

REPORT ON EXAMINATION

OF

BRIDGEFIELD EMPLOYERS

INSURANCE COMPANY

LAKELAND, FLORIDA

AS OF

DECEMBER 31, 2006

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

June 29, 2007

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

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 as of December 31, 2006, of the financial condition and corporate affairs of:

**BRIDGEFIELD EMPLOYERS 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 a 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 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 placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

- Uncollected premiums and agents balances
- Deferred premiums
- Accrued retrospective premiums

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 disclosure note concerning discounted reserves was not in compliance with SSAP No. 65, paragraph 14, for the Company's disclosure did not identify the discount table used, rate used, or report the amount of disclosure by line of business and reserve category.

Resolution: The Company had no liability for unpaid losses and loss adjustment expenses and therefore no disclosure for discounting was required. The Company therefore complied with SSAP No. 65, paragraph 14.

Corporate Records

The Board of Directors meeting minutes on March 21, 2001, indicated that a resolution was 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 complied by adopting a resolution to allow for the appropriate number of directors.

Provision for Reinsurance

The Company's total other allowed offset items in the amount of \$2,440,000 was not collateralized by a letter of credit or any other type of guarantee from Gulf Insurance Co., Ltd. Therefore, the Company should have included the uncollateralized amount of \$2,440,000 in the provision for unauthorized reinsurance calculation, increasing the provision for insurance.

Resolution: The Company, in its subsequent annual statements, complied by providing adequate provision for reinsurance for Gulf Insurance Company, Ltd., an unauthorized reinsurer.

HISTORY

General

The Company was incorporated May 28, 1997, under the laws of the State of Florida, as a stock property and casualty company. The Company commenced business on April 1, 1978, as a self insurance fund under the name of Employers Self Insurers Fund and converted to an assessable mutual and subsequently converted to a stock property and casualty company with the name of Bridgefield Employers Insurance Company. The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact workers compensation insurance coverage in Florida at December 31, 2006.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

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

Number of authorized common capital shares	15,000
Number of shares issued and outstanding	15,000
Total common capital stock	\$1,500,000
Par value per share	\$100.00

Control of the Company was maintained by its parent, Summit Holding Southeast, Inc., who owned 100% of the stock issued by the Company, who in turn was 100% owned by Liberty Mutual Insurance Company (Liberty Mutual), a Boston, Massachusetts based company.

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	5,620,857	5,535,154	5,143,946
Total Assets	254,292,475	220,869,320	187,031,436
Total Liabilities	168,478,593	135,055,878	107,232,062

Surplus As Regards Policyholders	85,813,882	85,813,442	79,799,374
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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 \$4,248,000.

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

Gary R. Gregg
Boston, Massachusetts

President and Chief Executive Officer
Bridgefield Employers Insurance Company

James F. Dore
Boston, Massachusetts

Treasurer and Chief Financial Officer
Bridgefield Employers Insurance Company

John D. Doyle
Boston, Massachusetts

Director
Bridgefield Employers Insurance Company

Joseph A. Gilles
Boston, Massachusetts

Director
Bridgefield Employers Insurance Company

Christopher C. Mansfield
Boston, Massachusetts

Director
Bridgefield Employers Insurance Company

Ricky T. Hodges
Lakeland, Florida

Director
Bridgefield Employers Insurance Company

Mark E. Fiebrink
Wausau, Wisconsin

Executive Vice President
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 R. Gregg	President/Chief Executive Officer
James F. Dore	Treasurer/Chief Financial Officer
Edmund C. Kenealy	Secretary
Mark E. Fiebrink	Executive Vice President
Joseph A. Gilles	Chief Operating Officer
Anthony A. Fontanes	Chief Investment Officer

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2006:

Audit Committee

Gary R. Gregg ¹
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 certain internal committees 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 during the period under examination.

Surplus Debentures

The Company had no surplus debentures at December 31, 2006.

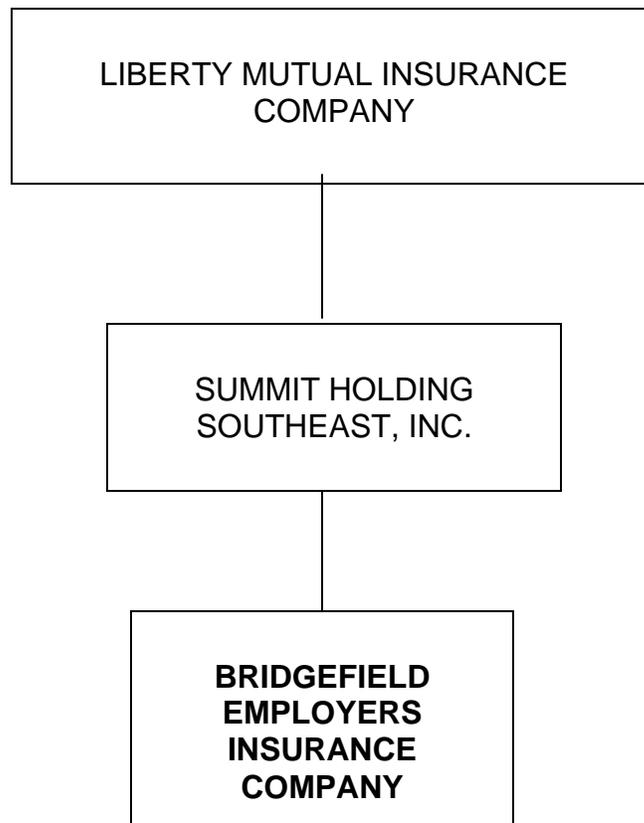
AFFILIATED COMPANIES

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

Investment Management Agreement

The Company had an investment management agreement with Liberty Mutual Insurance Company. The general terms of the agreement called for Liberty Mutual to manage and invest the assets of the Company's investment portfolio.

Management Services Agreement

The Company also had a management services agreement with Liberty Mutual. The agreement stipulated that Liberty Mutual perform accounting, financial, taxation and internal auditing functions on behalf of the Company.

Managing General Agent Agreement

The Company had a managing general agent agreement with Summit Consulting, Inc., to provide all services for managing and administering the affairs of the Company. Since the Company had no employees, services included but were not limited to, marketing, underwriting, billing, collection, claims administration, safety and loss prevention, and claims servicing.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$15,000,000 with a deductible of \$0, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company also maintained general liability insurance coverage with limits of \$5,000,000 and deductibles of \$0.

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 Notes, 3.8750%, 02/15/13	\$ 2,000,000	\$ 1,914,600
FL	US Treasury Notes, 3.6250%, 05/15/13	2,000,000	1,885,600
FL	CITIGRP, 4.8750%, 05/07/15	1,050,000	1,014,615
FL	US Treasury Notes, 4.1250%, 08/15/08	<u>1,000,000</u>	<u>989,300</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 6,050,000</u>	<u>\$ 5,804,115</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 6,050,000</u>	<u>\$ 5,804,115</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance in the State of Florida in accordance with Section 629.091, Florida Statutes.

Treatment of Policyholders

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

The Company 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 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 on an excess of loss basis from Gulf Insurance Co., Ltd., Bermuda (formerly known as Crossroads Insurance Co., Ltd.) in an amount totaling \$295,000.

Ceded

The Company ceded risk on a quota share and excess of loss basis to Liberty Mutual and Peerless Insurance Company. The Company purchased excess of loss reinsurance with a \$25

million limit of liability from its affiliate, Peerless Insurance Company for the years from 2004 through 2006. Catastrophe reinsurance was also purchased with a \$100 million limit of liability. The Company entered into a quota share agreement effective since January 1, 1999 with their parent company, Liberty Mutual. All premiums, losses, and expenses not inured to the excess of loss and catastrophe reinsurance were 100% ceded to Liberty Mutual.

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

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 financial statements on a statutory consolidated basis 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 agreement:

Custodial Agreement

The Company entered into a custodial agreement with JPMorgan Chase National Bank dated December 22, 2002, which was executed by the Company on February 2, 2003. The custodial agreement provided the proper safeguards and controls indemnifying the Company as provided by Rule 69O-143.042, Florida Administrative Code.

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 EMPLOYERS INSURANCE COMPANY
Assets

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$144,113,490		\$144,113,490
Stocks:			
Common	29,400,198		29,400,198
Cash:	6,511,010		6,511,010
Receivable for securities	9,615		9,615
Investment income due and accrued	1,384,138		1,384,138
Agents' Balances:			
Uncollected premium	(5,649)		(5,649)
Deferred premium	19,500,716		19,500,716
Accrued retrospective premiums	31,740,595		31,740,595
Amount recoverable from reinsurers	21,638,362		21,638,362
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Totals	\$254,292,475	\$0	\$254,292,475
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BRIDGEFIELD EMPLOYERS INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Commissions payable	\$8,489,019		\$8,489,019
Other expenses	211,349		211,349
Taxes, licenses and fees	35,053,733		35,053,733
Current federal and foreign income taxes	976,350		976,350
Net deferred tax liability	765,000		765,000
Advanced premium	2,765,333		2,765,333
Ceded reinsurance premiums payable	41,835,795		41,835,795
Provision for reinsurance	2,221,000		2,221,000
Payable to parents, subsidiaries and affiliates	70,640,290		70,640,290
Payable for securities	1,046		1,046
Aggregate write-ins for liabilities	<u>5,519,678</u>		<u>5,519,678</u>
Total Liabilities	\$168,478,593		\$168,478,593
Common capital stock	\$1,500,000		1,500,000
Gross paid in and contributed surplus	41,824,490		41,824,490
Unassigned funds (surplus)	<u>42,489,392</u>		<u>42,489,392</u>
Surplus as regards policyholders	<u>\$85,813,882</u>		<u>\$85,813,882</u>
Total liabilities, surplus and other funds	<u>\$254,292,475</u>	<u>\$0</u>	<u>\$254,292,475</u>

BRIDGEFIELD EMPLOYERS 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	<u>\$0</u>
Net underwriting gain or (loss)	\$0
Investment Income	
Net investment income earned	\$8,811,501
Net realized capital gains or (losses)	(153,925)
Net investment gain or (loss)	<u>\$8,657,576</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	\$0
Aggregate write-ins for miscellaneous income	0
Total other income	<u>\$0</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$8,657,576
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$8,657,576</u>
Federal & foreign income taxes	<u>3,036,719</u>
Net Income	\$5,620,857
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$85,813,442
Net Income	\$5,620,857
Change net unrealized capital gains or losses	953,864
Change in net deferred income tax	(1,795,000)
Change in non-admitted assets	(322,281)
Change in provision for reinsurance	(209,000)
Dividends to stockholders	(4,248,000)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$440</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$85,813,882</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$0

The Company ceded all of its losses to the 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 \$85,813,882 significantly exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**BRIDGEFIELD EMPLOYERS 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	\$85,813,882
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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			\$85,813,882

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 items of interest and/or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

SUBSEQUENT EVENTS

The Company made a \$9.5 million capital infusion in its direct subsidiary, Bridgefield Casualty Insurance Company in January 2007.

Also, the Company obtained approval from the Office for a new investment management agreement effective January 1, 2007.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Bridgefield Employers 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 \$85,813,882, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, Tina Hancock, Financial Examiner/Analyst II and Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Owen A. Anderson
Financial Examiner/Analyst II
Florida Office of Insurance Regulation