



**THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

DIVISION OF INSURANCE

REPORT ON THE STATUTORY EXAMINATION OF

Tower National Insurance Company

Boston, Massachusetts

As of December 31, 2009

NAIC COMPANY CODE 43702

EMPLOYERS ID NO. 04-2811570

For Informational Purposes Only

**Commonwealth of Massachusetts Division of Insurance
Report on the 2009 Statutory Examination of
TOWER NATIONAL INSURANCE COMPANY**

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

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • <http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

May 31, 2011

Honorable Joseph Torti III, Chairman
Financial Condition (E) Committee, NAIC
Deputy Director & Superintendent of Insurance
Rhode Island Department of Business Regulation
- Division of Insurance
1511 Pontiac Ave – Bldg. 69-2
Cranston, Rhode Island 02920

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

Honorable Stephen W. Robertson
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
Indiana Department of Insurance
300 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Honorable Mila Korman
Secretary, Northeastern Zone, NAIC
Superintendent of Insurance
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04345

Honorable Sharon P. Clark
Secretary, Southeastern Zone, NAIC
Commissioner of Insurance
Kentucky Department of Insurance
P.O. Box 517
Frankfort, Kentucky 40602-0517

Honorable Monica J. Lindeen
Secretary, Western Zone, NAIC
Commissioner of Insurance
Office of the Commissioner of
Securities and Insurance
840 Helena Avenue
Helena, Montana 59601

Honorable Commissioners and Superintendents:

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 the

TOWER NATIONAL INSURANCE COMPANY
Boston, MA

at its home office located at 155 Federal Street – Suite 700, Boston, Massachusetts, 02210. The
following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Tower National Insurance Company (hereinafter referred to as the "Company" or "TNIC") was previously in receivership and never underwent a statutory examination under the association plan of the National Association of Insurance Commissioners (the "NAIC") by the Massachusetts Division of Insurance (the "Division"). As such, this is the first association plan examination conducted by the Division, and covers the period from January 1, 2005 through December 31, 2009, including any material transactions and/or events occurring subsequent to the examination date as noted during the course of this examination.

The current examination was conducted at the direction of and under the overall management and control of the examination staff of the Division in accordance with standards established by the NAIC Financial Condition (E) Committee as well as with the requirements of the *NAIC Financial Condition Examiner's Handbook*, the examination standards of the Division and Massachusetts General Laws. Representatives from the firm of Rector Associates, Inc. ("R&A") 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. This assistance included a review of accounting records, information systems, taxes, investments, and actuarially determined loss and loss adjustment expense reserves.

The principal focus of the examination was 2009 activity, however, transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examination was conducted following the NAIC Risk Focused Examination Model.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's corporate governance, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, 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 currently audited by Johnson Lambert & Co. LLP, an independent certified public accounting firm, in accordance with 211 CMR 23.00. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2005 through 2009. A review and use of the certified public accountants' work papers was made to the extent deemed appropriate and effective. We have also elected to rely on certain work performed by the New York Insurance Department in the December 31, 2009 examination of Tower Insurance Company of New York ("TICNY"), which is the lead company in the affiliated pool. R&A was retained by the Massachusetts Division of Insurance to evaluate the adequacy of the Company's reserves as of December 31, 2009. An evaluation of the adequacy and effectiveness of the IT Systems controls was done to determine the level of reliance to be placed on summary information generated by the data processing systems.

HISTORY

General

TNIC, formerly known as North American Lumber Insurance Company ("NALIC"), was incorporated on December 21, 1983 under the laws of the Commonwealth of Massachusetts and commenced business on January 1, 1984. On March 25, 2005, Tower Group, Inc. ("TGI") acquired the corporate shell of NALIC from the receivers for the Lumber Mutual Insurance Group, after all of the liabilities were placed into the North American Lumber Liquidating Trust. Concurrent with the close of the acquisition, NALIC was renamed TNIC. TNIC is a stock property and casualty insurer, providing coverage for preferred risks and offers commercial multiple-peril, monoline general liability, commercial umbrella, monoline property, workers' compensation and commercial automobile policies as well as personal lines products such as homeowners, dwelling and other liability policies.

TNIC is a wholly-owned subsidiary of TGI, an insurance services holding company. TGI is headquartered in New York and is publicly traded on the NASDAQ under the symbol "TWGP". Management of TGI's affairs is directed by Michael H. Lee, who is Chairman, President and Chief Executive Officer ("CEO"). Since 2005, TGI has been very active in pursuing its objective and business strategy of growing and expanding its business operations regionally across the United States. This was accomplished through the acquisition of several insurance companies.

TGI is a property and casualty insurer group that offers a broad range of commercial, personal and specialty insurance products and services to small and mid-sized businesses and to individuals. The majority of premium is written in the Northeast U.S., although TGI conducts business nationwide. In the commercial markets, TGI offers commercial property, package, auto, general liability, umbrella and workers' compensation policies generally targeting food service and wholesale industries, retail, commercial and residential real estate and other mercantile entities including manufacturers, processors and contractors. In addition, TGI also writes policies on artisan classes of business such as painters, carpenters and plumbers. Personal lines writings have increased in recent years and include homeowners, personal auto, and package policies. TGI's distribution network includes over 1,000 independent retail agents, 200 wholesale agents and 20 program underwriting agents. In 2009, roughly 45% of TGI's premium was generated by wholesale agents, 30% from retail producers and 25% from program underwriting agents.

Tower National Insurance Company

TGI insurers participate in a pooling agreement. As of December 31, 2009 and due to the additions companies to the TGI group throughout 2009, the pooling agreement was revised to reflect the new participants and their respective participating percentages as follows:

<u>Company</u>	<u>Percentage</u>
Tower Insurance Company of New York (TICNY) – NY	37%
CastlePoint National Insurance Company (CPNIC) – IL	18%
CastlePoint Insurance Company (CPIC) – NY	16%
Hermitage Insurance Company (HIC) – NY	13%
Preserver Insurance Company (PIC) – NJ	7%
North East Insurance Company (NEIC) – ME	4%
Mountain Valley Indemnity Company (MVIC) – NH	3%
Tower National Insurance Company (TNIC) – MA	2%
TOTAL	100%

Company Growth

The growth of the Company for the years 2005 through 2009 is shown in the following schedule, which was prepared from the Company's Annual Statements, including any changes as a result of the examination.

Year	Assets	Liabilities	Surplus	Direct Premium	Net Premium
2005	\$10,136,334	\$20,505	\$1,115,829	\$0	\$0
2006	21,311,238	11,597,145	9,714,093	20,809,265	1,285,396
2007	35,617,418	25,198,744	10,418,674	57,830,690	4,498,115
2008	63,657,699	51,497,772	12,158,907	98,043,643	29,544,363
2009 (*)	45,411,225	35,955,954	11,475,271	130,184,626	14,978,178

(*) - Reflects examination adjustments.

TERRITORY AND PLAN OF OPERATION

TNIC is a stock property and casualty insurer, providing coverage for preferred risks and offers commercial multiple-peril, monoline general liability, commercial umbrella, monoline property, workers compensation and commercial automobile policies as well as personal lines products such as homeowners, dwelling and other liability policies. As of December 31, 2009, TNIC was authorized to write business in 37 states and has direct premium written in 35 states, primarily New York, New Jersey, Pennsylvania, Massachusetts, and Texas.

MANAGEMENT

Annual Meeting

Although TNIC has a Board of Directors (the "Board"), they do not meet on a regular basis. Rather, TNIC defers to the holding company (i.e., TGI) Board for corporate governance matters. The TNIC Board has not held any meetings during the period covered by the examination. In

Tower National Insurance Company

lieu of Board meetings, TNIC's business was conducted through "action of unanimous consent of the directors without a meeting." The Company's Bylaws requires at least one regular meeting following the annual meeting of the shareholders and special meetings, from time to time, as called by the Board. Going forward, the TNIC Board plans to comply with its Bylaw meeting requirements.

Board of Directors

The Bylaws provide that the business and affairs of TGI shall be managed by or under the direction of its Board. The Board shall have the power to delegate any of its powers in relation to the ordinary business of TGI to an Executive Committee, which shall have and may exercise all authority of the Board, but such Committee shall not have the authority of the Board to make, alter or repeal any Bylaws, elect or appoint any director, submit to stockholders any action that requires stockholders' approval, amend or appeal any resolution theretofore adopted by the Board which by its terms is amendable or repealable only by the Board or to adopt a plan of merger or consolidation. The Board is authorized to create advisory boards and appoint members thereof to serve at the will of the Board. Such members of the advisory boards may be invited to attend meetings of the Board, but shall have no vote.

At December 31, 2009 the Board was comprised of nine (9) members. Directors duly elected and serving at December 31, 2009, with address and business affiliation follow below:

<u>Name of Director</u>	<u>Business Affiliation</u>
Charles A. Bryan	Independent Director President of CAB Consulting LLC New York, NY
Francis M. Colalucci	Senior Vice President & Director Tower Group, Inc. New York, NY
William W. Cox, Jr.	Independent Director New York, NY
Michael H. Lee	Chairman of the Board, President and CEO Tower Group, Inc. New York, NY
William A. Robbie	Independent Director; EVP & CFO of Platinum Underwriters Holding, Ltd. New York, NY

Tower National Insurance Company

Steven W. Schuster	Independent Director; Attorney/Partner of McLaughlin & Stern LLP New York, NY
Robert S. Smith	Independent Director; Managing Director of National Capital Merchant Banking, LLC; and Principal of Sherier Capital New York, NY
Jan R. Van Gorder	Independent Director New York, NY
Austin P. Young, III	Independent Director; Director of Amerisafe, Inc.; Director of Adminstaff, Inc. New York, NY

Audit Committee

The Audit Committee shall meet at least one (1) time per quarter, or more frequently as circumstances dictate, and all Audit Committee members shall strive to attend all Audit Committee meetings. At least two Audit Committee meetings each year shall be in person. The Audit Committee meetings shall follow a set agenda established by the Audit Committee. The Audit Committee Chairman may call an Audit Committee meeting upon notice to each other Audit Committee member at least forty-eight (48) hours prior to the meeting.

For the examination period, the Audit Committee met between four (4) and eleven (11) times per year and has complied with a minimum of two meetings per year.

The purpose of the Audit Committee is to assist the Board in its oversight of TGI's (i.e. and its affiliates, which include TNC) accounting and financial reporting processes and the audits of TGI's financial statements, including: (i) the quality and integrity of TGI's financial statements; (ii) TGI's compliance with legal and regulatory requirements; (iii) the independent auditors' qualifications and independence; and (iv) the performance of TGI's internal audit functions and independent auditors, as well as other matters which may come before it as directed by the Board. In fulfilling its purpose, the Audit Committee shall maintain free and open communication with TGI's independent auditors, internal auditors and management. The Audit Committee shall consist of the number of independent directors fixed from time to time by the Board, but no fewer than three (3) Directors. At least one Audit Committee member shall have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience. At least one Audit Committee member shall meet the requirements of an "audit committee financial expert" as such term is defined by the SEC.

Audit Committee members are appointed annually by a majority vote of the Board on the recommendation of the Corporate Governance & Nominating Committee.

Directors serving on the Audit Committee at December 31, 2009, were as follows:

Austin P. Young, III	Chair
Charles A. Bryan	
William W. Fox, Jr.	
William A. Robbie	

Compensation Committee

The Compensation Committee shall meet either in person or telephonically at least twice per year at a time and place determined by the Chairperson of the Compensation Committee, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed appropriate or desirable by the Chairperson of the Compensation Committee. It is expected that Compensation Committee members shall be present at all Compensation Committee meetings. The Compensation Committee Chairperson may call a Compensation Committee meeting upon due notice of each other Compensation Committee member at least forty-eight (48) hours prior to the meeting.

For the examination period, the Compensation Committee met between seven (7) and fifteen (15) times per year and has complied with a minimum of two meetings per year.

The purpose of the Compensation Committee is to discharge the responsibilities of the Board relating to the compensation of TGI's (i.e. and its affiliates, which include TNIC) named executive officers, to administer all plans under which TGI securities may be acquired by directors, executive officers, employees and consultants, to review and discuss with management the Compensation Discussion & Analysis ("CD&A") and based upon such review and discussion, recommend to the Board whether the CD&A should be included in TGI's annual proxy statement, and to issue, in accordance with applicable rules and regulations of the Securities and Exchange Commission ("SEC"), the Compensation Committee Report for inclusion in the proxy statement. The Compensation Committee shall consist of at least three (3) directors. The members of the Compensation Committee shall be appointed by the Board and may be removed by the Board at its discretion. A Compensation Committee member shall be automatically removed without further action of the Board if the member ceases to be a Director of TGI or is found by the Board no longer to be an "independent", "non employee" or "outside" director.

Directors serving on the Compensation Committee at December 31, 2009, were as follows:

Charles A. Bryan	Chair
Steven W. Schuster	
Robert S. Smith	
Jan R. Van Gorder	

Corporate Governance & Nominating Committee

The Corporate Governance & Nominating Committee shall meet either in person or telephonically at least twice per year at a time and place determined by the Chairperson of the Corporate Governance & Nominating Committee, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed appropriate or desirable by the Chairperson of the Corporate Governance & Nominating Committee. It is expected that Corporate Governance & Nominating Committee members shall be present at all Corporate Governance & Nominating Committee meetings. The Corporate Governance & Nominating Committee Chairperson may call a Corporate Governance & Nominating Committee meeting upon due notice of each other Corporate Governance & Nominating Committee member at least forty-eight (48) hours prior to the meeting.

For the examination period, the Corporate Governance & Nominating Committee met between three (3) and five (5) times per year and has complied with a minimum of 3 meetings per year.

The purpose of the Corporate Governance & Nominating Committee is to discharge the responsibilities of the Board to ensure that the Board and its committees are appropriately constituted to meet their legal obligations to the stockholders and to TGI (i.e. and its affiliates, which include TNIC). To this end, the Corporate Governance and Nominating Committee is responsible for: (i) identifying and recommending to the Board individuals qualified to become Board and committee members; (ii) ensuring that a majority of the Board consists of individuals who are independent as required by applicable law and the rules of any securities exchange or automated inter-dealer quotation system in which any of TGI's securities are traded and that members of the Audit, Compensation and Corporate Governance & Nominating Committees are independent as required by applicable law and such rules, provided that the foregoing shall not be construed to discharge the Board's responsibility under such law or rules to determine whether members of the Board or any committee are independent; (iii) recommending to the Board the Insider Trading Policy for TGI; (iv) developing and recommending to the Board a set of corporate governance principles applicable to TGI; (v) generally addressing corporate governance issues for the Board; and (vi) reporting regularly to the Board as to its activities.

Directors serving on the Corporate Governance & Nominating Committee at December 31, 2009, were as follows:

Steven W. Schuster	Chair
Charles A. Bryan	
William W. Fox, Jr.	
Jan R. Van Gorder	

Investment Committee

The Investment Committee shall meet either in person or telephonically at least twice per year at a time and place determined by the Chairperson of the Investment Committee, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed appropriate or desirable by the Chairperson of the Investment Committee. It is expected that Investment Committee members shall be present at all Investment Committee meetings. The

Tower National Insurance Company

Investment Committee Chairperson may call an Investment Committee meeting upon due notice of each other Investment Committee member at least forty-eight (48) hours prior to the meeting.

For the examination period, the Investment Committee met four (4) times per year and has complied with a minimum of two meetings per year.

The purpose of the Investment Committee is to assist the Board in its general oversight of TGI's (i.e. and its affiliates, which include TNIC) investments of and its periodic evaluation of TGI's investment portfolio managers. The Investment Committee shall consist of two (2) or more directors, none of whom shall be an employee of TGI. The members of the Investment Committee shall be appointed by the Board and may be removed by the Board in its discretion.

Directors serving on the Investment Committee at December 31, 2009, were as follows:

Robert S. Smith	Chair
William A. Robbie	
Steven W. Schuster	
Austin P. Young, III	

Executive Committee

The Executive Committee is currently a non-functioning committee and has no members.

The purpose of the Executive Committee is to assist the Board in fulfilling its responsibilities with respect to providing guidance on TGI's (i.e. and its affiliates, which include TNIC) overall strategy, business development and corporate oversight; and to exercise the power and authority of the Board between Board meetings. The Executive Committee shall consist of at least two directors. Executive Committee members shall be appointed by the Board, upon the recommendation of the Corporate Governance & Nominating Committee.

Officers

The Bylaws provide that the officers of TGI shall be a President, Vice President, Secretary and Treasurer; but one person may hold two such offices, except the office of President and Secretary; provided that no person holding two such offices shall issue or make any check, treaty or other contract or document acting in both capacities.

All such officers shall be elected by the Board to hold office at the pleasure of the Board. The salaries of all officers elected by the Board shall be fixed by the Board.

The elected officers and their respective titles at December 31, 2009 follow:

<u>Name</u>	<u>Title</u>
Michael H. Lee	President & Chief Executive Officer
Francis M. Colalucci	Treasurer (SVP) & Chief Financial Officer
Ruth Oren	Secretary

Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflict of interest as indicated in response to Question 13 of the General Interrogatories of the Annual Statement. Specifically, the Company's *Code of Business Conduct and Ethics* Section 17 indicates that:

"a conflict of interest occurs when an individual's personal interests may interfere in any way with the performance of his or her duties or the best interests of the Company. A conflicting personal interest could result from an expectation of personal gain now or in the future or from a need to satisfy a prior or concurrent personal obligation. The Company expects its employees to be free from influences that conflict with the best interests of the Company. Even the appearance of a conflict of interest where none actually exists can be damaging and should be avoided. Whether or not a conflict of interest exists or will exist can be unclear. Conflicts of interest are prohibited unless specifically authorized by an appropriate member of management."

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, which is or is likely to conflict with his/her official duties. On an annual basis, all employees and independent directors read the conflict of interest policy and sign a questionnaire where they can disclose any conflicts. The completed questionnaires were reviewed, and no discrepancies were noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Company's 2009 Annual Statement.

Corporate Records

Articles of Incorporation and Bylaws

The Bylaws and Articles of Incorporation and amendments thereto were reviewed. Based upon the review of the Bylaws and Articles of Incorporation, and amendments thereto, the Company is operating substantially in compliance with its Bylaws and in accordance with the purpose, functions and policies as set forth in its Articles of Incorporation.

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 M.G.L. c.175, Sections 180M-180Q.

Board of Directors Minutes

The TNIC Board has not held any board meetings during the period covered by the examination. In lieu of board meetings, TNIC's business was conducted through "action of unanimous consent of the directors without a meeting." All of the unanimous consents for the period under statutory examination were reviewed and contained the necessary votes and authorizations.

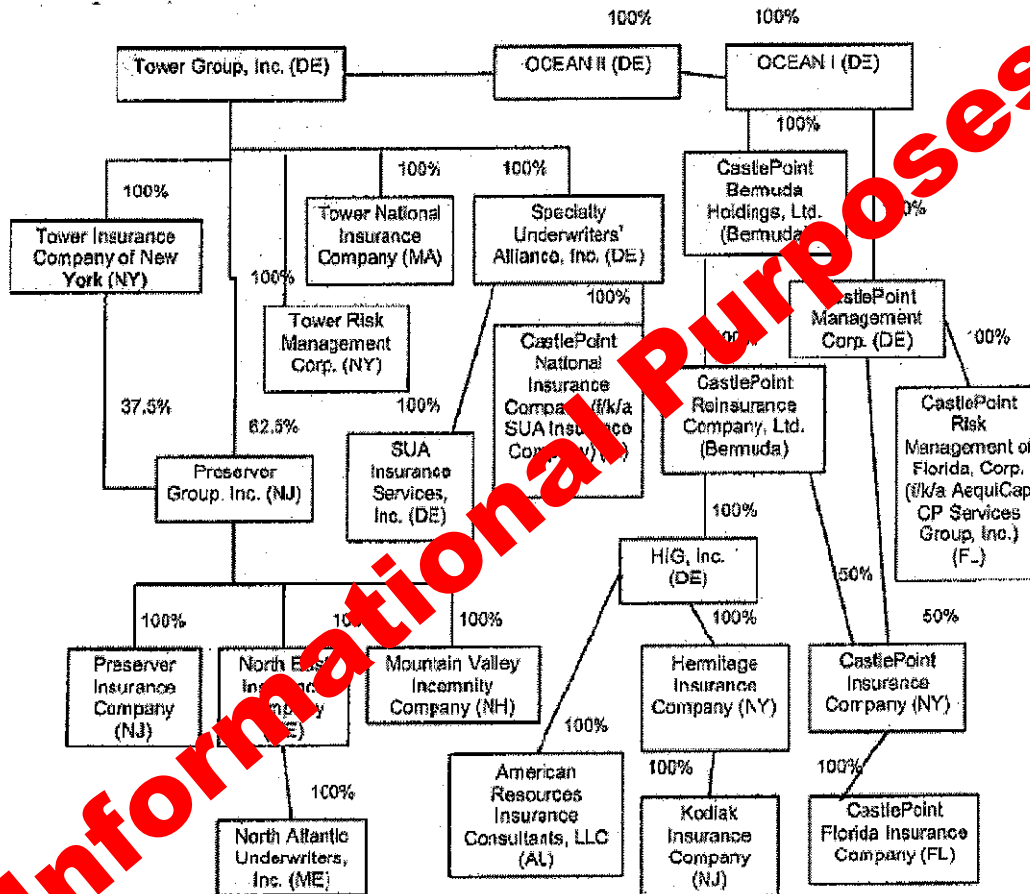
Tower National Insurance Company

The Company's bylaws require at least one regular meeting following the annual meeting of the shareholders and special meetings, from time to time, as called by the Board. Going forward, the TNIC Board plans to comply with the bylaw meeting requirements.

AFFILIATED COMPANIES

The Company is a member of a holding company system and is subject to the registration requirements of M.G.L. c. 175, Section 206C. TGI is the "ultimate controlling person" of the Company.

Organization Chart



Transactions and Agreements with Parent and Affiliates

Service and Expense Sharing Agreements

TICNY and Tower Risk Management Corp ("TRM")

Effective January 1, 2002, TICNY entered into a service agreement and an expense agreement with TRM to jointly share in the underwriting and claims expenses, whereby, TICNY provides TRM with the following services: underwriting and marketing; policy issuance, billing, and collection; state filing; loss prevention, premium audit; claims; legal defense; and corporate services, accounting, human resources, and MIS. In turn, TRM

Tower National Insurance Company

provides the following services to TICNY: negotiating, securing and maintaining agreements with clients; and reinsurance placement.

TICNY and CastlePoint Management Corp. ("CPM")

Effective January 1, 2007, TICNY entered into a service and an expense agreement with CPM to jointly share in the underwriting and claims expenses as well as sharing any profits and losses from rendering services to third parties. According to the terms of the agreement, in addition to the services TICNY may provide CPM in managing the Brokerage Business, TICNY, if requested, shall provide the following insurance companies services to CPM: underwriting and marketing; policy issuance, billing, and collection; state filing and regulatory compliance; loss prevention, premium audit; claims services; administrative services such as human resources and IT, and Facilities. And, in addition to the services that CPM or CastlePoint Insurance Company ("CPIC") may provide to TICNY in managing the Specialty Program Business and Insurance Risk Sharing Business and Traditional Program Business, CPM shall provide the following insurance company's services to TICNY: underwriting and marketing services; state filing and regulatory compliance services, and loss prevention and premium audit services.

TICNY and its affiliates (including TNIC)

TICNY entered into various service and expense sharing agreements with all of its affiliate insurers, whereby TICNY provides all required financial, administrative, underwriting and accounting services including premium collection and refunds, claims services, legal and corporate services on behalf of its affiliates.

Program Management Agreement

Effective April 4, 2006, TICNY entered into a program management agreement with CPM, which was restated on January 1, 2007, whereby TICNY appoints CPM as its manager for the soliciting, underwriting, quoting, binding, issuing, and servicing TICNY's policies classified as Traditional Program Business, Specialty Program Business and Insurance Risk Sharing Business.

Tax Allocation Agreement

TICNY entered into a tax allocation agreement with each of its subsidiaries to jointly file consolidated federal income tax returns in accordance with the relevant Internal Revenue Service regulations. Pursuant to the agreement, TNIC files a consolidated federal income tax return with the group. The tax liability or refund under the agreement represents the amount TNIC would pay or receive if it filed a separate return with the Internal Revenue Service.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with authorized Massachusetts insurers. The aggregate limits of liability coverage meet the NAIC's suggested minimum as of December 31, 2009.

Tower National Insurance Company

The Company has further protected its interests and properties by policies of insurance covering other insurable risks. Coverages are provided by insurers licensed in the Commonwealth of Massachusetts and were in force as of December 31, 2009.

STATUTORY DEPOSITS

The statutory deposits of the Company as of December 31, 2009, are as follows:

Location	Description of Deposit	Par Value	Statement Value	Fair Value
Arizona	U.S. Treasury Note (912828ED8)	\$210,000	\$209,028	\$214,891
Connecticut	U.S. Treasury Note 2.375% – Due 8/31/10 (912828JJ0)	\$50,000	\$50,155	\$50,662
Georgia	U.S. Treasury Note 2.375% – Due 8/31/10 (912828JJ0)	\$85,000	\$85,263	\$86,126
Kansas	U.S. Treasury Note 2.375% – Due 8/31/10 (912828JJ0)	\$50,000	\$50,155	\$50,662
Kentucky	U.S. Treasury Note 2.375% – Due 8/31/10 (912828JJ0)	\$600,000	\$601,855	\$607,945
Louisiana	U.S. Treasury Note (912828FW5)	\$75,000	\$69,947	\$74,542
Maryland	U.S. Treasury Note (912828ED8)	\$55,000	\$54,901	\$56,914
Massachusetts	U.S. Treasury Note 2% – Due 2/28/10 (912828HJ0)	\$2,500,000	\$2,501,862	\$2,507,130
Nebraska	U.S. Treasury Note (912828GC8)	\$100,000	\$99,777	\$106,844
Nebraska	U.S. Treasury Note 2.375% – Due 8/31/10 (912828JJ0)	\$50,000	\$50,154	\$50,662
Nevada	U.S. Treasury Note 2.375% – Due 8/31/10 (912828JJ0)	\$300,000	\$300,927	\$303,973
New Hampshire	U.S. Treasury Note 2.375% – Due 8/31/10 (912828JJ0)	\$500,000	\$501,546	\$506,621
New Mexico	U.S. Treasury Note 3.375% – Due 11/30/12 (912828HK9)	\$300,000	\$303,854	\$315,094
Oregon	U.S. Treasury Note 2.25% – Due 5/31/14 (912828KY1)	\$400,000	\$391,363	\$397,281
Rhode Island	U.S. Treasury Note (912828DR8)	\$150,000	\$149,858	\$151,617
South Dakota	U.S. Treasury Note 1.375% – Due 3/15/12 (912828KG4)	\$155,000	\$155,641	\$155,351
Total of All Locations		\$5,575,000	\$5,576,286	\$5,636,338

REINSURANCE

During the period January 1, 2005 to December 31, 2009, TGI's reinsurance programs underwent the following changes to attachment points, limits, etc.:

1. The Working Layer program had no changes to the attachment point.
2. The Casualty excess limit increased from \$2 million to \$10 million.
3. The Property excess limit increased from \$10 million to \$30 million.
4. The Workers' Compensation limit increased from \$10 million to \$50 million.
5. The Property Catastrophe Program attachment point increased from \$15million to \$75million.
6. The limit of the Property Catastrophe Program increased from \$200 million to \$600 million.
7. The retention under various quota share contracts varied between 0% and 50%.
8. The limit of the Property Facultative Agreement increased from \$30 million to \$70 million.

Specific agreements are set forth below:

50% Net Quota Share Reinsurance Agreement

Effective July 1, 2009, TGI Companies entered into a 50% net quota share reinsurance agreement with CastlePoint Reinsurance Company ("CPRC"), whereby the TGI Companies (including TNIC) cede 50% of their net retained liability.

10% Quota Share Reinsurance Agreement

Effective August 14, 2009, the TGI Companies (including TNIC) entered into a 10% quota share reinsurance agreement with CPNIC, whereby the TGI Companies cede 10% of the new and renewal policies identified as CO-Staffing business through Risk Transfer Programs, LLC to CPNIC.

100% Quota Share Reinsurance Agreement

Effective September 1, 2009, the TGI Companies (including TNIC) entered into a 100% quota share reinsurance agreement with CPNIC, whereby, the TGI Companies cede 100% of the net liability for new and renewal policies classified as general liability and/or commercial automobile liability for trucking entities and underwritten, issued, or renewed to CPNIC.

90% Quota Share Reinsurance Agreement

Effective February 19, 2009 CPIC entered into a 90% quota share reinsurance agreement with CastlePoint Florida Insurance Company ("CPFIC"), whereby CPFIC cedes 90% of the new and renewal policies identified as workers' compensation and trucking liability, produced and written on behalf of CPFIC by Aequicap CP Services, Inc. The agreement was subsequently amended to revise the reinsurance coverage and termination provisions.

SUBSEQUENT EVENTS

- Effective March 15, 2010, Francis M. Colalucci, retired from his position as Chief Financial Officer and from TGI's Board when his term expired on May 12, 2010. Mr. Colalucci was succeeded by William E. Hitselberger, who joined TGI on December 8, 2009 as Senior Vice President and became Chief Financial Officer effective March 15, 2010.
- On July 1, 2010, TGI completed the acquisition of the Personal Lines Division of OneBeacon Insurance Group ("OneBeacon"). OneBeacon writes business in the Northeastern United States with offices in: Canton, Massachusetts; South Portland, Maine, and Williamsville, New York. The transaction included the acquisition of Massachusetts Homeland Insurance Company, York Insurance Company of Maine and two management companies. The management companies are the attorneys-in-fact for Adirondack Insurance Exchange, a New York reciprocal insurer, and New Jersey Skylands Insurance Association, a New Jersey reciprocal insurer, which in turn owns a New Jersey domiciled stock insurance subsidiary, New Jersey Skylands Insurance Company. TGI also purchased the surplus notes issued by the two reciprocal insurers.
- On July 1, 2010, TNIC entered into a 100% intercompany quota share reinsurance agreement with Massachusetts Homeland Insurance Company ("MHIC"). TNIC assumed MHIC's net inforce, new and renewal premium as well as MHIC's new loss and loss adjustment expense reserves.

ACCOUNTS AND RECORDS

The Company's internal controls structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent certified public accountants, and including work papers generated to support the requirements of the Sarbanes-Oxley Act of 2002. As part of its engagement for the Division, R&A performed a review and evaluation of the control environment of TNIC's IT systems. The NAIC Information Systems Questionnaire (ISQ) completed by the Company was reviewed. As this was a coordinated examination, with the New York Insurance Department ("NY Dept.") taking the lead, certain review procedures and interviews conducted by the NY Dept. were reviewed and relied upon. The control environment of the Company's information systems was found to have in place sufficient internal controls.

No material internal control weaknesses were noted in connection with the examination, nor were any such matters reported in the CPA firm'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 2009 Annual Statement. No material exceptions were noted.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by the *National Association of Insurance Commissioners* as of December 31, 2009.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2009

Statement of Income for the Year Ended December 31, 2009

Statement of Capital and Surplus as of December 31, 2009

Reconciliation of Capital and Surplus, for Each Year in the Five-Year Period Ended December 31, 2009

For Informational Purposes Only

Tower National Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2009

Assets	Per Company	Examination Changes	Per Examination
Bonds	\$21,000,729	\$ 0	\$21,000,729
Preferred stocks	751,375		751,375
Cash and short-term investments	2,905,471		2,905,471
Receivable for securities	5,078		5,078
Subtotals, cash and invested assets	24,662,653	-	24,662,653
Investment income due and accrued	243,330		243,330
Uncollected premiums and agents' balances in the course of collection	2,931,494		2,931,494
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,669,860		2,669,860
Accrued retrospective premiums	62,372		62,372
Reinsurance: Amounts recoverable from reinsurers	5,678,410		5,678,410
Reinsurance: Other amounts receivable	(1,354,279)		(1,354,279)
Current federal and foreign income tax recoverable and interest thereon	892,806	308,000	1,200,806
Net deferred tax asset	964,779		964,779
Receivables from parent, subsidiaries and affiliates	8,164,647		8,164,647
Aggregate write-ins for other than covered assets	187,153		187,153
Total Assets	\$45,103,225	\$ 308,000	\$45,411,225

Tower National Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2009

Liabilities	Per Company	Examination Changes	Per Examination	Notes
Losses	\$ 11,247,277	\$ 710,000	\$ 11,957,277	1
Reinsurance payable on paid losses and loss adjustment expenses	1,110,460		1,110,460	
Loss adjustment expenses	2,619,220	170,000	2,789,220	1
Commissions payable, contingent commissions and other similar charges	143,980		143,980	
Other expenses	325,961		325,961	
Taxes, licenses and fees	28,640		28,640	
Unearned premiums	6,769,642		6,769,642	
Advance premium	169,631		169,631	
Ceded reinsurance premiums payable	6,929,821		6,929,821	
Funds held by company under reinsurance treaties	274,743		274,743	
Amounts withheld or retained by company for account of others	1,371,150		1,371,150	
Payable for securities	1,471,138		1,471,138	
Aggregate write-ins for liabilities	594,291		594,291	
Total Liabilities	33,055,954	880,000	33,935,954	
Aggregate write-ins for special surplus funds	231,617		231,617	
Common capital stock	3,995,000		3,995,000	
Gross paid in and contributed surplus	6,005,000		6,005,000	
Unassigned funds (surplus)	1,815,654	(572,000)	1,243,654	1
Surplus as regards policyholders	12,047,271	(572,000)	11,475,271	
Total Liabilities, Capital and Surplus	\$ 45,103,225	\$ 308,000	\$ 45,411,225	

Tower National Insurance Company
Statement of Income, Capital and Surplus
For the Year Ended December 31, 2009

	Per Company	Examination Changes	Per Examination	Note
Underwriting Income				
Premiums earned	\$15,309,909	\$ 0	\$15,309,909	
Deductions				
Losses incurred	7,739,921	710,000	8,449,921	1
Loss adjustment expenses incurred	1,871,813	170,000	2,041,813	1
Other underwriting expenses incurred	5,544,153		5,544,153	
Total underwriting deductions	15,155,887	880,000	16,035,887	
Net underwriting gain	154,022	(880,000)	(725,978)	
Investment Income				
Net investment income earned	831,436		831,436	
Net realized capital (losses) less capital gains of \$42,387	(447,491)		(447,491)	
Net Investment gain	383,945	-	383,945	
Other Income				
Net (loss) from agents' or premium balances charged off	(69,281)		(69,281)	
Finance and service charges not included in premiums	57,669		57,669	
Aggregate write-ins for miscellaneous income	(18,242)		(18,242)	
Total other income	(29,854)		(29,854)	
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	508,113	(880,000)	(371,887)	
Dividends to policyholders	-		-	
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	508,113	(880,000)	(371,887)	
Federal and foreign income taxes incurred	225,534	(308,000)	(82,466)	1
Net Income	\$ 282,579	\$ (572,000)	\$ (289,421)	

Tower National Insurance Company

Tower National Insurance Company
Capital and Surplus
For The Year Ended December 31, 2009

	Per Company	Examination Changes	Per Examination
Surplus as regards policyholders, December 31, 2008	\$12,158,907	\$ -	\$ 12,158,907
Net income	282,579	(572,000)	(289,421)
Change in net unrealized capital gains or (losses) less capital gains tax of \$189,282	(610,974)		(610,974)
Change in net deferred income tax	209,308		209,308
Change in nonadmitted assets	(224,166)		(224,166)
Aggregate write-ins for gains and losses in surplus	231,617		231,617
Change in surplus as regards policyholders for the year	(111,613)	(572,000)	(683,636)
Surplus as regards policyholders, December 31, 2009	<u>\$12,047,271</u>	<u>\$ (572,000)</u>	<u>\$ 11,475,271</u>

Tower National Insurance Company
Reconciliation of Capital and Surplus
For Each Year in the Five-Year Period Ended December 31, 2009

	2009	2008	2007	2006	2005
Surplus as regards policyholders, December 31 previous year	\$ 12,158,907	\$ 10,418,674	\$ 9,714,093	\$ 10,115,829	\$ -
Net income (loss)	(289,421)	1,339,184	676,505	(595,856)	233
Change in net unrealized capital gains or (losses) less capital gains tax	(610,974)	(38,712)			
Change in net deferred income tax	209,308	611,639	233,669	1,000	(404)
Change in nonadmitted assets	(224,166)	(288,487)	(88,984)	1,250,000	(1,302,561)
Change in provision for reinsurance		116,609	(116,609)	-	
Paid in capital changes					3,995,000
Paid in surplus adjustment				(1,302,561)	7,307,561
Aggregate write-ins for gains and losses in surplus	231,617				
Change in surplus as regards policyholders for the year	(683,636)	1,740,233	704,581	(401,736)	10,115,829
Surplus as regards policyholders, December 31 current year (**)	\$ 11,475,271	\$ 12,158,907	\$ 10,418,674	\$ 9,714,093	\$ 10,115,829

(**) - Per Examination

NOTES TO FINANCIAL STATEMENTS**Note 1: Loss and Loss Adjustment Expense (LAE) Reserves**

R&A performed an evaluation of TNIC's loss and loss adjustment (LAE) reserves as of December 31, 2009. The evaluation primarily consisted of a review of the work performed by TNIC's independent actuary, Towers Watson. R&A employed other actuarial analysis procedures to further test the adequacy of TNIC's loss and LAE reserves as of December 31, 2009.

R&A reviewed the selections and assumptions made by Towers Watson in its 2009 Actuarial Report for each company participating in the intercompany pooling agreement on a pro-rata basis and found the majority to be reasonable. R&A concluded that Towers Watson's reserving methodologies were reasonable as well.

While R&A found the majority of Towers Watson's selections to be reasonable, R&A made some adjustments to Towers Watson's projections as a result of differences in selections made by Towers Watson and R&A. R&A's projected reserves in the table that follows were calculated by adding R&A's adjustments to Towers Watson's projected loss and LAE reserves.

**TNIC Comparison of Indicated Net Post Pooling Reserves
As of December 31, 2009
Amounts in Thousands of Dollars**

	Low Point of Range	Selected Estimate	High Point of Range
R&A Projected Net Loss & LAE Reserves	\$14,009	\$14,746	\$15,483
Company Carried Net Loss & LAE Reserves	\$13,866	\$13,866	\$13,866
Difference	\$143	\$880	\$1,617

As shown in the table above, R&A projects that TNIC's net post-pooling carried loss and LAE reserves are understated by \$880,000. Based upon R&A's professional experience and judgment, TNIC's carried net post-pooling reserves should be increased. We recommend that TNIC's carried net post pooling reserves be increased by \$880,000, resulting in adjusted net post pooling reserves of \$14,746,497 for the purpose of this Report.

COMMENTS AND RECOMMENDATIONS

1. Failure to convene Board of Director Meetings

The examination revealed that the Company did not convene any Board meetings during the period covered by the examination. In lieu of formal Board meetings, the Company's business was conducted through, "*Action by Unanimous Consent of Directors without a Meeting*".

The Company's Bylaws require at least one regular meeting following the annual meeting of the shareholders and a special meeting from time to time as called by the Board.

Recommendation: It is recommended that the Company should comply with its Bylaws and convene at least one regular annual meeting of the Board. The "*Action by Unanimous Consent of Directors without a Meeting*" should be limited to emergency situations.

2. Intercompany Agreement Settlements

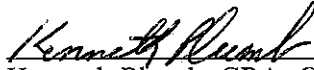
The review of intercompany agreements noted that the Services and Expense Sharing Agreements among the pool participants, and the Intercompany Pooling Agreement of Tower Insurance Company of New York (TICNY) and its subsidiaries, indicates that a detailed written estimate is to be submitted within 30 days of the end of each calendar month and that settlement is to be made within 15 days of the receipt of such estimates.

The Company and TGI have not complied with the above provisions, as such estimates are provided quarterly and settled at or around 90 days.

Recommendation: It is recommended that the Company and TGI should take the necessary steps to comply with its filed intercompany agreements and submit remittance reports within 30 days following the last day of each quarter and settle such balances within 15 days after receipt of the reports.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company.



Kenneth Plumb, CPA, CFE

Supervising Examiner and Examiner-In-Charge

Commonwealth of Massachusetts

Division of Insurance

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