



COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

Hospitality Mutual Insurance Company

Westborough, Massachusetts

As of December 31, 2011

NAIC GROUP CODE: 4724

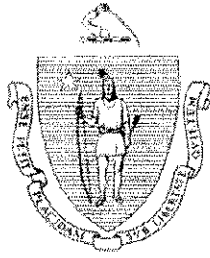
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Hospitality Mutual Insurance Company

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

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JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

June 24, 2013

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws ("M.G.L."), Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

HOSPITALITY MUTUAL INSURANCE COMPANY

at its home office located at 95A Turnpike Road, Westborough, Massachusetts, 01581. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This examination is the first examination of Hospitality Mutual Insurance Company (hereinafter referred to as “the Company” or “HMIC”) since conversion to a mutual company from its previous existence as the Liquor Liability Joint Underwriting Association effective June 20, 2008. The current examination was conducted by the Massachusetts Division of Insurance (“Division”) and covers the intervening period from June 20, 2008 through December 31, 2011, and any material transactions and/or events occurring subsequent and noted during the course of this examination.

The 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 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’ pension and 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 Saslow Lufkin & Buggy, LLP (“SLB”), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2008 through 2011. A review and use of the certified public accountants’ work papers were made available to the extent deemed appropriate and effective. An independent actuarial consulting firm, PricewaterhouseCoopers LLP (“PwC”) was retained by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2011. Additionally, the Division retained the consulting firm Risk & Regulatory Consulting, LLC (“RRC”) to review the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

SUBSEQUENT EVENTS

The Company is licensed to write business in the Commonwealth of Massachusetts, however through its 100% ownership of Hospitality Insurance Company and as the lead company of an inter-company reinsurance pool, the Company has, in-effect expanded its territory to include Vermont, Pennsylvania, Rhode Island and New Hampshire.

COMPANY HISTORY

General

The Company originated in 1985 with the enactment of Chapter 223 of the Acts of 1985 of the Massachusetts Legislature as the Liquor Liability Joint Underwriting Association of Massachusetts ("LLJUA"). The purpose of the enabling legislation was to guarantee the availability of liquor liability insurance to any person lawfully engaged in serving alcoholic beverages as an incident of business. The LLJUA commenced business on January 1, 1986, and under the enabling legislation, was required to provide liquor liability insurance coverage to all applicants which could not secure such insurance elsewhere. Over the years the enabling legislation was amended in various ways and in 2002, Chapter 211 of the Acts of 2002 formerly repealed section 13 of the enabling acts, which in effect made the LLJUA a permanent organization.

On June 20, 2008, Sections 1 through 12 of Chapter 223 was repealed and "M.G.L." Chapter 175 was amended by Section 113W which converted the LLJUA into a mutual insurance company, and all assets and liabilities of the LLJUA were assumed by HMIC. Under this amendment, HMIC may provide any line of liability insurance other than automobile coverage. HMIC is still required to guarantee the continued availability of liquor liability coverage to any licensee or any person lawfully engaged in serving alcoholic beverages in Massachusetts.

In January 2010, the Company received permission from the Division to write property and automobile insurance and in March 2012, the Company's Certificate of Authority was amended to include boiler and machinery coverage.

On February 23, 2011, HMIC acquired all of the issued and outstanding shares of common stock of Eastern Casualty Insurance Company ("Eastern"). Eastern was acquired from the Massachusetts Commissioner of Insurance in his capacity as liquidator of Eastern. At the date of acquisition, Eastern had 25,000 shares of common stock issued and outstanding with a par value of \$0.008 per share. Consideration paid by the Company for Eastern amounted to \$325,000. Simultaneously, Eastern's name was changed to Hospitality Insurance Company ("HIC"). HIC obtained the licenses of Eastern, which include the Commonwealth of Massachusetts and the Commonwealth of Pennsylvania, and the States of Connecticut, New Hampshire, Rhode Island, and Vermont. At the time of acquisition not all licenses were active. HIC commenced operations in October 2011 as a wholly owned subsidiary of HMIC and began writing business in Rhode Island. The Company has created an intercompany reinsurance pool, whereby it is the lead insurer and 100% of business written by HIC is ceded to the pool and assumed by HMIC.

Dividends to Policyholders

The Company did not pay any dividends to its policyholders during the period of examination and have no dividends payable at year-end.

Hospitality Mutual Insurance Company

CORPORATE RECORDS

Meeting of the Members Minutes

The Company's bylaws state that the annual meeting of the members shall be held on the last Thursday in April of each year at the home office of the Company unless a different date and place in the Commonwealth of Massachusetts is fixed by the Board of Directors. Notice of the annual meeting shall be given by written notice mailed to each member, which notice shall be placed in the mail not more than 100 days but at least 10 days before the date of the meeting. The bylaws continue to state that ten percent of the total number of members, present in person or by proxy, shall constitute a quorum. Only such business shall be conducted, and only such proposals shall be acted upon, as shall have been set forth in the notice of the meeting and properly brought before the meeting at the direction of the Board of Directors or as otherwise prescribed by law.

Although the Company provided the appropriate timely notice of the first annual meeting held in April 2009, no policyholders attended the meeting in person or by proxy, and a quorum was not present. The Company has yet to generate a quorum at subsequent annual meetings of the members, and therefore a quorum has not been obtained to effectuate required votes. The Company needs to consider appropriate alternatives allowing a quorum to be present at future annual meetings of the members.

Board of Directors Minutes

The minutes of meetings of the Board of Directors and the Executive and Audit Committee for the period under examination were read and indicated that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts. Actions taken by the Executive and Audit Committee were approved by the Board at subsequent meetings thereof.

Articles of Organization and Bylaws

The articles of organization of the Company were filed with the Secretary of State's office and approved by the Secretary of the Commonwealth on June 12, 2008. The Commissioner of Insurance approved the effective date of the Company's incorporation as a mutual insurance company on June 25, 2008. The incorporation of the Company as a mutual insurer is the result of and in accordance with enactment of M.G.L., Chapter 175, Section 113W effectively converting the LLJUA into a mutual insurer. The articles and the bylaws were read and reviewed.

Conflict of Interest Procedures

The Company has in place a Code of Conduct and Ethics Policy, which includes a specific section addressing conflict of interest. In support of its answer to Question 14 of Part 1 Common Interrogatories of the annual statement, the Company has an established procedure for the disclosure to the Board of Directors 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 and Director is required to complete and submit an annual disclosure statement confirming compliance with the conflict of interest policy. The disclosure statements were reviewed and no discrepancies were noted in the disclosures to contradict the Company's

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response to the General Interrogatory regarding conflicts of interests reported in the Company's 2011 Annual Statement.

Disaster Recovery and Business Continuity

The Company's bylaws do not include any article or language that provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L., Chapter 175, Sections 180M-180Q.

MANAGEMENT AND CONTROL

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date, December 31, 2011:

<u>Name of Director</u>	<u>Principal Occupation</u>
E. Thomas McCabe, Jr.	Chairman of the Board of HMIC Owner, Restaurant Resources
William T. McGrail	Vice Chairman of the Board of HMIC Chairman, Massachusetts Medical Malpractice Reinsurance Plan
John W. Tympanick	President and Chief Executive Officer
Peter T. Robertson	Secretary and Clerk to the Board of HMIC Director, ProSelect National Insurance Company, Inc.; Founder, RightFind Technology Company, LLC; Founder, RightFind Auto, Inc.; Director, Proselect Insurance Company
James J. Donoghue	Treasurer President, Tweed's Pub Restaurant
Gerald J. Cassidy	Insurance Consultant
Robert O. Bonin	Restaurant Quality Control Specialist, Cole & Bonin, Inc.
Harry A. Delano	Former Restaurateur, Jardel Corp. dba Delano's Restaurant

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Joseph D. Duffy

Consultant, Owner,
JDD Insurance Regulatory Services, LLC

Terrence C. Quinn

President, Allen M. Walker & Co., Inc.
Independent Insurance Agency

Robert E. Shaughnessy

Restaurant Owner and President,
Shaughnessy Family Entertainment, Inc.

The business of the Company shall be managed under the direction of the Board of Directors, who may exercise all such powers of the Company as are not by law, the articles of organization of these bylaws required to be otherwise exercised. The Directors may from time to time delegate any of their powers to committees, officers, attorneys or agents of the company, subject to such limitations as the articles of organization, bylaws or the Directors may impose. The Board shall have power to fix the compensation of members of the Board for their services and shall elect and fix or approve the manner of fixing the compensation of the President and Chief Executive Officer.

The Board in its discretion shall approve the classification of risks and rates of insurance.

No allocation of surplus and no payment of dividends to policyholders shall be made, except upon an affirmative vote of two-thirds of the Directors then in office.

Committees of the Board of Directors

The Company's bylaws indicate that the Board may form an audit committee of Directors who are not employees of the Company. The audit committee shall oversee the selection and retention of an independent auditor and shall have responsibility for the content and oversight of the audit program, including review of the effectiveness of the Company's corporate accounting and financial practices, and the adequacy of internal controls.

The Board may establish such standing or special committees in addition to the audit committee as it deems necessary or helpful in carrying out its duties and powers. The Board may in its discretion authorize persons other than Directors of the Company to serve on such committees and such persons shall be counted for purposes of a quorum or determining action by such committee.

Executive / Audit Committee

The Board has chosen to establish only one committee, the Executive and Audit Committee.

Per the committee charter, the committee shall consist of the Chairperson and Vice Chairperson of the Board and three other Directors elected by the Board and others appointed by the Board as necessary. At least two members of the committee shall have accounting or financial expertise. The committee shall, subject to the direction of the Board have general supervision between regular meetings of the Board over business operations, financial affairs and corporate governance of the Company. The committee shall also have such further powers such as the approving of executive compensation, hiring independent consultants, and perform such other duties as the

Hospitality Mutual Insurance Company

Board may from time to time prescribe. The committee shall report to the Board all deliberations and decision made by them between meetings.

The principal responsibility of the Executive and Audit Committee is to assist the Board in fulfilling its responsibilities to oversee the Company's accounting and financial reporting processes.

The committee's role is one of oversight, and it is recognized that the Company's management is responsible for preparing the Company's financial statements and that the outside auditor is responsible for auditing those financial statements.

The Executive and Audit Committee consist of the following members as of December 31, 2011:

Name

E. Thomas McCabe, Jr.
William T. McGrail
James J. Donoghue
Joseph D. Duffy
Terrence C. Quinn

Officers

The Board of Directors shall elect a Chairman of the Board, a Vice Chairman of the Board, a Secretary, who shall also be the Clerk unless the Board determines otherwise, and a Treasurer, each of whom shall serve for a term not exceeding three years as the Board shall determine and until the officer's successor is duly elected and qualified. Officers may be elected to successive terms. The Board may designate as officers of the Company a President, a Chief Executive Officer, who may be the President, a Chief Financial Officer, an Assistant Secretary, who shall also be Assistant Clerk, one or more senior vice presidents, and such officers as the Board may determine. Officers need not be members, and no officer other than the Chairman, Vice Chairman and Secretary, need be a Director. Two or more offices may be held by the same person.

The President and Chief Executive Officer and any officer of the Board of Directors may be removed with or without cause by vote of a majority of the Directors then in office. Removal for cause may only occur after a reasonable notice and opportunity to be heard before the Board. Removal for any reason shall not affect any contract rights of such officer with the Company. Vacancies in any office may be filled by the Board.

Unless otherwise determined by the Board, the President shall have general supervision and control of the business of the Company subject to the direction of the Board. Other officers shall have such powers and duties as may be designated from time to time by the Directors.

The Company's officers and their respective titles at December 31, 2011 were as follows:

Name of Officer

Title

E. Thomas McCabe, Jr.

Chairman of the Board

Hospitality Mutual Insurance Company

William T. McGrail
John W. Tympanick
Peter T. Robinson
James J. Donoghue

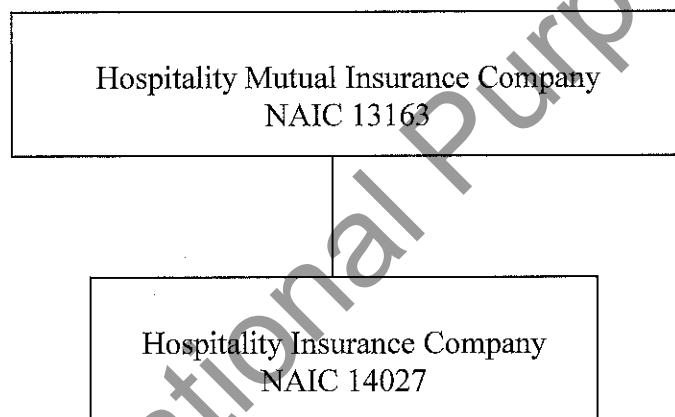
Vice Chairman of the Board
President and Chief Executive Officer
Secretary
Treasurer

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 7.06(1). The Company owns 100% of the stock of HIC and is the “ultimate controlling person” of the holding company system.

Organization Chart

A summary of ownership of the Company as of December 31, 2011 is illustrated below:



Transactions and Agreements with Subsidiaries and Affiliates

Inter-Company Services Agreement

The Company has in place an Inter-Company Services Agreement with its wholly owned subsidiary, HIC. The agreement establishes services provided, the responsibilities of each party to the agreement, and the allocation of costs and expenses associated with the operation of, and participation in the Inter-Company Reinsurance Pooling Agreement. (see “Reinsurance” Section later in this report)

The Inter-Company Services Agreement provides that the Company will make available to HIC all necessary services to assist HIC in the establishment, conduct and management of its business operations, including all necessary services in connection with the underwriting and management of HIC’s insurance business. All costs, facilities and resources as outlined in the agreement are allocated between the Company and HIC at their actual cost in accordance with the percentages set forth in the Inter-Company Reinsurance Pooling Agreement. Per the Inter-Company Reinsurance Pooling Agreement, the Company assumes and retains 100% and HIC cedes 100% and retains 0%.

Hospitality Mutual Insurance Company

Items that are not allocated under this agreement include investment income, depreciation on real estate (none), investment gains or losses, fixed asset gains or losses (none), investment custodial fees, investment advisor fees, service charges, accounts receivable charge-offs, and federal taxes.

Tax Sharing Agreement

Effective January 1, 2011, the Company established and entered into a tax sharing agreement with its wholly owned subsidiary, HIC, whereby the Group will file a consolidated federal income tax return or consolidated or combined state and/or local income or franchise tax return for the tax year ending December 31, 2011. "Group" is defined as the affiliated group of corporations as defined in §1504 of the Internal Revenue Code of 1986 as amended, of which the Company is the common parent. The intent is to fairly allocate among themselves the federal, state, or local tax liabilities, credits, refunds, benefits, and similar items related to the consolidated federal income tax return for the tax year ended December 31, 2011 and subsequent years.

FIDELITY BONDS AND OTHER INSURANCE

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

In addition to the fiduciary bond insurance, the Company has further protected its interests and properties by acquiring policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2011.

PENSION AND INSURANCE PLANS

Defined Benefit Pension Plan

During the period covered by the examination, the Company had in place a defined benefit pension plan covering all eligible employees. In 2008, the Company adopted a plan amendment that effectively froze the plan, excluding additional employees from participating in the plan subsequent to July 1, 2008. Subsequently, the Plan was terminated effective May 1, 2010, and effective September 13, 2010, the Plan was liquidated and benefits owed to employees were paid in full.

Defined Contribution Plan

The Company sponsors a defined contribution (401K) plan in which it matches employee contributions at a rate of 6%. The Company also has in place a discretionary profit sharing contribution, currently equally 10% of each eligible employee's annual salary.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in the Commonwealth of Massachusetts. The primary line of business is liquor liability coverage and its target market is business establishments in the hospitality industry serving or selling liquor. This is a direct correlation to its predecessor company, the LLJUA. The Company is still mandated to “take all comers” and provide liquor liability insurance to any Massachusetts businesses meeting applicable underwriting guidelines. The Company has expanded its lines of coverage to include property, general liability, assault and battery and excess liability coverage. During 2012, the Company added boiler and machinery coverage.

With the acquisition of HIC in 2011, the Company also acquired licenses to write business in additional states. HIC currently writes business in Rhode Island, New Hampshire, Pennsylvania and Vermont, and through the formation of the HMIC Inter-Company Reinsurance Pooling Agreement, the Company assumes and retains 100% of the business written by HIC.

GROWTH OF COMPANY

The growth of the Company since its conversion from the LLJUA to HMIC in 2008 and for the years ending 2008 to 2011 are shown in the following table, which was compiled from the Company’s Annual Statement filings.

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Net Income</u>
2011	\$ 41,397,823	\$ 17,229,656	\$ 24,168,167	\$1,484,545
2010	42,131,739	17,769,636	24,362,103	2,144,900
2009	39,907,871	19,208,368	20,699,503	(64,113)
2008	37,933,737	22,144,674	15,789,063	(564,466)

REINSURANCE

Inter-Company Reinsurance Pooling Agreement

The Company operates under an Inter-Company Reinsurance Pooling Agreement (the “Pooling Agreement”) with its wholly owned subsidiary, HIC. The Pooling Agreement became effective as of January 1, 2011. The Company is the lead insurer in the Pool and as the lead insurer, the Company agrees to assume, and HIC agrees to cede, 100% of all net insurance liabilities, as defined, of HIC. HIC agrees to cede to HMIC 100% all net premiums written by HIC. The Company’s participation in the pooled accounts is 100% and HIC’s ultimate participation in the pooled accounts is 0%.

The Company manages all operations of HIC and to facilitate this parent/subsidiary relationship, the Company has in place an Inter-Company Services Agreement as previously described.

Hospitality Mutual Insurance Company

Ceded Reinsurance

The Company also has a number of reinsurance agreements in place with third party reinsurers. Effective January 1, 2011, the Company had in place reinsurance coverage with Scor Reinsurance on liquor Liability and general liability for \$4,500,000 excess of \$500,000 net retention per occurrence. Umbrella excess liquor and excess general liability coverage included in the above is fully reinsured and 100% of associated premium is ceded to the reinsurer less a 30% ceding commission.

Effective May 1, 2010, the Company had in place a 50% quota share agreement, also with Scor Reinsurance for property coverage.

ACCOUNTS AND RECORDS

The Company's internal control structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent certified public accountants, Saslow Lufkin & Buggy, LLP, ("SLB") including work papers generated to support the audit of the Company's 2011 statutory financial statements.

The NAIC's Information Systems Questionnaire ("ISQ") completed by the Company was reviewed and interviews with Company management and IT consultants were conducted to gather supplemental information and corroborate the Company's responses to the ISQ. Included was a review 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, and Local Area Network ("LAN") controls. The Division retained the professional consulting services of Risk & Regulatory Consulting, LLC to assist in performing this review. The control environment of the Company's information systems was found to have in place sufficient internal controls for the purpose of examination reliance, however, numerous recommendations were made by RRC based on their review of the IT environment as a whole.

No material internal control weaknesses were noted in connection with the examination, nor were any such matters reported in SLB's filings with the Division. The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2011 Annual Statement. No material exceptions were noted.

Hospitality Mutual Insurance Company

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance and by the NAIC as of December 31, 2011:

Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2011

Statement of Income, Capital and Surplus for the Year Ended December 31, 2011

Reconciliation of Capital and Surplus for the Four Year Period Ended December 31, 2011

For Informational Purposes Only

Hospitality Mutual Insurance Company

**Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2011**

	Per Company	Examination Changes	Per Examination	Notes
Assets				
Bonds	\$16,605,803	\$0	\$16,605,803	
Common Stock	17,154,315		17,154,315	
Cash on hand and on deposit	5,359,213		5,359,213	
Subtotals, cash and invested assets	39,119,331		39,119,331	
Investment income due and accrued	137,735		137,735	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	1,642,261		1,642,261	
Reinsurance:				
Amounts recoverable from reinsurers	53,106		53,106	
Other amounts recoverable under reinsurance contracts	49,072		49,072	
Current federal income tax recoverable	68,556		68,556	
Aggregate write-ins for other than invested assets	327,762		327,762	
Total Assets	\$41,397,823	\$0	\$41,397,823	
Liabilities, Surplus and Other Funds				
Losses	\$10,152,749		\$10,152,749	(1)
Loss adjustment expense	3,857,493		3,857,493	(1)
Commissions payable, contingent commissions and other similar charges	102,260		102,260	
Other expenses	94,500		94,500	
Taxes, licenses and fees	4,348		4,348	
Unearned premiums	2,954,125		2,954,125	
Payable to parent, subsidiaries and affiliates	6,129		6,129	
Aggregate write-ins for liabilities	58,052		58,052	
Total Liabilities	17,229,656		17,229,656	
			0	
Unassigned funds (surplus)	24,168,167		24,168,167	
Surplus as regards policyholders	24,168,167		24,168,167	
Total liabilities and policyholder surplus	\$41,397,823	\$0	41,397,823	

Hospitality Mutual Insurance Company
Statement of Income, Capital and Surplus
For the Year Ended December 31, 2011

	Per Company	Examination Changes	Per Examination
Underwriting Income			
Premiums earned	\$4,781,207	\$0	\$4,781,207
Deductions			
Losses incurred	2,929,454		2,929,454
Loss adjustment expenses incurred	(61,619)		(61,619)
Other underwriting expenses incurred	2,932,084		2,932,084
Aggregate writ-ins for underwriting deductions	41,023		41,023
Total underwriting deductions	5,840,942	0	5,840,942
Net underwriting gain (loss)	(1,059,735)	0	(1,059,735)
Investment Income			
Net investment income earned	910,342	0	910,342
Net realized capital gains or (losses)	1,491,696		1,491,696
Net investment gain or (loss)	2,402,038	0	2,402,038
Other Income			
Net gain (loss) from agents' or premium balances charged off	(33,660)	0	(33,660)
Finance and service charges not included in premiums	142,320		142,320
Aggregate write-ins for miscellaneous income	13,791		13,791
Total other income	122,451	0	122,451
Net income before dividends to policyholders and before federal income taxes	1,464,754		1,464,754
Foreign and federal income taxes incurred	(19,791)		(19,791)
Net income	\$1,484,545	\$0	\$1,484,545
Capital and Surplus Account			
Surplus as regards policyholders, December 31 prior year	\$24,362,103	\$0	\$24,362,103
Net income	1,484,545		1,484,545
Change in net unrealized capital gains or (losses)	(1,051,527)		(1,051,527)
Change in net deferred income tax	(1,037,468)		(1,037,468)
Change in nonadmitted assets	446,932		446,932
Aggregate write-ins for gains and losses in surplus	(36,418)		(36,418)
Change in surplus	(193,936)	0	(193,936)
Surplus as regards policyholders, December 31 current year	\$24,168,167	\$0	\$24,168,167

Hospitality Mutual Insurance Company

Reconciliation of Capital and Surplus
For Each Year in the Four Year Period Ended December 31, 2011

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Surplus as regards policyholders, December 31 previous year	<u>\$24,362,103</u>	<u>\$20,699,503</u>	<u>\$15,789,063</u>	<u>\$21,334,823</u>
Net income (loss)	1,484,545	2,144,900	(64,113)	(564,446)
Change in net unrealized capital gains or (losses)	(1,051,527)	957,028	3,205,772	(3,128,036)
Change in net deferred income taxes	(1,037,468)	1,269,465	118,313	270,842
Change in nonadmitted assets	446,932	(708,793)	1,650,468	(2,124,120)
Change in surplus notes				
Aggregate write-ins for gains and losses in surplus	<u>(36,418)</u>			
Change in surplus	<u>(193,936)</u>	<u>3,662,600</u>	<u>4,910,440</u>	<u>(5,545,760)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$24,168,167</u></u>	<u><u>\$24,362,103</u></u>	<u><u>\$20,699,503</u></u>	<u><u>\$15,789,063</u></u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1: Summary of Loss and Loss Adjustment Expense Reserves ("Loss and LAE Reserves")

The Division retained PwC to review the reasonableness of the Company's pooled reserves for unpaid losses and loss adjustment expenses as of December 31, 2011. 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 adopted by the Actuarial Standards Board.

The Company held net Loss and LAE Reserves of \$14.010 million as of December 31, 2011, net of anticipated salvage and subrogation, assumed and ceded reinsurance.

PwC's actuarial central estimate for these reserve liabilities was \$12.44 million, with a range of reasonable estimates extending from \$11.59 million to \$14.31 million. The Company's held reserves fell within this range of reasonable estimates.


The table below summarizes a comparison of PwC's range of reasonable estimates for Loss and LAE Reserves to the Company's net carried Loss and LAE Reserves as of December 31, 2011. All amounts shown are in thousands (000's omitted)

	PwC Net Actuarial Estimate			Company Carried – Net
	Low	Selected	High	
Net Loss and LAE Reserves	\$11,591	\$12,438	\$14,314	\$14,010
Company Carried over / Under PwC	2,419	1,572	(304)	

Hospitality Mutual Insurance Company

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Supervising Examiner & Examiner-In-Charge
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