

REPORT ON EXAMINATION
OF
BRIDGEFIELD CASUALTY INSURANCE
COMPANY

LAKELAND, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

June 29, 2007

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Dear Sir and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2006, of the financial condition and corporate affairs of:

**BRIDGEFIELD CASUALTY INSURANCE COMPANY
2310 COMMERCE POINT DRIVE
LAKELAND, FLORIDA 33801**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2004 through December 31, 2006. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced, with planning at the Office, on March 26, 2007, to March 30, 2007. The fieldwork commenced on April 2, 2007, and was concluded as of June 29, 2007.

This financial examination was an association zone statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was not placed on work performed by the Company's CPAs, after verifying the statutory requirements.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2003, along with resulting action taken by the Company in connection therewith.

General

The Company's disclosure note concerning discounted reserves was not in compliance with SSAP No. 65, paragraph 14, in that the Company's disclosure did not identify the discount table used, rate used, or report the amount of discount by line of business and reserve category. **Resolution:** The Company complied with SSAP No. 65 and included the required information concerning discounted reserves in the notes to the annual statement. The Company, as recommended, provided documentation of compliance to the Office within 90 days after the report was issued.

The Company did not disclose the special deposit note for the State of Florida on Schedule E, Part 3. **Resolution:** The Company complied with SSAP No. 26 and included the required information concerning special deposit investments in its notes to the annual statement. The Company, as

recommended, provided documentation of compliance to the Office within 90 days after the report was issued.

Corporate Records

The Board of Director minutes of March 21, 2001 noted a resolution adopted to the bylaws that increased the number of directors from 6 to 10. However, the number of directors listed on the jurat page of the 2003 annual statement exceeded that amount. **Resolution:** The Company implemented measures to document any record changes and resolutions adopted to the Company bylaws. The Company, as recommended, provided documentation of compliance to the Office within 90 days after the report was issued.

HISTORY

General

The Company was incorporated in Florida on October 7, 1994 as an assessable mutual insurer, Summit Mutual Insurance Company. On February 16, 1995, the Company was reorganized as a stock property and casualty insurer, Paragon Insurance Company. On October 6, 1995, the Company's name was changed to Bridgefield Casualty Insurance Company.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Workers compensation

The Company has not written insurance coverage in the last two years in the line of business of commercial multi peril in the State of Florida. The Company requested removal of the commercial multi peril line of business from its Certificate of Authority on November 22, 2006.

The articles of incorporation and the bylaws were amended during the period covered by this examination. The number of Directors serving on the Board was changed from 12 to 7 members, and the Audit Committee changed from 4 members to 3 members.

Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	18,000
Number of shares issued and outstanding	18,000
Total common capital stock	\$1,800,000
Par value per share	\$100.00

Control of the Company was maintained by its parent, Bridgefield Employers Insurance Company, who owned 100% of the stock issued by the Company, who in turn was 100% owned by Summit Holding Southeast, Inc., a Florida corporation. Liberty Mutual Insurance Company (Liberty Mutual), a Massachusetts corporation, owned 100% of the stock of Summit Holding Southeast, Inc., and its subsidiaries.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed annual statements.

	2006	2005	2004
Premiums Earned	0	0	0
Net Underwriting Gain/(Loss)	0	0	0
Net Income	2,012,165	1,708,591	1,530,966
Total Assets	94,101,906	70,519,370	48,977,000
Total Liabilities	65,210,193	42,535,395	29,575,768
Surplus As Regards Policyholders	28,891,713	27,983,975	19,401,232

Dividends to Stockholders

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2006 the amount of \$548,000.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2006, were:

Directors

Name and Location

Principal Occupation

James Francis Dore
Boston, MA

Treasurer
Bridgefield Casualty Insurance Company

John Derek Doyle
Southborough, MA

Director
Bridgefield Employers Insurance Company

Mark Edward Fiebrink
Wausau, WI

Executive VP
Bridgefield Casualty Insurance Company

Joseph Anthony Gilles
Medway, MA

Executive VP & Chief Operating Officer
Bridgefield Casualty Insurance Company

Gary Richard Gregg
Milton, MA

Chairman of the Board, President & CEO
Bridgefield Casualty Insurance Company

Ricky Tarver Hodges
Lakeland, FL

President & CEO
Summit Holding Southeast, Inc.

Christopher Charles Mansfield
Dedham, MA

Director
Summit Holding Southeast, Inc.,
Bridgefield Employers Insurance Company

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
Gary Richard Gregg	President & CEO
Edmund C. Kenealy	Secretary
James Francis Dore	Treasurer
Mark Edward Fiebrink	Executive VP
Anthony Alexander Fontanes	Executive VP & Chief Investment Officer
Joseph Anthony Gilles	Executive VP & Chief Operating Officer

The Company's board appointed an internal audit committee in accordance with Section 607.0825, Florida Statutes. Following are the members as of December 31, 2006:

Audit Committee

Gary R. Gregg¹

Ricky T. Hodges

James F. Dore

¹ Chairman

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and audit committee were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance.

Surplus Debentures

The Company had no surplus debentures.

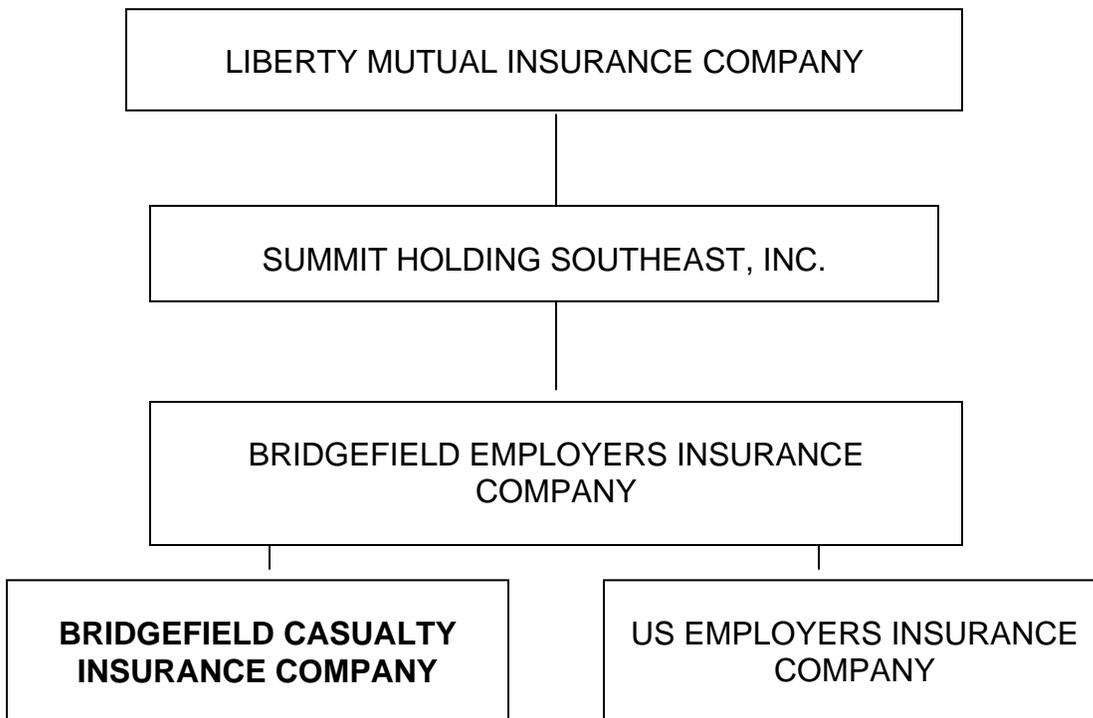
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 23, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

**BRIDGEFIELD CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2006



The following agreements were in effect between the Company and its affiliates:

Tax Allocation Agreement

The Company, along with its immediate parent, Bridgefield Employers Insurance Company, filed a consolidated federal income tax return with its ultimate parent, Liberty Mutual. On December 31, 2006, the method of allocation between the Company and its ultimate parent was such that each entity contributed its fair and equitable share of the taxes paid, provided that they not be required to pay more than they would have paid if they had computed and paid their tax liabilities on a separate basis.

Management Services Agreement

The Company had a management services agreement with Liberty Mutual to provide administrative and management functions. Services included, but were not limited to, accounting, tax, auditing, information technology, employee benefits, legal, and other services. The Company had no employees.

Managed Care Agreement

The Company had a workers' compensation managed care agreement with Heritage/Summit Health Care, Inc., to provide services in a network of physicians and facilities geared toward initial and continuing treatment of work-related injuries relating to insurance coverage provided by the Company.

Managing General Agent Agreement

The Company had a managing general agent (MGA) agreement with Summit Consulting, Inc., to provide services for managing and administering the affairs of the Company. Services included,

but were not limited to, marketing, underwriting, billing, collection, claims administration, safety and loss prevention and claims servicing.

The Company also had an agreement with Helmsman Management Services, Inc., effective May 15, 2002, for claims and risk information services. The Company utilized Helmsman Management Services, Inc. to service its business owners policies, which were in runoff as of December 31, 2006.

Investment Management Agreement

The Company had an investment management agreement with Liberty Mutual Advisors, LLC, an indirect subsidiary of Liberty Mutual. The general terms of the agreement called for Liberty Mutual Advisors, LLC to invest and manage the assets of the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$15,000,000 with no deductible, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained directors and officers liability insurance coverage with limits of \$15,000,000, general liability insurance with limits of \$5,000,000, automobile liability insurance with limits of \$1,000,000 for each accident, errors & omissions liability insurance coverage with limits of \$5,000,000, and umbrella insurance coverage with limits of \$1,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	US Treasury Bonds, 3.625%, 05/15/13	<u>\$ 1,540,000</u>	<u>\$ 1,451,034</u>
TOTAL FLORIDA DEPOSITS		\$ 1,540,000	\$ 1,451,034
GA	US Treasury Bonds, 3.875%, 02/15/13	\$ 100,000	\$ 95,707
LA	US Treasury Bonds, 3.625%, 05/15/13	75,000	70,667
NC	US Treasury Bonds, 3.875%, 02/15/13	320,000	306,262
SC	US Treasury Bonds, 3.875%, 02/15/13	<u>135,000</u>	<u>129,204</u>
TOTAL OTHER DEPOSITS		\$ 630,000	\$ 601,840
TOTAL SPECIAL DEPOSITS		<u><u>\$ 2,170,000</u></u>	<u><u>\$ 2,052,874</u></u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance in the following states:

Alabama
Georgia
Mississippi
Tennessee

Arkansas
Kentucky
North Carolina

Florida
Louisiana
South Carolina

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes.

The MGA maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(i)3a, Florida Statutes.

REINSURANCE

The reinsurance agreements were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed risk as a member of several workers' compensation pools: the National Workers' Compensation Reinsurance Pool, domiciled in Georgia, the Mississippi Workers' Compensation Assigned Risk Pool, and the Tennessee Workers' Compensation Pool.

Ceded

The Company ceded risk on an excess of loss basis to affiliate Peerless Insurance Company, a member of the Liberty Mutual Insurance Group. The Company ceded the remaining excess of loss

to its parent, Liberty Mutual. The Company ceded 100% risk on a quota share basis to its parent, Liberty Mutual.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Lakeland, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004, 2005 and 2006, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with JPMorgan Chase Bank of Brooklyn, New York dated February 4, 2002 that complied with Rule 69O-143.042(2), Florida Administrative Code.

Independent Auditor Agreement

The Company's financial statements were audited by Ernst & Young, LLP, on a consolidated statutory basis with its affiliates of the Liberty Mutual pool.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

BRIDGEFIELD CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$49,358,547		\$49,358,547
Cash	13,307,551		13,307,551
Receivables for securities	25,360		25,360
Investment income due & accrued	593,647		593,647
Agents' Balances:			
Uncollected premium	1,763,193		1,763,193
Deferred premium	3,847,890		3,847,890
Accrued retrospective premium	127,470		127,470
Reinsurance recoverable	11,794,970		11,794,970
Receivable from parents, subsidiaries and affiliates	13,256,270		13,256,270
Aggregate write-in for other than invested assets	27,008		27,008
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Totals	\$94,101,906	\$0	\$94,101,906
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BRIDGEFIELD CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Commissions payable	\$1,015,778		\$1,015,778
Other expenses	574,387		574,387
Taxes, licenses and fees	37,926,016		37,926,016
Current federal income taxes	285,325		285,325
Net deferred tax liability	40,000		40,000
Advance premium	1,932,186		1,932,186
Ceded reinsurance premiums payable	18,519,032		18,519,032
Payable to parent, subsidiaries and affiliates	4,748,068		4,748,068
Aggregate write-ins for liabilities	169,400		169,400
Total Liabilities	\$65,210,193	\$0	\$65,210,193
Common capital stock	\$1,800,000		\$1,800,000
Gross paid in and contributed surplus	20,700,000		20,700,000
Unassigned funds (surplus)	6,391,713		6,391,713
Surplus as regards policyholders	\$28,891,713		\$28,891,713
Total liabilities, surplus and other funds	\$94,101,906	\$0	\$94,101,906

BRIDGEFIELD CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2006

Underwriting Income		
Premiums earned		\$0
	Deductions:	
Losses incurred		0
Loss expenses incurred		0
Other underwriting expenses incurred		0
Total underwriting deductions		\$0
Net underwriting gain or (loss)		\$0
Investment Income		
Net investment income earned		\$3,051,160
Net realized capital gains or (losses)		(6,360)
Net investment gain or (loss)		\$3,044,800
Other Income		
Net income before dividends to policyholders and before federal & foreign income taxes		\$3,044,800
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$3,044,800
Federal & foreign income taxes		1,032,635
Net Income		\$2,012,165
Capital and Surplus Account		
Surplus as regards policyholders, December 31 prior year		\$27,983,976
Net Income		\$2,012,165
Change in non-admitted assets		(826,000)
Change in provision for reinsurance		269,572
Dividends to stockholders		(548,000)
Change in surplus as regards policyholders for the year		\$907,737
Surplus as regards policyholders, December 31 current year		\$28,891,713

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

The Company ceded its losses to its ultimate parent, Liberty Mutual. An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

Capital and Surplus

The surplus amount reported by the Company of \$28,891,713, exceeded the minimum amount of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**BRIDGEFIELD CASUALTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2006

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as regards policyholders December 31, 2006, per Annual Statement	\$28,891,713
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment.			
LIABILITIES:			
No adjustment.			
Net Change in Surplus:			0
Surplus as regards policyholders December 31, 2006, Per Examination			\$28,891,713

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

Current examination comments and corrective action

There were no findings in the examination as of December 31, 2006.

SUBSEQUENT EVENTS

As a result of the Company's projected premium growth in 2007, the Company requested approval from the Office for a capital infusion of \$9,500,000 to comply with premium writing ratios. After receiving approval by the Office, a capital contribution was transferred to the Company's bank account in cash from its immediate parent, Bridgefield Employers Insurance Company on January 3, 2007. The Company incurred no debt in the transaction.

The Company entered into an investment management agreement with its ultimate parent, Liberty Mutual, effective January 1, 2007, in which the Company's assets would be invested and managed by Liberty Mutual.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Bridgefield Casualty Insurance Company** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$28,891,713, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, Mary James, CFE, Financial Administrator, and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Tina Hancock
Financial Examiner/Analyst II
Florida Office of Insurance Regulation

Mary James, CFE
Financial Administrator
Florida Office of Insurance Regulation