



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF
CITATION INSURANCE COMPANY

Webster, Massachusetts

As of December 31, 2013

NAIC GROUP CODE 0411

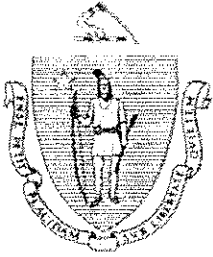
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CITATION INSURANCE COMPANY

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Summary of Significant Findings	3
Subsequent Events	3
Company History	3
General	3
Capital Stock	3
Dividends to Stockholders	4
Corporate Records	4
Articles or Organization and Bylaws	4
Board of Directors Minutes	4
Conflict of Interest Procedures	4
Disaster Recovery and Business Continuity	4
Management and Control	5
Annual Meeting of the Stockholder	5
Board of Directors	5
Committees of the Board of Directors	5
Officers	6
Affiliated Companies	6
Transactions and Agreements with Subsidiaries and Affiliates	7
Organizational Chart	7
Fidelity Bonds and Other Insurance	7
Pensions, Stock Ownership and Insurance Plans	8
Territory and Plan of Operation	8
Treatment of Policyholders	8
Growth of Company	9
Reinsurance	9
Inter-Company Reinsurance Pooling Agreement	9
Accounts and Records	9
Statutory Deposits	10
Financial Statements	11
Statement of Assets, Liabilities, Surplus and Other Funds	12
Statement of Income	13
Statement of Capital and Surplus	13
Reconciliation of Capital and Surplus	14
Analysis of Changes to Surplus Resulting from the Examination	15
Comments on Financial Statement Items	15
Acknowledgement	17



COMMONWEALTH OF MASSACHUSETTS
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May 28, 2015

Honorable Daniel R. Judson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

CITATION INSURANCE COMPANY

at its home office located at 211 Main Street, Webster, Massachusetts, 01570. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Citation Insurance Company (hereinafter referred to as "Citation", or the "Company") was last examined as of December 31, 2008 by the Massachusetts Division of Insurance ("Division"). The current Coordinated Group Examination covers the intervening period from January 1, 2009 through December 31, 2013, and any material transactions and/or events, occurring subsequent and noted during the examination.

The current examination was conducted at the direction of and under the overall management and control of the examination staff of the Massachusetts Division of Insurance in accordance with standards established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee, the requirements of the 2014 Edition of the NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division, and with Massachusetts General Laws. Representatives from the firm of PricewaterhouseCoopers LLP ("PwC") were engaged by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division's examination staff. PwC was also engaged to conduct a concurrent examination of Commerce Insurance Company, ("Commerce") a Massachusetts domiciled affiliate insurer, and the subject of a separate examination report. This assistance included a review of accounting records, information technology systems, taxes, investments, and actuarially determined loss and loss adjustment expense reserves of the inter-company reinsurance pool (the "Commerce Pool"). Examination procedures performed by PwC were reviewed and approved by the Division.

The examination was conducted following the NAIC risk-focused examination process. The risk-focused approach requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company 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's compliance with Statutory Accounting Principles and NAIC Annual Statement Instructions and applicable domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. In addition to the foregoing, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and benefits plans, disaster recovery plan and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by Ernst & Young LLP ("E&Y"), an independent certified public accounting firm, in accordance with 211 CMR 23.00 and 211 CMR 26.00. The firm expressed unqualified opinions on the Company's statutory financial statements for each of the years under examination. E&Y's audit work was evaluated and relied upon where deemed appropriate and effective. The work of the Company's internal auditors was also reviewed and relied upon to the extent deemed appropriate.

SUMMARY OF SIGNIFICANT FINDINGS

The Company's recorded liabilities for losses and loss adjustment expenses reserves was determined by examination to fall outside the range of reasonable values and an examination adjustment has been made. Additional information relating to this finding is detailed later in this report.

SUBSEQUENT EVENTS

The following item is noted as a "subsequent event," the disclosure of which in this Examination Report is considered appropriate.

Stockholder Dividends: The Company paid to its parent, MAPFRE USA an extraordinary dividend in the amount of \$8,890,922 during 2014.

COMPANY HISTORY

General

The Company was incorporated as a stock property and casualty insurer on September 24, 1981 under the laws of the Commonwealth of Massachusetts and commenced business in Massachusetts on November 6, 1981. The Company was a wholly-owned subsidiary of the former Commerce Group, Inc, ("CGI") a publicly traded Massachusetts Insurance Holding Company. Effective June 2008, MAPFRE S.A. acquired CGI and CGI was renamed MAPFRE U. S. A. Corp., ("MAPFRE USA") effective January 1, 2010. MAPFRE USA is a privately held Insurance Holding Company domiciled in Massachusetts. MAPFRE USA is a member of the MAPFRE international group of insurers, which is headquartered in Spain and operates in over 49 countries. Commerce is the lead insurer of the US group.

Effective January 1, 2004, the Company and its' insurance affiliates entered into an inter-company reinsurance pool whereby Commerce is the lead insurer. As of December 31, 2013 there were of seven pool participants. The Company's prorate share of the pool at December 31, 2013 was 7.4%.

Capital Stock

The Company has authorized, issued, and outstanding 22,000 shares of common capital stock with a par value of \$50.00 per share. All of the outstanding capital stock is owned by MAPFRE USA.

Citation Insurance Company

Dividends to Stockholders

The following table illustrates the total ordinary and extraordinary dividends paid by the Company to its parent, MAPFRE USA, during the period covered by this examination:

	<u>Dividends Paid</u>
2009	\$11,450,000
2010	10,939,197
2011	11,226,529
2012	10,259,300
2013	<u>20,339,151</u>
Total	<u><u>\$64,214,177</u></u>

CORPORATE RECORDS

Articles of Organization and Bylaws

The Company's articles of organization and bylaws were reviewed. There were no amendments to the articles of organization or bylaws for the period ended December 31, 2013.

Board of Directors Minutes

The minutes of the Board of Directors meetings for the period under examination were obtained and reviewed. The review indicated that all meetings were held in accordance with Company bylaws and the laws of the Commonwealth of Massachusetts.

Conflict of Interest Procedures

The Company has adopted the following policies which address conflict of interest and other corporate governance areas: Code of Ethics; Conflict of Interest; and Code of Good Governance. The Code of Ethics and the Conflict of Interest policies are maintained as part of the Company's Human Resources Policy Guide. The Code of Good Governance is a document established by the ultimate parent company and requires the Compliance Committee of MAPFRE USA to report annually, as needed, to the respective board of directors and to the Institutional Board of Oversight at the ultimate parent level any warranted exceptions to the Code of Governance that may have occurred.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management in the event of a catastrophe or other emergency in accordance with sections 180M through 180Q of Chapter 175 of the Massachusetts General Laws.

MANAGEMENT AND CONTROL

Annual Meeting of the Stockholder

As the sole stockholder of the Company, the Board of Directors of MAPFRE USA has voted to waive notice of the annual meeting and hold the annual meeting when and if deemed necessary.

Board of Directors

The Company is managed by a Board of Directors. The Board shall consist of not less than five or more than twenty. Directors are elected for a period of one year and shall serve until their successors are respectively elected and qualified.

The Board of Directors meets regularly throughout the year and may, in accordance with the bylaws hold special meetings or take action by unanimous written consent. A review was made of the minutes of meetings for the five-year period covered by this examination.

Directors as of December 31, 2013, along with their titles and affiliation were as follows:

Name	Title and Affiliation
Randall V. Becker	Executive Vice President and CFO
Domingo Sugranyes Bickel	Member of Board of Trustees of Fundacion MAPFRE, Member of the Board of Directors of MAPFRE Internacional
Gerald Fels, (*)	Chairman, <i>retired</i>
Javier Fernandez-Cid	Chairman of MAPFRE Internacional and MAPFRE USA
Mark A. Shaw	President of AAA of Southern New England
Jaime Tamayo	President and CEO
Esteban Tejera	General Manager of MAPFRE SA
Edward L. Timmes, CPA	Financial Consultant
Luis Manuel Viceira Alguacil	Professor at Harvard Business School
(*) <i>Mr. Fels Retired Effective 12/31/13</i>	

Committees of the Board of Directors

Although provided for in the bylaws, the Board of Directors does not have in place any Board Committees. As of the date of this examination, all aspects of corporate governance for the Company are handled by Committees of MAPFRE USA, including an Audit Committee, Investment Strategy Committee and an Executive and Compensation Committee

At the MAPFRE USA level, a list of members serving on the Committees is as follows:

Citation Insurance Company

Audit Committee

Domingo Sugranyes, Chair
Edward Timmes
Luis Viceira

Executive and Compensation Committee

Javier Fernandez-Cid
Domingo Sugranyes
Edward Timmes
Luis Viceira

Investment Strategy Committee

Jaime Tamayo
Daniel P. Olohan
Eric Trigilio
Edward Timmes
Leoncio Alcaide
Luis Viceira
Patrick Dolan
Randall V. Becker
Robert E. McKenna

In addition to the above, the Audit Committee of MAPFRE USA has directed the General Counsel to establish, oversee, and ensure adherence with the Corporate Compliance Program and has appointed the General Counsel to serve as the Chief Compliance Officer and as the Chairman of the Corporate Compliance Committee. The Chief Compliance Officer provides reports regarding the Corporate Compliance Program to the Chief Executive Officer and the Audit Committee.

Officers

The principal senior officers of the Company and their respective titles at December 31, 2013 were as follows:

<u>Name</u>	<u>Title</u>
Jaime Tamayo	President and CEO
Randall V. Becker	Executive Vice President and CFO
Daniel P. Olohan (*)	Executive Vice President and General Counsel
David Cochrane	Executive Vice President
Cathleen Moynihan (*)	Executive Vice President
Patrick McDonald (*)	Executive Vice President
Javier Gonzalez Montero (*)	Executive Vice President
Robert E. McKenna	Senior Vice President
Eric Trigilio (*)	Senior Vice President
Steven Shiner (*)	Senior Vice President
John Kelly (*)	Senior Vice President
Ruben Santos	Senior Vice President

(*) Denotes serving in current role since 2014

Affiliated Companies

The Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C of the Massachusetts General Laws. FUNDACION MAPFRE is the "ultimate controlling person" of the Group per Form B, as filed with the Division.

The following is an abbreviated summary of the organization structure based on Schedule Y of the Company's 2013 filed Annual Statement:

Citation Insurance Company

FUNDACION MAPFRE

MAPFRE S.A.

MAPFRE International, S.A.

MAPFRE USA Corporation

Commerce Insurance Company

MAPFRE Insurance Company

MAPFRE Insurance Company of Florida

Citation Insurance Company

ACIC Holding Co. Inc.

American Commerce Insurance Company

Commerce West Insurance Company

MAPFRE Insurance Company of New York

In addition to the above, the Company is affiliated with other entities of the Group owned and or controlled by its ultimate parent.

Transactions and Agreements with Subsidiaries & Affiliates

Management Cost Allocation Agreement

The Company has in place a Management Cost Allocation Agreement which provides that the Company is charged or reimbursed for services rendered by the Company or insurance affiliates and entails 1) investment related and 2) non-investment related services. Costs pertaining to investment related services are actual cost born by the Company which, per agreement, were determined to be the total rate of 15 basis points per annum times the investment balance at each regular calendar quarter. Non-investment related charges are based on actual cost. Loss adjustment expenses are apportioned through studies in accordance with SSAP No. 70. Expenses other than investment and loss adjustment expenses will be apportioned to the company based on its direct written premium relative to that of Commerce.

Tax Sharing Agreement

The Company's federal income tax return is consolidated with other affiliates in the federal income tax return of MAPFRE USA. The income tax allocation is subject to a written tax sharing agreement and allocation is based upon separate return calculations with current payment for losses and other tax items utilized in the consolidated return.

Organizational Chart

The Company is a member of the MAPFRE S.A. Insurance Group, which is the leading insurer in Spain and operates in over 49 countries and five continents. MAPFRE USA Group actively writes property and casualty business in 16 states. Additionally, there are a number of non-insurance entities within the MAPFRE organizational structure. Please refer to the Company's December 31, 2013 Annual Statement filing for a complete organizational chart.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, under a Financial Institutions Bond designed for insurance companies, consistent with Massachusetts General Laws, Chapter

175, Section 60. The aggregate limit of liability on these policies is in excess of NAIC suggested minimum amounts for fidelity insurance. The Company is also a name insured together with other subsidiaries and affiliates on policies with external carriers providing protection against various exposures including property, employer liability, general liability, and excess umbrella liability. All policies evidencing the above coverage's were with licensed and/or authorized insurers in Massachusetts and were in-force at December 31, 2013.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's ultimate parent, MAPFRE USA, sponsors a 401(k) retirement plan for which substantially all employees are eligible. The 401(k) plan includes a matching contribution from the Company of 50% of the first 6% of eligible compensation contributed by the participant to the plan. In addition profit sharing contributions shall be made by the Company with respect to each plan year in an amount equal to 3% of each eligible participants covered compensation.

MAPFRE USA has an Incentive Compensation Plan which provides for the award of Incentive Awards (IA'S). At the discretion of the MAPFRE USA Board of Directors all officers and other management employees are eligible to participate in the plan. IA's entitle recipients to cash payments at a specified settlement date, subject to certain specified conditions. The cash payments are based upon reported net earnings and direct written premium of MAPFRE USA over the one year period of the grant.

TERRITORY AND PLAN OF OPERATION

The Company is only licensed to write business in Massachusetts and approximately 87% of the Company's direct written premium is homeowners' insurance. The Company's distributes its' products primarily through a network of independent agents and brokers. As a member of the Commerce Pool, all direct written premiums are ceded to the pool and the Company assumes back 7.4% of net pool's underwriting profits and losses. The Company shares the MAPFRE Group's "A" (Excellent) rating by A.M. Best Company.

Treatment of Policyholders

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2013 through December 31, 2013. The market conduct examination was called pursuant to authority in Massachusetts General Laws Chapter 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose and Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Regulation Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The business areas that were reviewed under this comprehensive market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating and Claims. Each business area reviewed includes the identification and evaluation of the insurer's internal controls.

Citation Insurance Company

GROWTH OF COMPANY

The growth of the Company for the years 2009 through 2013 is shown in the following schedule, which was prepared from the Company's statutory Annual Statement filings:

	Gross Written Premium	Net Written Premium	Admitted Assets	Liabilities	Surplus
2009	\$270,655,129	\$144,243,318	\$310,047,357	\$200,655,383	\$109,391,974
2010	293,764,348	152,818,410	322,989,983	210,724,727	112,265,256
2011	313,236,056	159,544,231	323,450,509	220,857,514	102,592,995
2012	289,043,592	118,330,567	252,330,811	148,939,306	103,391,505
2013	318,383,319	137,222,338	236,588,307	147,679,090	88,909,217

REINSURANCE

Inter-Company Reinsurance Pooling Agreement

As previously noted the Company and its insurance affiliates participate in an inter-company reinsurance pooling agreement (Commerce Pool) in which the companies share underwriting profit and losses in proportion to the pool participation percentages. The pooling agreement allows all companies to rely on the capacity of the entire pool rather than on their own capital and surplus. Commerce is the lead insurer of the Commerce Pool and as such assumes the direct business of all pool participants including the Company. All external reinsurance, in the form of catastrophe, quota share, facultative and excess of loss contracts is ceded to the external reinsurers by Commerce. Commerce then cedes the net business after external reinsurance back to pool participants at the stated pool participation percentages.

Pool participants and their respective pooling participation ratios as of December 31, 2013 are as follows:

Company	NAIC CoCode	Pooling Percentage
Commerce Insurance Company (Lead Company)	34754	71.2%
Citation Insurance Company	40274	7.4%
American Commerce Insurance Company	19941	9.1%
Commerce West Insurance Company	13161	4.6%
MAPFRE Insurance Company of New York	25275	3.9%
MAPFRE Insurance Company of Florida	34932	2.1%
MAPFRE Insurance Company (NJ)	23876	1.7%

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained on a general ledger system consisting of a general ledger and numerous automated feeder systems which interface with the ledger. Manual entries are also input into the general ledger. The accounts and records of the Company are subject to review by the Company's Corporate Auditing Department and are audited annually by Ernst & Young LLP, independent certified public accountants.

Citation Insurance Company

The internal control structure was examined using the following major approaches: review of the work performed by E&Y; discussions with management based on the use of the NAIC's Exhibit B and Exhibit C Questionnaires, and re-performance testing to the extent necessary and deemed appropriate.

The books and records of the Company are audited annually by E&Y, in accordance with 211 CMR 26.00 and 211 CMR 23.

STATUTORY DEPOSITS

The following identifies the statutory deposits maintained by the Company as of December 31, 2013:

	<i>Deposits with the State of Domicile For the Benefit of All Policyholders</i>	
	Book / Adjusted Carrying Value	Fair Value
Massachusetts	\$498,138	\$531,935
Total	\$498,138	\$531,935

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2013. The financial statements are the responsibility of Company management. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2013

Statement of Income for the Year Ended December 31, 2013

Statement of Capital and Surplus for the Year Ended December 31, 2013

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2013

Citation Insurance Company

Citation Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2013

	Per Annual Statement
Bonds	\$172,307,085
Preferred stock	5,228,763
Cash, cash equivalents, and short-term investments	4,270,850
Subtotals, cash and invested assets	181,806,698
Investment income due and accrued	1,593,977
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	7,262,893
Amounts recoverable from reinsurers	5,205,388
Net Deferred tax assets	7,290,134
Receivable from parent, subsidiaries and affiliates	5,331,310
Aggregate write-ins for other than invested assets	28,097,907
Total Assets	\$236,588,307
Losses	\$45,240,006
Reinsurance payable on paid losses and loss adjustment expense	7,675,653
Loss adjustment expense	11,243,418
Commissions payable, contingent commissions and other similar charges	1,957,057
Other expenses	820,874
Taxes, licenses and fees	120,372
Current federal and foreign income taxes	1,639,689
Unearned premiums	68,033,297
Ceded reinsurance premium payable	10,948,724
Total Liabilities	147,679,090
Common capital stock	1,100,000
Gross paid in and contributed surplus	17,200,000
Unassigned funds (surplus)	70,609,217
Surplus as regards policyholders	88,909,217
Total liabilities and policyholder surplus	\$236,588,307

Citation Insurance Company

**Citation Insurance Company
Statement of Income, Capital and Surplus
For the Year Ended December 31, 2013**

	<u>Per Annual Statement</u>
Underwriting Income	
Premiums earned	\$133,673,176
Deductions	
Losses incurred	83,264,235
Loss adjustment expenses incurred	14,987,110
Other underwriting expenses incurred	38,467,011
Aggregate write-ins for underwriting deductions	(40,404)
Total underwriting deductions	<u>136,677,952</u>
Net underwriting gain (loss)	(3,004,776)
Investment Income	
Net investment income earned	8,605,772
Net realized capital gains or (losses)	2,668,004
Net investment gain or (loss)	<u>11,273,776</u>
Other Income	
Aggregate write-ins for miscellaneous income	(13,757)
Total other income	<u>(13,757)</u>
Net income before dividends to policyholders and before federal income taxes	8,255,243
Foreign and federal income taxes incurred	1,507,245
Net income	<u><u>\$6,747,998</u></u>
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	103,391,505
Net income	6,747,998
Change in net unrealized capital gains or (losses)	(595,587)
Change in net deferred income tax	(884,374)
Change in nonadmitted assets	264,014
Dividends to stockholders	(20,339,151)
Aggregate write-ins for gains and losses in surplus	324,811
Change in surplus	<u>(14,482,289)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$88,909,217</u></u>

Citation Insurance Company

Citation Insurance Company
Reconciliation of Capital and Surplus
For Each Year in the Five Year Period Ended December 31, 2013

Per Annual Statement

	2013	2012	2011	2010	2009
Surplus as regards policyholders, December 31 previous year	\$103,391,505	\$102,592,995	\$112,265,256	\$109,391,974	\$114,798,848
Net income (loss)	6,747,998	7,703,517	352,595	9,516,845	8,834,848
Change in net unrealized capital gains or (losses)	(595,587)	793,042	(996,241)	1,900,036	(564,335)
Change in net deferred income taxes	(884,374)	(478,715)	(3,911,566)	(1,995,925)	2,202,224
Change in nonadmitted assets	264,014	1,742,649	3,861,031	2,150,687	(1,251,676)
Dividends to stockholders	(20,339,151)	(10,259,300)	(11,226,529)	(10,939,197)	(11,450,000)
Aggregate write-ins for gains and losses in surplus	324,811	1,297,317	1,205,850	2,240,836	(3,177,935)
Change in surplus	(14,482,289)	798,510	(10,714,860)	2,873,282	(5,406,874)
Surplus as regards policyholders, December 31 current year	\$88,909,217	\$103,391,505	\$101,550,395	\$112,265,256	\$109,391,974

Citation Insurance Company

Analysis of Changes To Surplus Resulting from the Examination

Surplus at December 31, 2013 per Annual Statement		\$88,909,217
	<u>Increase</u>	<u>(Decrease)</u>
Losses		\$3,484,000
Loss Adjustment expenses		866,000
Net Increase / (Decrease)		<u>(4,350,000)</u>
Surplus at 12/31/13 after adjustments		<u>\$84,559,217</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Summary of Loss and Loss Adjustment Expense Reserves ("Loss and LAE Reserves")

The Division retained PwC to review the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2013. In order to review the reasonableness of its reserves, PwC reviewed the reasonableness of the Commerce Pool's reserves. The pooling agreement described in the Reinsurance section of this report identifies all members of the pool as well as each entity's pro-rata share of the pool's underwriting results. The actuarial review process included individual consideration of the pool's direct, assumed and ceded components in order to determine the reasonableness of its net loss and loss adjustment expense reserves. The net result for the pool is then allocated to individual pooling members based on its pro-rata share of the pool. The following table illustrates the Company's carried reserves in comparison to PwC's analysis:

<u>Commerce Inter-Company Reinsurance Pool (Total Pool)</u> (in \$ thousands)					
	<u>PwC Estimates</u>			<u>Total Pool Carried</u>	<u>(Deficiency) Vs. Indicated</u>
	<u>Low</u>	<u>Indicated</u>	<u>High</u>		
Net Pooled Loss & LAE	\$780,966	\$822,069	\$863,172	\$763,280	\$ (58,789)
<u>Citation Insurance Company Net Loss and LAE Reserves (7.4% of total pool)</u> (in \$ thousands)					
	<u>PwC Estimates</u>			<u>Company Carried</u>	<u>(Deficiency) Vs. Indicated</u>
	<u>Low</u>	<u>Indicated</u>	<u>High</u>		
CIT Net Loss and LAE Reserves (7.4% Participation)	\$57,791	\$60,833	\$63,875	\$56,483	\$ (4,350)

As can be seen, the Company's carried reserves fall below PwC's indicated value and fall below PwC's range of reasonable estimates. During 2014, the management observed adverse development in prior accident years.

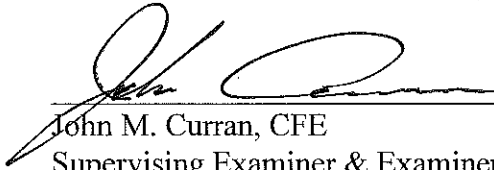
In response to the adverse emergence, the Company's actuarial department was able to identify the root cause of problem and indentified the years effected (2009 through 2011 and a small amount in 2102). Based on a number of studies and analysis, management determined that reserve strengthening was necessary and booked an additional \$13.8 million of adverse development in September, 2014 and an additional \$11 million during the fourth quarter of 2014, to total pool reserves as they continued to identify adverse development and refine future reserves. As a result, the Pool's reserve position as of 12/31/14 is relatively stronger than the position that existed at 12/31/13.

The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the standards of practice adopted by the Actuarial Standards Board.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by PwC who participated in this examination hereby is acknowledged.



John M. Curran, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance