



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

REPORT OF EXAMINATION OF THE
ENCOMPASS INSURANCE COMPANY OF MASSACHUSETTS

Northbrook, Illinois

As of December 31, 2013

NAIC GROUP CODE 0008

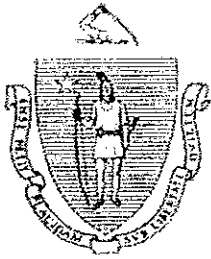
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ENCOMPASS INSURANCE COMPANY OF MASSACHUSETTS

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

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COMMISSIONER OF INSURANCE

May 18, 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

ENCOMPASS INSURANCE COMPANY OF MASSACHUSETTS

at its administrative office located at 3075 Sanders Road, Suite H1E, Northbrook, Illinois 60062-7127. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Encompass Insurance Company of Massachusetts ("Encompass", or "Company") was last examined as of December 31, 2008 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the five-year period from January 1, 2009 through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The current examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about 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 annual statement instructions, when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bond and other insurance, employees' benefits plans, disaster recovery plan, treatment of policyholders 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 Deloitte and Touche, LLP ("D&T"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2009 through 2013. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings identified during the examination.

SUBSEQUENT EVENTS

There were no material subsequent events that require adjustment to or disclosure herein.

COMPANY HISTORY

General

On September 1, 2004, Continental Casualty Company ("CCC") acquired the common stock of Encompass, a corporate shell formerly known as New England Fidelity Insurance Company ("NEFIC") from the Division which was acting in its capacity as permanent receiver of NEFIC. The Certificate of Authority for Encompass to write personal lines insurance in Massachusetts was issued on October 10, 2004 with an effective date of September 1, 2004. The Company did not begin writing substantial business in Massachusetts until 2005.

CCC was a wholly owned subsidiary of The Continental Corporation, which was wholly owned by CNA Financial Corporation ("CNA"), which in turn was approximately 91 percent owned by Loews Corporation. CCC and certain of its insurance affiliates sold their personal lines insurance business to a subsidiary of The Allstate Corporation ("TAC") on October 1, 1999. In connection with that transaction, Allstate was granted an option to purchase five designated insurance companies of CCC with Encompass designated as one of them. In anticipation of Allstate's option being exercised, all of the future personal lines insurance business written by Encompass was ceded to the Allstate Insurance Company ("AIC") under an indemnity reinsurance agreement dated December 2, 2002. Effective October 1, 2005, Allstate exercised its option to purchase the common stock of Encompass.

Capital Stock

AIC, an Illinois domestic insurer, owns the Company. As of December 31, 2013, the Company had 50,000,000 shares of \$5 par value common stock authorized and 190,000 shares outstanding with an aggregate stated value of \$950,000.

Dividends to Stockholders

There were no dividends paid during the examination period.

CORPORATE RECORDS

Board of Directors Minutes

The minutes of meetings of the Board of Directors ("Board") and its committees for the period under examination were read, and they indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Activities of the committees were ratified at meetings of the Board. The previous Report of Examination was reviewed by the Board as required by Massachusetts statute. Affidavits were signed and submitted on June 30, 2010.

Encompass Insurance Company of Massachusetts

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed and there were no amendments made during the examination period.

Conflict of Interest Procedures

The Company has a policy statement pertaining to conflict of interest. In support of its answer to Question 18 of Part 1 General Interrogatories of the annual statement, the Company has an established procedure for the disclosure to the Board of any material interest or affiliation on the part of any officer or director or responsible employee which is in or is likely to conflict with his/her official duties. Annually, each officer or director or responsible employee completes a questionnaire disclosing any material conflicts of interests. The completed questionnaires were reviewed and no discrepancies were noted to contradict the Company's response to the General Interrogatory regarding conflicts of interests reported in the Company's 2013 Annual Statement.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with Massachusetts General Law ("M.G.L.") Chapter 175, Sections 180M through 180Q.

MANAGEMENT AND CONTROL

Board of Directors

According to the bylaws, the Company shall be managed by a Board which may exercise all of the powers of the Company except those exclusively conferred upon or reserved solely to the stockholders. The Board shall consist of at least four and no more than eight members. Directors shall be elected by a plurality of the votes cast at annual meetings of the stockholders and each Director so elected shall hold office until the next annual meeting of stockholders and thereafter until a successor is duly elected and qualified, or until his/her sooner resignation or removal. Any Director may resign at any time upon notice to the Company. Directors need not be stockholders.

At December 31, 2013, the Company's Board was composed of four persons, which is in compliance with the Company's bylaws and the General Laws of Massachusetts. The members of the Board are as follows:

Encompass Insurance Company of Massachusetts

| <u>Name of Director</u> | <u>Business Affiliation</u> |
|-------------------------|--|
| Katherine A. Mabe | Chairman Encompass Insurance Company of Massachusetts |
| Thomas V. Ealy | President Encompass Insurance Company of Massachusetts |
| Laura R. Dunne* | Vice President Encompass Insurance Company of Massachusetts |
| Mark L. Thompson** | Vice President Encompass Insurance Company of Massachusetts |

* Laura R. Dunne was not reelected during the annual meeting of shareholders held on September 30, 2014, and in accordance with the bylaws of the Company, Sharon J. Dean was elected to fill the vacancy.

** Mark L. Thompson was not reelected during the annual meeting of shareholders held on September 30, 2014, and in accordance with the bylaws of the Company, Thomas M. Watson was elected to fill the vacancy.

Committees of the Board of Directors

The Company's bylaws allow that the Board may, by the affirmative vote of a majority of the Directors then in office, appoint committees consisting of one or more Directors. In accord therewith, the Board appointed a Reinsurance Committee to monitor and approve reinsurance contracts. The minutes of the Reinsurance Committee documented regular meetings of the committee.

At December 31, 2013, the Reinsurance Committee was composed of Thomas M. Goldstein, Chairman, Teresa J. Dalenta, Michael W. Demetre, Laura R. Dunne, Samuel H. Pilch, Mario Rizzo and Steven P. Sorenson. Effective June 30, 2014, Thomas M. Goldstein resigned as the Chair of the Reinsurance Committee. Effective September 30, 2014, Mr. Goldstein was replaced by Thomas V. Ealy, as the new Chair of the Reinsurance Committee. Effective September 8, 2014, Laura R. Dunne resigned from the Reinsurance Risk Committee and she was not replaced. Effective September 30, 2014, Teresa J. Dalenta, Michael W. Demetre and Steven P. Sorenson resigned from the Reinsurance Committee and they were not replaced. Additionally, Deidre Derrig, Corporate Counsel was appointed Reinsurance Committee Secretary, which is a non-voting position.

The Company does not have a formal Audit Committee. This function is addressed by the Audit Committee of Allstate Insurance Holdings ("AIHLLC"). At December 31, 2013, the AIHLIC Audit Committee was composed of non-independent Directors Tom Wilson, Chairman, Jess E. Merten, Samuel H. Pilch, John C. Pintozzi, and Steve E. Shebik.

Officers

According to the Company's bylaws, the Board shall elect the officers of the Company. The officers of the Company shall be the President, two or more Vice Presidents, a Treasurer, a Secretary, a Controller, and such other officers and agents, with duties and powers, as the Board

Encompass Insurance Company of Massachusetts

may in its discretion determine. All officers shall be elected annually by the Directors at their first meeting following the annual meeting of stockholders. The term of office for each officer shall be one year or until respective successors are elected and qualified or until earlier resignation or removal. Any two of the aforesaid offices may be filled by the same person, with the exception of the offices of President and Vice President or President and Secretary.

The bylaws state that the Chairman shall be the Chief Executive Officer of the Company. Except as otherwise voted by the Board, the Chairman shall preside at all meetings of the stockholders and of the Board at which he is present. The Chairman shall have such duties and powers as are commonly incident to the office and such duties and powers as the Board shall from time to time designate. In addition to what is defined explicitly in the bylaws, the Company's officers shall have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as from time to time may be conferred by the Board.

The elected officers of the Company at December 31, 2013, are as follows:

| <u>Name of Officer</u> | <u>Title</u> |
|------------------------|-----------------------------|
| Katherine A. Mabe | Chairman of the Board |
| Thomas V. Ealy | President |
| Mario Rizzo | Treasurer |
| Susan L. Lees | Secretary |
| Michael C. Barton | Senior Vice President |
| Edward A. Biemer | Senior Vice President |
| Teresa J. Dalenta | Senior Vice President |
| Michael W. Demetre | Senior Vice President |
| Judith P. Greffin | Executive Vice President |
| James W. Haidu | Senior Vice President |
| David S. Harper | Senior Vice President |
| Jeffrey J. McRae | Senior Vice President |
| Patrick K. Noll | Senior Vice President |
| Samuel H. Pilch | Senior Group Vice President |
| Floyd M. Yager | Senior Vice President |

Affiliated Companies

As stated in the Insurance Holding Company System Form B and Form C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L., Chapter 175, Section 206C and Regulation 211 CMR 7.00. Ultimate control of the holding Company system is held by TAC, a Delaware corporation, the sole business of which is ownership of the group. The Company became part of the holding company system on October 1, 2005.

Organization Chart

At December 31, 2013, the following listing shows the identities and interrelationships of subsidiary companies within the Allstate Insurance holding company system, including the Company. (Jurisdiction of domicile is in parenthesis):

Encompass Insurance Company of Massachusetts

The Allstate Corporation (DE)

Allstate Insurance Holdings, LLC (DE)

Allstate Fire and Casualty Insurance Company (IL)

Allstate Indemnity Company (IL)

Allstate Property and Casualty Insurance Company (IL)

Allstate Insurance Company (IL)

Allstate New Jersey Insurance Company (IL)

Allstate New Jersey Property and Casualty Insurance Company (IL)

Encompass Insurance Company of New Jersey (IL)

Encompass Property and Casualty Insurance Company of New Jersey (IL)

Allstate Floridian Insurance Company (IL)

Allstate Floridian Indemnity Company (IL)

Encompass Floridian Indemnity Company (IL)

Encompass Floridian Insurance Company (IL)

Allstate Life Insurance Company (IL)

Allstate Assurance Company (IL)

Charter National Life Insurance Company (IL)

Allstate Life Insurance Company of New York (NY)

Intramerica Life Insurance Company (NY)

Lincoln Benefit Life Company (NE)

ALIC Reinsurance Company (SC) Allstate North American Insurance Company (IL)

Northbrook Indemnity Company (IL)

Deerbrook Insurance Company (IL)

Encompass Home and Auto Insurance Company (IL)

Encompass Indemnity Company (IL)

Encompass Independent Insurance Company (IL)

Encompass Insurance Company (IL)

Encompass Insurance Company of America (IL)

Encompass Property and Casualty Company (IL)

Encompass Insurance Company of Massachusetts (MA)

Allstate County Mutual Insurance Company (TX)

Allstate Texas Lloyd's (TX)

North Light Specialty Insurance Company (IL)

American Heritage Life Investment Corporation (DE)

American Heritage Life Insurance Company (FL)

First Colonial Insurance Company (FL)

Encompass Insurance Company of Massachusetts

Transactions and Agreements with Subsidiaries and Affiliates

The Company has numerous arrangements with its parent and affiliates. Below is a brief summary of some of the key agreements.

Investment Management Agreement

Effective January 1, 2007, the Company entered into an Investment Management Agreement with Allstate Investments, LLC ("AILLC") whereby AILLC provides investment management services and advice.

Tax Sharing Agreement

An Amended and Restated Tax Sharing Agreement dated January 16, 2006 was executed by and among TAC and certain affiliates. The agreement covers the allocation and settlement of current federal income taxes among companies included in the consolidated income tax return of TAC and its subsidiaries. TAC files its consolidated federal income tax return, consolidated foreign, state and local tax returns with certain of TAC's subsidiaries. TAC shall pay all taxes due for the group and each subsidiary shall pay to TAC an amount determined as if such subsidiary had filed its own separate tax return.

Service and Expense Agreement

Effective October 1, 2005, the Company became a party to the Amended and Restated Service and Expense Agreement between AIC, TAC and certain affiliates pursuant to which AIC furnishes a variety of services. The agreement provides for the cost sharing and allocation of operating expenses among the parties.

FIDELITY BONDS AND OTHER INSURANCE

TAC maintains fidelity coverage for all subsidiaries with an authorized Massachusetts insurer, consistent with M.G.L., Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interest and property by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts, and coverage was in force as of December 31, 2013.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company utilizes the services of AIC employees. AIC and the Corporation provide various benefits, including defined benefit pension plans, certain health care and life insurance benefits for certain eligible employees, retired employees and employee-agents and participation in The Allstate 401(k) Savings Plan. The Company was allocated a share of the costs associated with these benefits in accordance with the agreement. All amounts allocated to the Company for these benefits, except those related to investment expenses, were ceded 100 percent to assuming reinsurer, AIC.

TERRITORY AND PLAN OF OPERATION

The Company is licensed and authorized to transact business only in the state of Massachusetts and sells primarily private passenger automobile and homeowners coverage through Encompass's independent agents. The agents are paid commission as described in their respective agency contracts and, where applicable, according to state limitations.

As a writer of Massachusetts private passenger automobile insurance, the Company participates in Commonwealth Automobile Reinsurers, the state's reinsurance facility for high risk drivers. In addition, as a writer of Massachusetts basic property insurance, the Company participates in the Massachusetts Property Insurance Underwriting Association ("MPIUA"), the state's reinsurance facility for applicants who have been unable to gain insurance through the voluntary market.

All net underwriting business is 100 percent reinsured by AIC.

GROWTH OF COMPANY

The growth of the Company for the years 2009 through 2013 is shown in the following schedule, which was prepared with data from the Company's annual statements.

| <u>Year</u> | <u>Admitted Assets</u> | <u>Liabilities</u> | <u>Surplus</u> | <u>Net Premiums Written</u> |
|-------------|------------------------|--------------------|----------------|---------------------------------|
| 2013 | \$6,784,885 | \$ 88,146 | \$6,696,738 | \$0 |
| 2012 | 6,650,236 | 89,759 | 6,560,476 | 0 |
| 2011 | 6,500,201 | 73,005 | 6,427,196 | 0 |
| 2010 | 6,367,194 | 73,170 | 6,294,025 | 0 |
| 2009 | 6,266,253 | 105,646 | 6,160,607 | 0 |

REINSURANCE

Assumed Reinsurance

Other than mandatory pools and associations, the Company does not assume reinsurance from other affiliated and non-affiliated companies.

Ceded Reinsurance

Effective October 1, 2005, the Company put in place a quota share reinsurance agreement with AIC. Pursuant to the agreement, AIC indemnifies the Company for 100 percent of its net underwriting results, which are ceded to AIC. This agreement is essentially the same treaty which was in place prior to AIC's acquisition of the Company.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires, interviews and through a review of the work performed by the Company's independent certified public accounting firm. Testing of the following key activities was performed: investments; reinsurance ceded; and financial reporting. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting management and organization controls, application systems development and maintenance controls, operating and processing controls, logical and physical security controls, contingency planning controls, personal computer, local area network, wide area network and internet controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input to this data processing system, which then generates general ledger and supporting reports, as well as other reports common to the insurance industry. No material exceptions were noted.

The books and records of the Company are audited annually by D&T, independent certified public accountants, in accordance with 211 CMR 23.00 and 211 CMR 26.00.

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.

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

Encompass Insurance Company of Massachusetts
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2013

| Assets | As Reported by the Company | Examination Changes | Per Statutory Examination |
|--|-------------------------------|------------------------|------------------------------|
| Bonds | \$6,577,829 | \$ 0 | \$6,577,829 |
| Cash | 157,295 | | 157,295 |
| Subtotals, cash and invested assets | 6,735,124 | 0 | 6,735,124 |
| Investment income due and accrued | 28,909 | | 28,909 |
| Reinsurance: | | | |
| Amounts recoverable from reinsurers | 1,979 | | 1,979 |
| Net deferred tax asset | 13,373 | | 13,373 |
| Receivables from parent, subsidiaries and affiliates | 5,500 | | 5,500 |
| Total Assets | <u>\$6,784,885</u> | <u>\$ 0</u> | <u>\$6,784,885</u> |

Encompass Insurance Company of Massachusetts
Statement of Assets, Liabilities, Surplus and Other Funds (continued)
As of December 31, 2013

| | As Reported by the Company | Examination Changes | Per Statutory Examination |
|--|-------------------------------|------------------------|------------------------------|
| Liabilities | | | |
| Current federal and foreign income taxes | \$ 72,208 | \$ 0 | \$ 72,208 |
| Ceded reinsurance premiums payable | 7,333 | | 7,333 |
| Payable to parent, subsidiaries and affiliates | 1,899 | | 1,899 |
| Aggregate write-ins for liabilities | 6,707 | | 6,707 |
| Total Liabilities | <u>88,147</u> | <u>0</u> | <u>88,147</u> |
| Common capital stock | \$950,000 | | 950,000 |
| Gross paid in and contributed surplus | 4,514,255 | | 4,514,255 |
| Unassigned funds (surplus) | 1,232,483 | | 1,232,484 |
| Surplus as regards policyholders | <u>6,696,738</u> | <u>0</u> | <u>6,696,738</u> |
| Total Liabilities, Surplus and Other Funds | <u>\$6,784,885</u> | <u>\$ 0</u> | <u>\$6,784,885</u> |

Encompass Insurance Company of Massachusetts
Statement of Income
For the Year Ended December 31, 2013

| | <u>As Reported by the Company</u> | <u>Examination Changes</u> | <u>Per Statutory Examination</u> |
|--|---------------------------------------|--------------------------------|--------------------------------------|
| Net investment income earned | \$206,319 | \$ 0 | \$206,319 |
| Net realized capital gains less capital gains tax of \$3 | <u>5</u> | <u> </u> | <u>5</u> |
| Net investment gain | 206,324 | 0 | 206,324 |
| Aggregate write-ins for miscellaneous income | <u>(15)</u> | <u> </u> | <u>(15)</u> |
| Net income before dividends to policyholders after capital gains and before all other federal and foreign income taxes | <u>206,309</u> | <u> </u> | <u>206,309</u> |
| Federal and foreign income taxes incurred | <u>72,192</u> | <u> </u> | <u>72,192</u> |
| Net income | <u><u>\$134,117</u></u> | <u><u>\$ 0</u></u> | <u><u>\$134,117</u></u> |

Encompass Insurance Company of Massachusetts
Statement of Capital and Surplus
For the Year Ended December 31, 2013

| | <u>As Reported by the Company</u> | <u>Examination Changes</u> | <u>Per Statutory Examination</u> |
|---|---------------------------------------|--------------------------------|--------------------------------------|
| Surplus as regards policyholders, December 31 prior year | \$6,560,476 | \$ 0 | \$6,560,476 |
| Net income | 134,117 | | 134,117 |
| Change in net deferred income tax | 2,296 | | 2,296 |
| Change in nonadmitted assets | (6,563) | | (6,563) |
| Change in provision for reinsurance | <u>6,412</u> | | <u>6,412</u> |
| Change in surplus as regards policyholders for the year | <u>136,262</u> | <u>0</u> | <u>136,262</u> |
| Surplus as regards policyholders, December 31 current year | <u><u>\$6,696,738</u></u> | <u><u>\$ 0</u></u> | <u><u>\$6,696,738</u></u> |

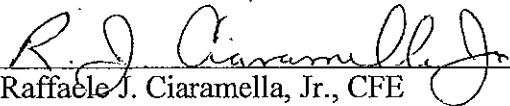
Encompass Insurance Company of Massachusetts
Reconciliation of Capital and Surplus
For Each Year in the Five-Year Period Ended December 31, 2013

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Capital and surplus, December 31 prior year | \$6,560,476 | \$6,427,196 | \$6,294,025 | \$6,160,607 | \$6,027,212 |
| Net income | 134,117 | 132,309 | 133,172 | 133,416 | 133,396 |
| Change in net deferred income tax | 2,296 | (3,692) | (3,692) | (3,692) | (3,691) |
| Change in nonadmitted assets | (6,563) | 3,692 | 3,691 | 3,694 | 3,690 |
| Change in provision for reinsurance | 6,412 | (6,413) | 0 | 0 | 0 |
| Cumulative effect of changes in accounting principles | 0 | 7,384 | 0 | 0 | 0 |
| Net change in capital and surplus for the year | 136,262 | 133,280 | 133,171 | 133,418 | 133,395 |
| Capital and surplus, December 31 current year | <u>\$6,696,738</u> | <u>\$6,560,476</u> | <u>\$6,427,196</u> | <u>\$6,294,025</u> | <u>\$6,160,607</u> |

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 Risk & Regulatory Consulting, LLC who participated in this examination hereby is acknowledged.


Raffaele J. Ciaramella, Jr., CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance