Report on the Examination

As of December 31, 2013

of

HAI Group
(Housing Authority Property Insurance, A Mutual Company and Housing Enterprise Insurance Company, Inc.)

by the

Vermont Department of Financial Regulation

Division of Insurance

VERMONT

State of Vermont
assistance
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101
www.dfr.vermont.gov

For consumer

[All Insurance]	800-964-1784
[Securities]	877-550-3907
[Banking]	888-568-4547

Daniel J. Labrie
President
HAI Group
189 Commerce Court
P.O. Box 189
Cheshire, CT 06410

ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of HAI Group for the year ending December 31, 2013 is adopted.

HAI Group may appeal this order within 30 days of its adoption in accordance with the Vermont Administrative Procedure Act and Department of Financial Regulation Rule 82-1.

Susan L. Donegan

Susan L. Donegan, Commissioner

6/8/15

Date

HAI GROUP

EXAMINATION REPORT

AS OF DECEMBER 31, 2013

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June 1, 2015

Susan L. Donegan, Commissioner

Department of Financial Regulation

89 Main Street

Montpelier, VT 05620-3101

Dear Commissioner Donegan:

Pursuant to the March 14, 2014 examination order, the Insurance Division's financial examination team has conducted an examination of:

HAI Group

(Housing Authority Property Insurance, A Mutual Company and Housing Enterprise Insurance Company, Inc.)

with their statutory home offices located at

148 College Street

Burlington, Vermont 05401

The examination was performed pursuant to 8 V.S.A. §3563 in order to ascertain the Company's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.

HAI GROUP

EXAMINATION REPORT

AS OF DECEMBER 31, 2013

SCOPE OF EXAMINATION

As of December 31, 2013 the HAI Group (Group) consisted of three insurance entities as follows:

- Housing Authority Property Insurance, A Mutual Company (HAPI)
- Housing Enterprise Insurance Company, Inc. (HEIC)
- Housing Authority Risk Retention Group, Inc. (HARRG)

The Group's last financial condition examination was as of December 31, 2008 for the previous five year period. The examination was conducted by the Insurance Division of the Vermont Department of Financial Regulation (Department). A separate Examination Report has been issued for HARRG.

The examination was conducted pursuant to 8 V.S.A. §3563 and guidance provided by the National Association of Insurance Commissioners (NAIC). The examination covered the period from January 1, 2009 through December 31, 2013. The Department conducted the examination in accordance with NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition and identify prospective risks by obtaining information about the Group, including corporate governance, identifying and assessing inherent risks within the Group, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation, Management's compliance with statutory accounting principles, annual statement instructions and state regulations. The examination also included a review of any material transactions and/or events occurring subsequent to the examination date that were noted during the course of this examination. In accordance with the risk-focused examination process, all accounts and activities of the Group were considered.

As required by law and the NAIC standard examination procedures, the Group instructed their independent accounting firm, Saslow Lufkin and Buggy, LLP, to make available for the

Department's review all work papers concerning procedures followed, tests performed, information obtained and conclusions reached pertinent to the audit of the Group's financial statements for the period covered by the examination. The Department reviewed the work papers of Saslow Lufkin and Buggy, LLP to identify additional solvency risk areas and to determine the extent of work performed on high-risk areas, which may have provided insight and efficiencies for the current examination. To the extent possible, the Department utilized the work papers and analyses to supplement the examination work.

The format of this report is designed to explain the procedures employed during the examination and if necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no findings in the prior exam report or the current exam report. There were no adjustments made to the annual statement based on this examination.

HISTORY

HAPI

HAPI is a non-profit, tax-exempt, licensed mutual insurance company owned by its members, Public Housing Authorities (PHAs). The Company was formed as a mutual insurer under the sponsorship interests of PHAs located throughout the United States, who are also members of Housing Authority Insurance, Inc., a non-profit corporation duly organized under the laws of the State of Connecticut. HAPI was originally licensed in the State of Vermont in 1988 as a non-profit Industrial Insured Captive Insurance Company and commenced writing business on August 1, 1988. Effective in 1989, HAPI received approval from the State of Vermont to change its status to that of a non-profit Association Captive Insurance Company. During 1995, the Company received approval from the State of Vermont to transact insurance business as a Vermont licensed property and casualty insurance company under Title 8, Chapter 101, Subchapter 1 of the Vermont Statutes Annotated. During 1998, the Company received approval from the State of Vermont to return to a non-profit Association Captive Insurance Company. Effective in 2003, HAPI converted its charter in the State of Vermont back to a licensed mutual insurer. HAPI was licensed in 49 jurisdictions as of December 31, 2013 and acted as a direct writer and reinsurer for property, inland marine, boiler and machinery, automobile liability and physical damage, fidelity and crime, and liability coverages.

HEIC

HEIC, formerly Housing Enterprise Risk Services, Inc. (HERS), was incorporated on August 15, 2000 under the laws of the State of Vermont as a sponsored captive with one protected cell. HERS was established to provide various lines of insurance coverage for low and mixed income, and affordable housing units that are not in the Public Housing Authority (PHA) program for the members of Housing Authority Insurance, Inc. (HAI). HERS was capitalized on January 1, 2001 and operations commenced on August 1, 2001. On January 1, 2001, HERS entered into a Participation and Management Services Agreement with HAI whereby HAI became a participant of HERS and HERS created a protected cell (Cell) for the benefit of the members of the HAI. As part of the provision of this agreement, HERS provided for the provision of administration, financing, marketing, underwriting, claims and general management and operational service with respect to the operations of the Cell. The agreement also provided that HERS would be reimbursed for all costs incurred to operate the Cell including, without limitation, rent and all salaries and employee benefits for personnel who devote time to the business of the Cell. The Cell also paid participation and surplus fees to HERS. On December 31, 2007 HERS, its Cell and HAI executed a Termination and Assumption Agreement whereby the Participation and Management Services Agreement between HERS and HAI was terminated, and HERS assumed all liabilities, duties and obligations of the Cell, which dissolved. As consideration, HERS received all of the Cell’s assets, surplus, credits, rights and benefits. HERS subsequently changed its name to HEIC, amended its Articles of Incorporation and converted to a stock insurance company in the State of Vermont. HEIC is licensed as a domestic stock insurance company jointly owned by HAPI (35%) and HARRG (65%). HEIC is licensed in 49 jurisdictions.

CORPORATE RECORDS

The Group's headquarters and administrative offices are located in Cheshire, Connecticut, and the Group maintains its corporate records at this location. The Articles of Incorporation, By-Laws and minutes of the Board of Directors meetings held during the period under examination were reviewed. Based upon our review, the Group is conducting its affairs in accordance with the By-Laws of the companies. The recorded minutes of these meetings adequately documented approval and oversight of the Group's investment transactions, other material transactions, events and changes in directors.

MANAGEMENT AND CONTROL

HAPI

By-Laws:

In accordance with the By-Laws, the annual meeting of the Board of Directors is held immediately following and in the same place as the annual meeting of the Members. Regular meetings of the Board of Directors are held at a place and time as the Directors determine. At least one meeting of Directors is held within the State of Vermont each year.

The Board of Directors consists of not less than three or more than twenty-one persons. The exact number is determined by the Members. One Director is a resident of the State of Vermont. The Board of Directors may also elect three Directors who are not the representative of a Member. The outside Directors serve for a term of one year and may be re-elected to subsequent one-year terms. Except for the Vermont resident Director and the outside Directors, each Director must be the representative of a Member of the Company. A quorum of the Board of Directors consists of four Directors.

The following were elected to the Board of Directors of the Company in accordance with the By-Laws and serving as of December 31, 2013:

Name and Principal Business Association:	Residence:
James J. DiPaola Housing Authority of the City and County of Denver	Colorado
Douglas G. Dzema Housing Authority of the City of Perth Amboy	New Jersey
Lee E. Eastman Auburn Housing Authority	Alabama
Christine H. Hart Brattleboro Housing Authority	Vermont
Daniel J. Labrie HAI Group	Connecticut
Tony L. Love Inkster Housing & Redevelopment Commission	Michigan
Edwin T. Lowndes Housing Authority of Kansas City	Kansas
Richard S. Press Retired	Massachusetts
Lyle G. Redding, Jr. Stillwater Housing Authority	Oklahoma
Joseph Shuldiner The Municipal Housing Authority for the City of Yonkers	New York
Gary M. Wasson Danville Redevelopment & Housing Authority	Virginia
John L. Williams Housing Authority of Columbus Georgia	Georgia
Linnie B. Willis Lucas Metropolitan Housing Authority	Ohio
Russell A. Young Primmer Piper Eggelston & Cramer P.C.	Vermont

Committees:

The Director Chaired Standing Committees consist of no fewer than three members, at least two of whom shall be Directors. Members of the Standing Committees serve a term of one year commencing on the first day of January in the year following the year in which they were appointed. The active committees as of December 31, 2013 include:

- Claims Committee
- Underwriting Committee
- Risk Control Committee
- Finance Committee
- Enterprise Risk Management Committee
- Learning/IT Committee
- Governance Committee
- Compensation Committee
- Audit Committee

Officers:

The Officers of the Company as of December 31, 2013 were as follows:

Name	Title
Daniel J. Labrie	President
William T. Lewellyn	Vice President
Edmund J. Malaspina	Vice President
Mark A. Wilson	Treasurer
Amy V. Galvin	Secretary
Sarah B. Rodriguez	Assistant Treasurer
Kenneth G. House, Jr.	Assistant Secretary

HEIC

By-Laws:

In accordance with the By-Laws, the annual meeting of the Board of Directors is held immediately following and in the same place as the annual meeting of the Shareholders. Regular meetings of the Board of Directors are held at a place and time as the Directors determine.

The Board of Directors consists of not less than three or more than twenty-one persons and are the same persons who are Directors of HAPI. Each Director is elected by plurality vote at the annual meeting of the Shareholders. Each Director serves for one year or until his/her successor is elected and qualified.

The following were elected to the Board of Directors of the Company in accordance with the By-Laws and serving as of December 31, 2013:

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Mark A. Wilson	Treasurer
Amy V. Galvin	Secretary
Sarah B. Rodriguez	Assistant Treasurer
Kenneth G. House, Jr.	Assistant Secretary

Conflict of Interest Statement

The statement as adopted by the Board of Directors requires that other than his or her affiliation with a Member and the companies that make up the Group, no Director, Officer or employee of the Company shall have any position with or substantial interest in any other business operated for profit or non-for-profit. The existence of such interest would conflict or might reasonably be supposed to conflict with the proper performance of his or her duties or responsibilities to the Company. Each Director, Officer or employee who has such a conflicting interest with respect to any transaction by the Board or any of its committees is required to make timely disclosure so that it may be part of the Board's consideration of the transaction. The person holding the conflicted interest will refrain from participating in consideration except as directed by the remaining members of the Board.

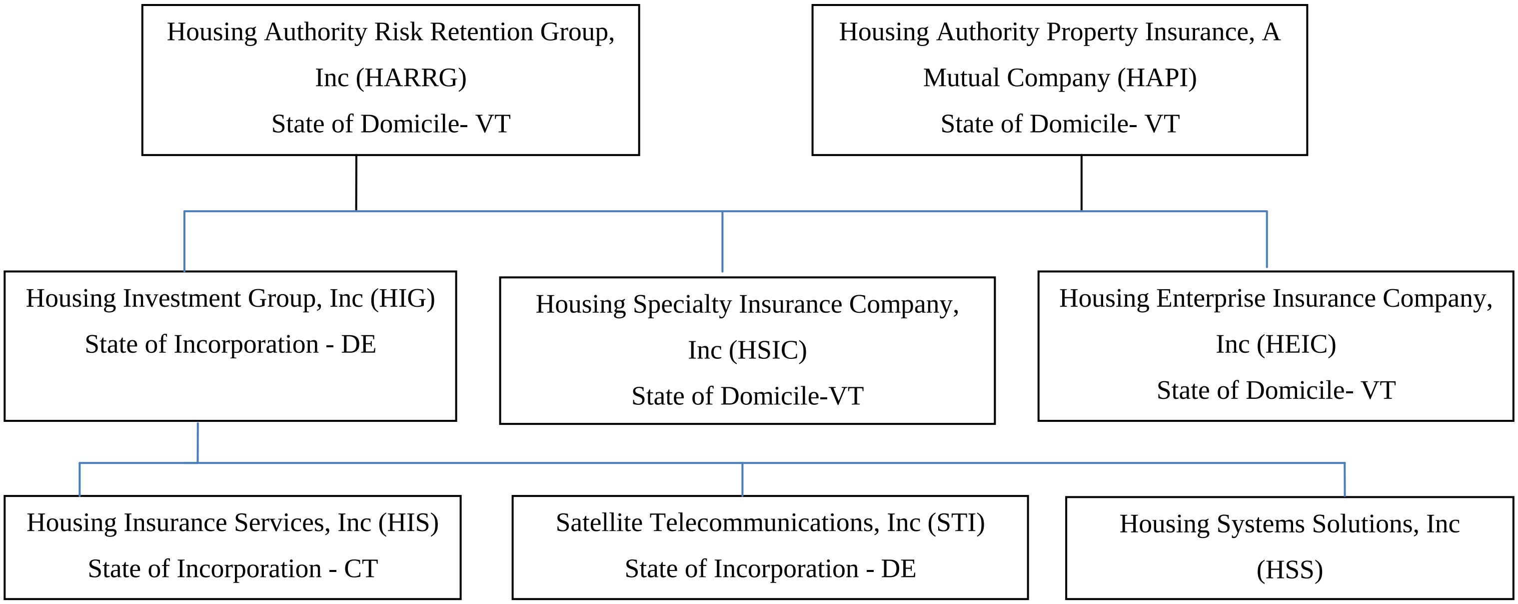
Affiliated Companies

The Group is designed to be a one-stop source for insurance coverage, risk control, training, financial and support services. The service providers are as follows:

Entity:	Description:
Housing Investment Group, Inc. (HIG)	Investment holding company, 100% jointly owned by the HAPI and HARRG
Housing Insurance Services, Inc. (HIS)	Insurance agency services
Satellite Telecommunications, Inc. (STI)	Owns the web-based telecommunications equipment by HTI
Housing Systems Solutions, Inc. (HSS)	Provides business software and consulting solutions
Housing Authority Insurance, Inc. (HAI)	Membership association and program development
Housing Telecommunications, Inc. (HTI)	Risk management training and education programs
Public and Affordable Housing Research Corp	Conducts research to support the efforts of the public and affordable housing industry

The following chart exhibits the relationship between the HAI Group.

Organization Chart



Standalone Entities*

Housing Authority Insurance, Inc (HAI) State of Incorporation - DC	Housing Telecommunications, Inc (HTI) State of Incorporation - CT	Public and Affordable Housing Research Corp. (PAHRC) State of Incorporation - CT

The standalone entities are members of a holding company group and are governed by Title 8, Chapter 101, Subchapter 13, *Holding Companies and Subsidiaries*.

In June 1995, the Company and HARRG formed HIG to serve as a for profit holding company to govern the related businesses to which HAPI and HARRG have an ownership interest.

On September 28, 2012, HAPI and HARRG purchased Class B common stock in HIG for $1,250,000 each. The stock purchase funded the software development in HSS, a subsidiary of HIG. On June 18, 2013, HAPI and HARRG purchased 47,500 shares of Class B common stock in HIG for $4,750,000 each. The stock purchase funded the software development in HSS. HIG has two classes of stock, a voting class (Class A) which is currently owned 50% by HAPI and 50% by HARRG, and a non-voting stock (Class B) which is currently owned 50% by HAPI and 50% by HARRG.

HAPI had a 35% ownership in HEIC as of December 31, 2011. On June 28, 2012, HAPI sold 350 shares of common stock to HAIC for $3,500,000. Immediately following, HAPI contributed back to HEIC a total of $3,500,000 of gross paid in and contributed surplus maintaining its ownership of HEIC at 35%. On June 4, 2013, HAPI contributed to HEIC a total of $3,500,000 of gross paid in and contributed surplus maintaining its ownership of HEIC at 35%.

On August 30, 2012, HAPI disbursed $2,500,000 to Housing Authority Insurance, Inc. (HAI) under a grant to carry out research, feasibility studies and funding of new initiatives as approved by the Board of Directors. HARRG also disbursed $2,500,000 to HAI under this grant for a total of $5,000,000.

In December 2013, the HAPI and HARRG formed Housing Specialty Insurance Company, Inc. (HSIC) to provide non-traditional insurance program to public and affordable housing providers on a surplus lines basis. On December 18, 2013, HAPI and HARRG purchased 100 shares of common stock in HSIC for $1,000,000 each and contributed $2,000,000 each of gross paid in and contributed surplus. HAPI and HARRG each have a 50% ownership interest in HSIC. A Report of Organizational Examination of HSIC was signed on January 15, 2014 and the Certificate of Authority was issued on January 15, 2014. HSIC did not start writing business until 2015.

<u>HAPI:</u>

Pursuant to a Membership Agreement, the Company pays Housing Authority Insurance, Inc., fees for the development of public and affordable housing insurance programs, research and government affairs activities. The fees paid for the year ending December 31, 2013 were $1,867,213.

The Company has a Common Paymaster and Facilities Agreement with HARRG in return for a direct allocation of salary and administrative expenses. The fees paid for the year ending December 31, 2013 were $6,600,952.

<u>HEIC:</u>

Pursuant to a Membership Agreement, the Company pays Housing Authority Insurance, Inc., fees for the development of public and affordable housing insurance programs, research and government affairs activities. The fees paid for the year ending December 31, 2013 were $47,189.

The Company has a Common Paymaster and Facilities Agreement with HARRG in return for a direct allocation of salary and administrative expenses. The fees paid for the year ending December 31, 2013 were $4,164,328.

The Company entered into an insurance management services agreement with Housing Insurance Services, Inc. (HIS), whereby HIS performs insurance agency activities for the HAPI insurance program. HIS is an affiliated entity through common management and ownership. Fees incurred under the agreement for the year ending December 31, 2013 were $104,746.

The Company entered into an agreement with Housing Telecommunications, Inc. (HTI), an affiliated entity through common management, to support the delivery of risk management training to policyholders. The fees paid for the year ending December 31, 2013 were $200,760.

The Company entered into an insurance management services agreement with Housing Insurance Services, Inc. (HIS), whereby HIS performs insurance agency activities for the HEIC insurance program. HIS is an affiliated entity through common management and ownership. Fees incurred under the agreement for the year ending December 31, 2013 were $0.

The Company entered into an agreement with Housing Telecommunications, Inc. (HTI), an affiliated entity through common management, to support the delivery of risk management training to policyholders. The fees paid for the year ending December 31, 2013 were $8,400.

FIDELITY BOND AND OTHER INSURANCE

The Group has a fidelity bond issued by St. Paul Travelers with single loss limits of $5 million per occurrence and a $10 million aggregate. The policy is in effect until June 29, 2015. This ensures all officers and employees whose duties and responsibilities require the carrying of such coverage are appropriately bonded. The bond meets the minimum amount of coverage recommended by the NAIC. The policies for Property Damage and Business Interruption, Commercial General Liability, Commercial Auto, Commercial Umbrella, Workers Compensation, and Directors and Officers Professional Liability were reviewed and appear to have sufficient limits to protect the Group from losses.

PENSIONS AND INSURANCE PLANS

HAPI and HEIC do not have any employees and are managed under an agreement with HARRG and Towner Management in Burlington, Vermont. As such there is not a retirement plan, deferred compensation or other post-retirement benefit plan. As part of the direct allocation of expenses from HARRG, HAPI recorded 2013 pension expense of $186,013, 401k expense of $116,943, retiree health expense of $55,883, and incentive compensation expense of $343,531. HEIC recorded 2013 pension expense of $126,540, 401k expense of $78,555 and retiree health expense of $38,132.

HAI GROUP

EXAMINATION REPORT

AS OF DECEMBER 31, 2013

STATUTORY DEPOSITS

The statutory deposits as of December 31, 2013 were as follows:

		Deposits for Benefit of All Policyholders		All Other Special Deposits	
State	Type of Deposit	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
HAPI:					
Arkansas	US Treasury	$ -	$ -	$ 160,111	$ 166,234
Georgia	US Treasury	$ -	$ -	$ 27,395	$ 29,789
Massachusetts	US Treasury	$ -	$ -	$ 598,322	$ 689,438
Nevada	US Treasury	$ -	$ -	$ 219,444	$ 255,313
New Hampshire	US Treasury	$ -	$ -	$ 547,905	$ 595,781
New Mexico	US Treasury	$ -	$ -	$ 622,074	$ 621,850
North Carolina	US Treasury	$ -	$ -	$ 328,743	$ 357,469
Oklahoma	US Treasury	$ -	$ -	$ 298,278	$ 306,938
Oregon	US Treasury	$ -	$ -	$ 285,277	$ 331,906
Vermont	US Treasury	$ 2,196,340	$ 2,175,402	$ -	$ -
Virginia	US Treasury	$ -	$ -	$ 229,940	$ 246,531
Total		$ 2,196,340	$ 2,175,402	$ 3,317,489	$ 3,601,249
HEIC:					
Arkansas	US Treasury	$ -	$ -	$ 155,476	$ 153,472
California	US Treasury	$ -	$ -	$ 501,061	$ 502,344
Florida	US Treasury	$ -	$ -	$ 210,352	$ 207,506
Georgia	US Treasury	$ -	$ -	$ 35,064	$ 35,077
Massachusetts	US Treasury	$ -	$ -	$ 110,393	$ 116,462
Nevada	US Treasury	$ -	$ -	$ 225,348	$ 225,492
New Hampshire	US Treasury	$ -	$ -	$ 250,386	$ 250,547
New Mexico	US Treasury	$ -	$ -	$ 702,782	$ 703,125
North Carolina	US Treasury	$ -	$ -	$ 305,413	$ 292,800
Vermont	US Treasury	$ 2,004,207	$ 2,035,484	$ -	$ -
Virginia	Fannie Mae - Gov't	$ -	$ -	$ 200,687	$ 204,453
Total		$ 2,004,207	$ 2,035,484	$ 2,696,962	$ 2,691,278

TERRITORY AND PLAN OF OPERATIONS

HAPI:

HAPI is currently licensed in 48 states and the District of Columbia and acts as a direct writer and reinsurer. HAPI writes property coverages on both a direct and assumed basis (via a fronting agreement with Travelers Indemnity). On a direct basis, HAPI retains the first $500 thousand of loss and reinsurers a $500 thousand excess of $500 thousand layer and a $1.0 million excess of $1.0 million layer under a reinsurance agreement through JLT Towers Re. HAPI also has a $500 million excess of $2.0 million layer provided by Travelers Indemnity. Travelers also provides HAPI with aggregate coverage for losses within the first $2.0 million in excess of $10.0 million per catastrophic event (combined direct and fronted). On the fronted business, the reinsurance structure is similar, leaving HAPI with the same net and aggregate positions. In 2013, 94% of the property premium was written on a direct basis.

Since 2006, HAPI has reinsured HARRG under an aggregate excess of loss reinsurance agreement (AXL). The agreement provides for reinsurance protection to HARRG for all losses in excess of HARRG's retention. In connection with this treaty, HAPI entered into a similarly structured aggregate excess of loss reinsurance agreement with third party reinsurers.

HAPI, HARRG and HEIC have a reinsurance agreement with Hannover Ruckversicherungs Aktiengesellschaft, and Lloyd's Syndicates where the companies retain the first $2.0 million of terrorism loss with the reinsurers assuming the next $20.0 million. For losses arising from nuclear, chemical and biological release, the companies retain the first $250 thousand with the reinsurers assuming the next $5.0 million

HEIC:

HEIC is currently licensed in 49 jurisdictions and acts as a direct writer to provide various lines of insurance coverage for low and mixed income and affordable housing units that are not in the public housing authority program. HEIC retains the first $250 thousand of property loss and reinsurers a $250 thousand excess of $250 thousand layer, $500 thousand excess of $500 thousand layer, a $1.0 million excess of $1.0 million layer under a reinsurance agreement with JLT Towers Re. HEIC also has a $500 million excess of $2.0 million layer provide by Travelers Indemnity. Travelers also provides HEIC with aggregate coverage for losses within the first $2.0 million in excess of $7.5 million per catastrophic event (combined direct and fronted). On direct liability policies with limits up to $5 million, HEIC retains the $500 thousand of loss. Losses excess of $500 thousand up to $5.0 million are reinsured under a syndicated reinsurance agreement.

HEIC purchased Aggregate Excess of Loss (AXL) reinsurance with one-year terms reinsuring accident year losses in the aggregate excess of planned loss and expense ratio.

GROWTH OF COMPANY

The growth of the Company over the five most recent years is shown in the following tables:

Revenues, Assets, Liabilities & Surplus

HAPI:

	2013	2012	2011	2010	2009
Net Written Premium	$ 35,197,379	$ 33,198,776	$ 33,610,292	$ 36,679,530	$ 39,801,694
Losses and LAE Incurred	$ 16,065,939	$ 19,866,068	$ 19,907,057	$ 14,967,840	$ 21,233,406
Net Income	$ 10,101,952	$ 5,092,427	$ 1,431,224	$ 13,070,066	$ 6,467,222
Net Admitted Assets	$ 165,394,450	$ 159,655,226	$ 164,864,624	$ 163,620,301	$ 158,195,470
Surplus	$ 117,135,343	$ 110,177,976	$ 108,121,359	$ 108,335,955	$ 95,847,421

HEIC:

	2013	2012	2011	2010	2009
Net Written Premium	$ 16,390,817	$ 15,405,211	$ 12,675,302	$ 10,620,312	$ 6,813,062
Losses and LAE Incurred	$ 16,315,159	$ 15,206,314	$ 9,517,993	$ 6,087,562	$ 2,923,675
Net Income	$ (5,595,119)	$ (7,664,254)	$ (4,024,490)	$ (1,177,862)	$ (48,381)
Net Admitted Assets	$ 59,652,027	$ 50,497,916	$ 51,723,834	$ 42,669,416	$ 39,129,247
Surplus	$ 27,698,980	$ 23,966,466	$ 31,502,798	$ 25,494,632	$ 25,697,284

REINSURANCE

The Group has a reinsurance program established with several reinsurers. The Group's reinsurance program is described in greater detail in the Territory and Plan of Operations section and consists of various reinsurers with the majority being A- rated by A.M. Best. The Group has a policy on the selection of reinsurers where the primary purpose of the policy is to choose quality reinsurers which will provide capacity, financial stability and security, spread of risk and underwriting flexibility. The policy outlines specific criteria for the reinsurer selection process. Coverage is continuous and may be terminated by either the Group or reinsurer, subject to 90 days written notice. Management reviews, approves and executes all reinsurance contracts. A third party consultant is utilized to monitor reinsure metrics, such as reinsurance partners and their respective credit ratings and any other changes that have occurred in the reinsurance market. The reinsurance contracts are also reviewed by the Group's certified public accountant to ensure the contracts qualify for reinsurance accounting treatment.

ACCOUNTS AND RECORDS

Computer systems and programs are developed internally and utilized across the Group to perform major underwriting and accounting functions. All operating expenses are incurred by HARRG, who subsequently bills the affiliated companies according to the cost-sharing agreement discussed in the Cost-sharing Agreements section, above. The Company retains the services of Saslow Lufkin & Buggy, LLP to audit its records on an annual basis, both on a Statutory and a Generally Accepted Accounting Principles basis.

The Group is not subject to requirements of either Sarbanes-Oxley Section 404, or the internal control attestation requirements expressed in Regulation I-2009-06, Section 16.

HAI GROUP

EXAMINATION REPORT

AS OF DECEMBER 31, 2013

FINANCIAL STATEMENTS

The following statements show the financial position of the HAPI and HEIC as of December 31, 2013 in accordance with statutory accounting principles as defined by Vermont State Statute.

Statement of Assets:

	HAPI	HEIC
Bonds, at amortized cost	$ 118,249,236	$ 48,719,149
Equity securities, at fair value	8,932,256	-
Investment in affiliates	20,944,482	-
Other invested assets	18,923	-
Cash, cash equivalents and short-term investments	3,154,538	2,472,048
Subtotals, cash and invested assets	$ 151,299,435	$ 51,191,197
Premiums receivable	$ 11,314,805	$ 7,338,628
Funds held by or deposited with reinsured companies	10,000	-
Due from affiliates	2,688	-
Reinsurance recoverable on paid losses	1,986,906	453,531
Federal income tax receivable	-	269,763
Investment income due or accrued	780,616	398,908
Total assets	$ 165,394,450	$ 59,652,027

Statement of Liabilities, Surplus and Other Funds:

	HAPI	HEIC
Unpaid losses and loss adjustment expenses	$ 25,142,636	$ 18,966,067
Unearned premiums	15,599,384	10,107,324
Ceded reinsurance premium payable	3,002,086	2,028,083
Due to affiliates	1,046,147	401,372
Reinsurance payable on paid losses	3,708	75,703
Taxes, licenses and fees	494,293	370,300
Accrued dividends	2,363,799	-
Accrued expenses and other liabilities	607,054	-
Provision for reinsurance	-	4,198
Total liabilities	$ 48,259,107	$ 31,953,047
Members' contributions	$ 9,866,847	$ -
Common stock, $10,000 stated value, 10,000 shares authorized, and 2,000 issues and outstanding	-	20,000,000
Contributed surplus	-	24,000,000
Unassigned funds	107,268,496	(16,301,020)
Total surplus	117,135,343	27,698,980
Total liabilities and surplus	$ 165,394,450	$ 59,652,027

HAI GROUP
EXAMINATION REPORT
AS OF DECEMBER 31, 2013

Statement of Income and Changes in Capital and Surplus:

	HAPI	HEIC
Net premiums earned	$ 34,476,846	$ 15,853,037
Net loss and loss adjustment expenses incurred	16,065,939	16,315,159
Other underwriting expenses incurred	11,700,804	7,066,215
Total underwriting deductions	27,766,743	23,381,374
Net underwriting gain (loss)	6,710,103	(7,528,337)
Net investment income earned	3,393,102	1,231,889
Net realized capital gains	1,868,748	501,424
Net investment gain	5,261,850	1,733,313
Miscellaneous income	-	199,905
Total other income	-	199,905
Net income (loss) before dividends to policyholders	11,971,953	(5,595,119)
Policyholder dividends	(1,870,000)	-
Net income (loss)	$ 10,101,953	$ (5,595,119)
Surplus as regards policyholders, December 31, 2012	$ 110,177,976	$ 23,966,466
Net income (loss)	10,101,953	(5,595,119)
Change in net unrealized capital gains	(4,009,391)	-
Change in net deferred income taxes	-	1,035,248
Change provision for reinsurance	406,000	15,000
Equity dividends, net	(61,188)	-
Members' contributions	6,400	
Additional paid in surplus	-	10,000,000
Change in non-admitted assets	513,593	(1,722,615)
Change in surplus as regards policyholders for the year	6,957,367	3,732,514
Surplus as regards policyholders, December 31, 2013	$ 117,135,343	$ 27,698,980

HAI GROUP

EXAMINATION REPORT

AS OF DECEMBER 31, 2013

COMMENTS AND RECOMMENDATIONS

There are no significant findings or financial adjustments as a result of this examination. A Comment Letter will be issued to the Board as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report.

CONCLUSION

As a result of this examination, the financial position of the HAPI and HEIC, as of December 31, 2013 was determined to be as follows:

	HAPI	HEIC
Admitted Assets	$ 165,394,450	$ 59,652,027
Liabilities	$ 48,259,107	$ 31,953,047
Capital and Surplus	$ 117,135,343	$ 27,698,980
Total Liabilities, Capital and Surplus	$ 165,394,450	$ 59,652,027

In addition to the undersigned Jesse Lussier, Administrative Insurance Examiner, Miranda Cloutier, Examiner in Charge, and Ellen Adams, Examiner, participated in this examination.

Respectfully submitted,

Karen Murphy

Karen Murphy, CPA
Chief Examiner, Division of Insurance
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Karen Murphy, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Subscribed and sworn to before me

This 5th day of June, 2015

Lisa R. Lasker 2/10/2019

Notary Public