether they were designed effectively and were functioning properly.

Jennan's objectives were to obtain reasonable assurance about whether Information Systems resources align with the Group's objectives and ensure that significant risks (strategic, operational, reporting, and compliance) arising out of its IT environment were appropriately mitigated by strategies and controls as outlined in the Handbook's Exhibit C Part Two – Evaluation of Controls in Information Technology Work Program.

The objectives above were achieved through a combination of reviewing the HFSG's policies and procedures, testing in key areas related to Exhibit C, interviewing the HFSG's IT senior management, reviewing IT risk assessment processes, and leveraging the risk assessment procedures performed by the HFSG's internal and external auditors.

The evaluation of IT controls focused on the following areas: management and organizational governance; data processing infrastructure; program change controls; system development controls; logical and physical security; business continuity plans; end user business developed applications; and cyber security and incident responses.

Based upon the risk-based assessment and review, the ITGCs were determined to be effective.

ACCOUNTS AND RECORDS

The Company records all financial accounting transactions in The Hartford's Enterprise General Ledger (EGL) application which uses the PeopleSoft Financials product. EGL is the official book of records for the Group's financial accounting operations. Some external reporting is done out of TM1 which receives a feed of data from the EGL.

The Booke Seminars' software package, "The Complete Package for Windows" (TCP) is used to create the annual statement. TCP receives data from multiple sources, including the EGL for creation of the balance sheet and income statement.

FINANCIAL STATEMENTS

The financial statements in Appendix A reflect the Group's financial position, as filed by the Group as of December 31, 2017.

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LOSSES AND LOSS ADJUSTMENT EXPENSES

\$176,135,842

The following items are included in the captioned account:

Losses	\$10,476,326
LAE	<u>165,659,516</u>
	<u>\$176,135,842</u>

Oliver Wyman conducted a comprehensive risk-focused actuarial analysis of the Group's loss and LAE reserve risk as of December 31, 2017. In performing the loss review and analysis, Oliver Wyman based its review on the following information provided by the Group:

- the Actuarial Report as of December 31, 2017, (including detailed calculations supporting the actuarial data to Schedule P - Part 1 – Summary of the Annual Statement);
- the 2017 Statements of Actuarial Opinion and Actuarial Opinion Summaries;
- Deloitte's actuarial work papers;
- the Group's internal analyses performed for selected business segments as discussed in this report;
- the Group's ground up analysis for selected asbestos accounts as well as its pure/bulk aggregate incurred but not reported analysis for both asbestos and environmental; and
- the 2013-2017 Annual Statements and other information requested and obtained during the course of the review through emails, discussions and meetings with key personnel of the Group.

A review by the Department of the Group's underlying data integrity concluded that there were no indications of any significant inaccuracies or inconsistencies in the underlying data.

Assessment of Reserve Risk

A review of the Group's reserve risk was conducted to form a conclusion regarding the risk that actual losses, LAE and other contractual payments reflected on the corresponding reserves would be greater than the carried liabilities. The reserving processes and controls were found to be reasonable, and the Group's actuarial approach, assumptions and methodologies were reasonable for estimating losses and LAE.

CONCLUSION

Based upon the risk-based assessment and review, no material findings were noted which affected the Group's ability to manage its reserving risk.

GROWTH OF COMPANY

The reconciliation of the policyholders' surplus during the period under examination is reflected in Appendix B. Changes reflected in the Group's policyholder surplus over the examination period

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were largely due to results from operations. It was also noted that on May 5, 2017, HFSG (through Heritage Holding) made a cash capital contribution of \$100 million to FSIC in order to provide additional liquidity and enable FSIC to replenish the remaining reserve capacity under the stop loss agreement with Hartford Fire.

CONCLUSION

As a result of the examination, there were no adjustments made to surplus.

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SIGNATURE

In addition to the undersigned, the following members of the Department participated in the examination: Edna Bosley; Mark Murphy, CFE; Wanchin Chou, FCAS, MAAA, CPCU, CSPA; Susan Gozzo-Andrews, FCAS, MAAA, RPLU+; Kenneth Roulier, AFE, CISA, AES; Michael Daniels, CFE; Grace Jiang, CFE; Chiffon King, AFE; Robert Linnell, CFE; Cecilia Arnold, CFE; Kent Krajick, CFE; Ronald Jankowski, CFE; and the professional services firms of Baker Tilly, Jennan, and Oliver Wyman.

I, Wayne Shepherd, CFE, do solemnly swear that the foregoing report on examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2017, to the best of my information, knowledge and belief.

Respectfully submitted,

Wayne Shepherd
Wayne Shepherd, CFE
Examiner-In-Charge
State of Connecticut
Insurance Department

State of Connecticut

ss. Hartford

County of Hartford

Subscribed and sworn to before me, Nancy M. Mercier
Notary Public on this 1st day of April, 2019.

Nancy M. Mercier
Notary Public

My Commission Expires 6/30/2020

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APPENDIX A

<u>ASSET</u>	1	2	3
	First State Insurance Company	New England Reinsurance Corporation	New England Insurance Company
Net Admitted Assets			
Bonds	\$36,728,805	\$26,459,196	\$14,762,976
Common stocks	54,508,337	0	0
Cash, cash equivalents and short-term investments	68,771,294	12,519,590	4,822,172
Other invested assets	2,682,906	0	0
Receivables for securities	0	0	5
Subtotals, cash and invested assets	162,691,341	38,978,786	19,585,153
Investment income due and accrued	826,734	382,289	135,935
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	23,734	0	0
Reinsurance:			
Amounts recoverable from reinsurers	28,080,298	0	0
Funds held by or deposited with reinsured companies	724,491	0	0
Current federal and foreign income tax recoverable and interest thereon	34,684,127	0	0
Net deferred tax asset	0	2,000	0
Receivables from parent, subsidiaries and affiliates	136,161	0	0
Aggregate write-ins for other-than-invested assets	11,689,466	0	0
Total	<u>\$238,856,353</u>	<u>\$39,363,075</u>	<u>\$19,721,088</u>

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LIABILITIES & CAPITAL AND SURPLUS	1	2	3
	First State Insurance Company	New England Reinsurance Corporation	New England Insurance Company
Current Year Liabilities			
Losses	\$10,266,802	\$104,762	\$104,762
Reinsurance payable on paid losses and loss adjustment expenses	1,154,290	0	0
Loss adjustment expenses	162,346,326	1,656,594	1,656,596
Current federal and foreign income taxes	0	421,798	188,900
Net deferred tax liability	0	0	285,959
Ceded reinsurance premiums payable	3,674	0	0
Funds held by company under reinsurance treaties	468,017	0	0
Remittances and items not allocated	0	3	0
Payable to parent, subsidiaries and affiliates	357,284	81,247	75,205
Aggregate write-ins for liabilities	241,411	0	0
Total liabilities	174,837,804	2,264,404	2,311,422
Common capital stock	5,000,000	4,200,000	7,200,000
Gross paid in and contributed surplus	751,062,365	252,111,709	0
Unassigned funds (surplus)	(692,043,816)	(219,213,039)	10,209,666
Surplus as regards policyholders	64,018,549	37,098,670	17,409,666
Totals	<u>\$238,856,353</u>	<u>\$39,363,074</u>	<u>\$19,721,088</u>

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STATEMENT OF INCOME	1	2	3
	First State Insurance Company	New England Reinsurance Corporation	New England Insurance Company
Current Year Income			
Premiums earned	\$824	\$8	\$8
Losses incurred	(22,442,001)	(229,000)	(229,000)
Loss adjustment expenses incurred	162,581,999	1,659,000	1,659,000
Other underwriting expenses incurred	284,980	2,908	2,908
Total underwriting deductions	140,424,978	1,432,908	1,432,908
Net underwriting gain (loss)	(140,424,154)	(1,432,900)	(1,432,899)
Net investment income earned	2,823,841	1,445,606	730,398
Net realized capital gains (losses)	(225,294)	(18,486)	(123,795)
Net investment gain (loss)	2,598,547	1,427,120	606,603
Net gain (loss) from agents' or premium balances charged off	51,344	0	0
Aggregate write-ins for miscellaneous income	(4,420,778)	0	0
Total other income	(4,369,434)	0	0
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(142,195,041)	(5,779)	(826,296)
Dividends to policyholders	0	0	0
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(142,195,041)	(5,779)	(826,296)
Federal and foreign income taxes incurred	(42,885,814)	(212,622)	(1,037,607)
Net income	<u>(\$99,309,227)</u>	<u>\$206,842</u>	<u>\$211,311</u>

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APPENDIX B

Growth of the Company	1	2	3
Surplus	First State Insurance Company	New England Reinsurance Corporation	New England Insurance Company
Surplus as regards policyholders, December 31, 2012	\$30,073,766	\$47,128,587	\$45,632,675
Net income	(112,257,292)	5,619,244	8,007,797
Change in net unrealized capital gains or (losses) less capital gains tax	13,555,380	0	(28,499)
Change in net unrealized foreign exchange capital gain (loss)	482	0	0
Change in net deferred income tax	(4,323,930)	(931)	(57,836)
Change in nonadmitted assets	36,970,144	(3,792)	0
Surplus adjustment: paid in	100,000,000	(15,644,436)	0
Aggregate write-ins for gains and losses in surplus	0	0	(36,144,470)
Net Change in Capital and Surplus	33,944,784	(10,029,915)	(28,223,008)
Capital and Surplus, December 31, 2017	<u>\$64,018,550</u>	<u>\$37,098,672</u>	<u>\$17,409,667</u>