



Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking



William P. White
Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – **Companion Specialty Insurance Company** as of December 31, 2011

ORDER

Pursuant to Examination Warrant 2011-1, an Examination of **Companion Specialty Insurance Company** as of December 31, 2011 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 18th day of September 2012, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.


William P. White
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

COMPANION SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

NAIC COMPANY CODE 13124

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Washington, D.C.
August 13, 2012

Honorable William P. White
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Commissioner:

In accordance with Section 31-1402 of the District of Columbia Official Code, we have examined the financial condition and activities of

Companion Specialty Insurance Company

(hereinafter called the Company) at its main administrative office located at 51 Clemson Road, Columbia, SC, 29229, and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

The examination, covering the period from the date of incorporation of September 24, 2007 to December 31, 2011, and including any material transactions and/or events noted occurring subsequent to December 31, 2011, was conducted under the association plan of the National Association of Insurance Commissioners (“NAIC”) by examiners of the District of Columbia Department of Insurance, Securities and Banking (“Department”).

The last examination of the Company was an organizational examination, as of October 25, 2007, conducted by examiners of the Department, as the Company had made application for an original certificate of authority to establish and operate a property and casualty insurance company.

This examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook, incorporating the risk-focused examination techniques and in accordance with examination policies and standards established by the Department. Accordingly, included in the examination were such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

Our examination included a review of the Company’s business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable

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laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed an unqualified opinion on the Company's financial statements for calendar year 2008. For calendar years 2009 through 2011, the Company received approval for consolidated audits for the annual financial statements in accordance with Section 31-306 of the District of Columbia Official Code. The consolidated audits for the annual financial statements included the Company, Companion Property & Casualty Insurance Company (Parent) and Companion Commercial Insurance Company (affiliate). The independent public accounting firm expressed unqualified opinions on the consolidated financial statements for calendar years 2009 through 2011. We concentrated our examination efforts on the year ended December 31, 2011. We reviewed the working papers prepared by the independent public accounting firm related to the consolidated audit for the year ended December 31, 2011, and directed our efforts to the extent practical to those areas not covered by the firm's audit.

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of the nine recommendations made in the Report of Organizational Examination dated October 25, 2007. We determined that the Company had satisfactorily addressed those items.

HISTORY

General:

The Company was incorporated as Companion Specialty Insurance Company under the laws of the District of Columbia on September 24, 2007, and commenced business on December 1, 2008. As stated in the Articles of Incorporation, the purpose for which the Company was organized is to write multiple lines of property and casualty insurance as authorized in Section 31-2502 of the District of Columbia Official Code.

Capital Stock:

The Company's Articles of Incorporation originally authorized the Company to issue 100,000 shares of common capital stock with a par value of \$1 per share. The Company issued one share of common capital stock to Companion Property & Casualty Insurance Company (Parent). On January 15, 2008, by amendment to the Articles of Incorporation, the Company increased its authorized common capital stock from 100,000 shares to 1,000,000 shares and issued an additional 299,999 shares of common capital stock to its Parent. There was no change in the \$1 par value per share. On September 21, 2009, by amendment to the Articles of Incorporation, the Company increased its

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authorized common capital stock from 1,000,000 shares to 10,000,000 shares and issued an additional 3,200,000 shares of common capital stock to its Parent. There was no change in the \$1 par value per share. As of December 31, 2011, the Company had authorized common capital stock of 10,000,000 shares and issued 3,500,000 shares of common capital stock to its Parent.

Dividends to Stockholders:

The Company did not declare or pay dividends to its stockholder during the period covered by the examination.

Management:

The Company's Articles of Incorporation and Bylaws provide that the responsibility for the control and management of the affairs, property and interest of the Company is vested in its Board of Directors, composed of not less than three (3) members, and not greater than nine (9) members, who shall be elected annually by the shareholders. The Bylaws provide that the officers of the Company shall consist of a president, vice president, secretary, treasurer, and such other officers, including chairman of the Board of Directors, chief executive officer, and chief financial officer, as the Board of Directors deem advisable. The Board of Directors shall elect the officers of the Company.

According to the Bylaws, at any meeting of the Board of Directors, the presence of a majority of the Directors then in office shall be necessary and sufficient to constitute a quorum for the transaction of business. The minutes of all meetings held during the period under statutory examination indicated that a quorum was obtained at all meetings of the Board of Directors during the period under examination.

The following persons were serving on the Company's Board of Directors as of December 31, 2011:

<u>Name and Address</u>	<u>Principal Occupation</u>
David Stephen Pankau, Chairman Columbia, South Carolina	President & CEO Blue Cross Blue Shield of SC
Malcolm Edward Sellers Columbia, South Carolina	Retired CEO Blue Cross Blue Shield of SC
George Peter Reeth Columbia, South Carolina	President Companion Property & Casualty Ins. Co. & Affiliates
Joseph Francis Sullivan Columbia, South Carolina	Retired CEO Blue Cross Blue Shield of SC

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Christopher Isham Hudson Columbia, South Carolina	Senior Vice President Blue Cross Blue Shield of SC
Michael John Mizeur Columbia, South Carolina	EVP, CFO & Treasurer Blue Cross Blue Shield of SC
Stephen Kyle Wiggins Columbia, South Carolina	CIO Blue Cross Blue Shield of SC
Judith Monastra Davis Columbia, South Carolina	EVP & Chief Legal Counsel Blue Cross Blue Shield of SC
William Raymond Shrader Columbia, South Carolina	Vice President and Chief Actuary Blue Cross Blue Shield of SC

There are no independent members of the Company's Board of Directors; however, the Company's ultimate parent, Blue Cross and Blue Shield of South Carolina (Ultimate Parent) is an insurer that satisfies the independent director requirements of Section 31-706(c)(5) of the District of Columbia Official Code.

The following persons were serving as the Company's officers as of December 31, 2011:

George Peter Reeth	President
Duncan Scott McIntosh	Secretary
Michael John Mizeur	Treasurer
Jennifer Ann Thorne	Vice President and CFO
Robert Christopher Rhodes	Vice President and COO
Gregory John Hoeg	Vice President and CAO
Jerelyn Seeger Boysia	Vice President and Actuary

Committees:

As of December 31, 2011, the Company did not have an audit committee and utilized the audit committee of the Ultimate Parent, Blue Cross and Blue Shield of South Carolina. The Ultimate Parent is an insurer with a standing audit committee that meets regularly and satisfies the committee requirements of Section 31-706(c)(5) of the District of Columbia Official Code. This committee has responsibility for recommending the selection of independent certified public accountants, reviewing the Company's financial condition, nominating candidates for director, evaluating the performance of officers of the Company, and recommending to the Board the selection and compensation of principal officers.

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Conflicts of Interest:

Directors, officers and responsible employees of the Company regularly responded to conflict of interest questionnaires. If possible conflicts were disclosed, Company officials scrutinized them further. Our review of the responses to the questionnaires completed for 2011 disclosed no conflicts that would adversely affect the Company. Furthermore, no additional conflicts of interest were identified during the course of our examination.

Corporate Records:

We reviewed the minutes of the meetings of the shareholders and Board of Directors for the period under examination. Based on our review, it appeared that the minutes documented the Company's significant transactions and events, and that the directors approved those transactions and events.

AFFILIATED COMPANIES

The Company is a wholly-owned subsidiary of Companion Property and Casualty Insurance Company, a stock insurance company domiciled in South Carolina. Companion Property and Casualty Insurance Company (Parent) is a wholly-owned subsidiary of Blue Cross and Blue Shield of South Carolina (Ultimate Parent), a for profit mutual insurance company. The Ultimate Parent is owned by its policyholders with no individual policyholder having more than a 10% interest.

The Company's holding company structure as of December 31, 2011, is shown in the organizational chart below.

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ORGANIZATIONAL CHART

	<u>Domiciliary Jurisdiction</u>
Blue Cross and Blue Shield of South Carolina (Ultimate Parent)	South Carolina
CGS Administrators, LLC (100%)	Delaware
PGBA, LLC (100%)	South Carolina
Planned Administrators Incorporated (100%)	South Carolina
Companion Benefit Alternatives, Inc. (100%)	South Carolina
Companion Data Services, LLC (100%)	South Carolina
InStil Health Insurance Company (100%)	South Carolina
Companion Captive Insurance Company (75%)	South Carolina
International Plan Solutions, LLC (13%)	Delaware
Companion Global Healthcare, Inc. (100%)	South Carolina
Palmetto GBA, LLC (100%)	South Carolina
TriCenturion, Inc. (25%)	Delaware
Benefit Integrity Solutions, LLC (100%)	South Carolina
Healthcare Administration Association of America, LLC (50%)	Delaware
BlueChoice HealthPlan of South Carolina (100%)	South Carolina
EAP Alliance, Inc. (100%)	South Carolina
UCI Medical Affiliates, Inc. (100%)	Delaware
UCI Medical Affiliates of South Carolina, Inc. (100%)	South Carolina
UCI Properties, LLC (100%)	South Carolina
Alpine Agency, Incorporated (100%)	South Carolina
Alpine Agency of the Midlands, LLC (81.6%)	South Carolina
TrailBlazer Health Enterprises, LLC (100%)	Texas
TriCenturion, Inc. (25%)	Delaware
Companion Capital Management, Incorporated (100%)	South Carolina
Optical Image Technology, Inc. (100%)	Pennsylvania
Companion Professional Services LLC (50%)	South Carolina
Montgomery Management Corporation (100%)	Pennsylvania
International Specialty Underwriters, Inc. (100%)	Florida
Intermediary Insurance Services, Inc. (100%)	California
Preferred Health Technology, Inc. (100%)	South Carolina
Summit Reinsurance Services, Inc. (100%)	Indiana
Total Dental Administrators, Inc. (100%)	Utah
Dental Management Administrators, Inc. (100%)	Arizona
Companion Property and Casualty Insurance Company (100%)	South Carolina
Companion Commercial Insurance Company (100%)	South Carolina
Companion Specialty Insurance Company (100%)	District of Columbia
Companion TPA, LLC (100%)	South Carolina
Charter Premium Audits, LLC (100%)	South Carolina
AmFed General Agency, Inc. of LA (100%)	Louisiana
AmFed Insurance Services, LLC (100%)	Mississippi
AmFed Companies, LLC (100%)	Mississippi
AmFed National Insurance Company (100%)	Mississippi
AmFed Casualty Insurance Company (100%)	Mississippi
Thomas H. Cooper & Company, Inc. (100%)	South Carolina
Companion Life Insurance Company (100%)	South Carolina
Niagara Life and Health Insurance Company (100%)	New York
Total Dental Administrators Health Plan, Inc. (100%)	Arizona
Total Dental Administrators of Utah, Inc. (100%)	Utah
BlueCross BlueShield of South Carolina Foundation (controlled)	South Carolina

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INTERCOMPANY AGREEMENTS

There are no employees of the Company. All personnel, management and administrative services were provided to the Company by its Parent, Ultimate Parent and affiliates under various intercompany agreements. In addition, the Company has entered into reinsurance agreements with its Parent (see the “Reinsurance” section of this Report for further comments regarding the company’s affiliated reinsurance agreements).

The Company has entered into the following intercompany agreements:

Service Agreement:

The Company entered into a Service Agreement with its Parent, Companion Property & Casualty Insurance Company, dated October 31, 2007. The agreement for services includes underwriting, actuarial, marketing and promotion, general administrative services and other services as deemed necessary by the Company. The Parent receives reimbursement for direct and indirect costs. The Department approved the Service Agreement on May 19, 2008.

Income Tax Allocation Agreement:

The Company entered into an Income Tax Allocation Agreement with Blue Cross and Blue Shield of South Carolina, Ultimate Parent, and its subsidiaries, dated May 1, 2008. Under terms of the agreement, the consolidated federal income tax liability of the affiliated group shall be allocated among the members based on the proportion of each member’s taxable income to the consolidated taxable income of the group. The Department approved the Income Tax Allocation Agreement on May 19, 2008.

It was noted during the examination these agreements were entered into prior to the date of submission or approval by the Department.

See the “Comments and Recommendations” section of this report, under the caption “Intercompany Agreements” for further comment regarding this issue.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2011, the Company, along with its Parent and other affiliates, were included as a named insured in the Ultimate Parent’s fidelity bond. The amount of the fidelity bond coverage was \$10,000,000 with a deductible of \$500,000. The Ultimate Parent’s fidelity bond exceeds the amount of the minimum coverage recommended by the NAIC for the consolidated group.

In addition to the coverage provided under the Ultimate Parent’s fidelity insurance, the Company was a named insured under policies issued to the Ultimate Parent, which

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included directors & officer's liability, commercial and general liability, errors and omissions liability, and umbrella liability coverage.

PENSION, STOCK OWNERSHIP AND INSURANCE PLAN

The Company does not have any employees and therefore does not have any pension, stock ownership or insurance plans.

STATUTORY DEPOSITS

The Company is not required to maintain a statutory deposit in the District of Columbia. However, the Company has established such a deposit, and reported amounts on deposit with the District of Columbia for the benefit of all policyholders in the adjusted carrying value totaling \$2,743,765 at December 31, 2011.

In addition, the Company had other special deposits with book or adjusted carrying values totaling \$1,682,727 on deposit with the following states for the benefit of the applicable state policyholders, as follows:

<u>State</u>	<u>Deposit</u>
Arkansas	\$109,959
Kentucky	648,580
Louisiana	109,808
Massachusetts	704,572
New Mexico	<u>109,808</u>
Total	<u>\$1,682,727</u>

TERRITORY AND PLAN OF OPERATION

The Company is a licensed stock insurance company in the District of Columbia, its domiciled state, and an approved excess and surplus lines carrier, at December 31, 2011, in the following forty five (45) states: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and Wyoming.

As of December 31, 2011, the Company wrote in 41 of the aforementioned states. The lines of business written were fire, allied lines, commercial auto, commercial package, commercial umbrella, equipment breakdown, inland marine, property, and liability.

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GROWTH OF COMPANY

Comparative financial data, as reported in the Company's filed annual statements for the period under examination, were as follows: (In Thousands)

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Direct Written Premium</u>	<u>Underwriting Profit (Loss)</u>	<u>Net Income (Loss)</u>
2011	\$77,251	\$26,251	\$51,000	\$89,078	\$0	\$1,287
2010	\$56,804	\$7,088	\$49,717	\$40,127	\$0	\$661
2009	\$31,147	\$1,406	\$29,741	\$8,156	\$0	\$581
2008	\$26,381	\$418	\$25,963	\$343	(\$59)	\$760
2007	\$0	\$0	\$0	\$0	\$0	\$0

The increase in Assets, Liabilities and Surplus during this period was mainly due to capital contributions from the Parent. The Company cedes gross premium and gross losses to its Parent pursuant to a reinsurance agreement discussed in the Reinsurance Section of this Report. For the years 2011, 2010 and 2009, the Company's net income consisted of the investment income on the Company's invested assets.

REINSURANCE

Assumed Business

The Company assumed no risk during the period covered by this examination.

Ceded Business

The Company ceded 100% of its risk on a gross basis for all policies written to its Parent pursuant to a Multiple Line Quota Share Reinsurance Agreement effective January 1, 2008. The Department approved the agreement on May 19, 2008. Subsequently, the Company amended the agreement with its Parent on August 11, 2008.

There were no other ceded reinsurance agreements in effect during the period covered by this examination.

It was noted during the examination that the Multiple Line Quota Share Reinsurance Agreement was entered into prior to the date of submission or approval by the Department. In addition, the August 11, 2008 amendment was never submitted to the Department for approval.

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See the “Comments and Recommendations” section of this report, under the caption “Reinsurance” for further comment regarding this issue.

ACCOUNTS AND RECORDS

The Company’s statutory home office is located at 1101 Pennsylvania Avenue, NW, 6th Floor, Washington, D.C. 20004. The Company’s main administrative office, as well as the primary location of its books and records, is in Columbia, South Carolina, at the location of the principal offices of the Company’s Parent, Companion Property and Casualty Insurance Company. This arrangement does not meet the requirements of Section 31-5204 of the District of Columbia Official Code, which requires that a domestic insurer maintain its principal office within the District. On November 6, 2007, the Company requested permission to continue to maintain its books and records in Columbia, South Carolina. On January 24, 2008, permission was granted by the Commissioner for the Company to maintain its books and records in Columbia, South Carolina.

The Company’s general accounting records are maintained by its Parent, Companion Property and Casualty Insurance Company. The Company utilizes the accounting software systems and bookkeeping and accounting resources of its Parent.

FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Company as of December 31, 2011, as determined by this examination:

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The accompanying “Notes to Financial Statements” are an integral part of these financial statements.

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Balance Sheet

Assets

	Assets	Nonadmitted Assets	Net Admitted Assets	Examination Adjustment Increase (Decrease)	Net Admitted Assets Per Examination
Bonds	\$ 45,886,747	\$ 0	\$ 45,886,747	\$ 0	\$ 45,886,747
Cash (\$6,367,058), cash equivalents (\$0) and short-term investments (\$423,878)	6,790,936		6,790,936		6,790,936
Subtotals, cash and invested assets	\$ 52,677,683	\$ 0	\$ 52,677,683	\$ 0	\$ 52,677,683
Investment income due and accrued	451,341		451,341		451,341
Uncollected premiums and agents' balances in course of collection	21,280,483	750	21,279,733		21,279,733
Amounts recoverable from reinsurers	1,852,854		1,852,854		1,852,854
Receivables from parent, subsidiaries and affiliates	985,257		985,257		985,257
Aggregate write-ins for other than invested assets	3,739		3,739		3,739
Totals	\$ 77,251,357	\$ 750	\$ 77,250,607	\$ 0	\$ 77,250,607

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Liabilities, Surplus and Other Funds

	Liabilities Per Company	Examination Adjustments	Liabilities Per Examination
Other expenses (excluding taxes, licenses and fees)	\$ 69,309		\$ 69,309
Current federal and foreign income taxes	221,204		221,204
Net deferred tax liability	10,969		10,969
Ceded reinsurance premiums payable (net of ceding commission)	25,635,502		25,635,502
Remittances and items not allocated	234,852		234,852
Payable to parent, subsidiaries and affiliates	<u>79,296</u>	<u> </u>	<u>79,296</u>
Total liabilities	<u>\$ 26,251,132</u>	<u> </u>	<u>\$ 26,251,132</u>
Common capital stock	\$ 3,500,000		\$ 3,500,000
Gross paid in and contributed surplus	44,222,048		44,222,048
Unassigned funds (surplus)	<u>3,277,427</u>	<u> </u>	<u>3,277,427</u>
Surplus as regards policyholders	<u>\$ 50,999,475</u>	<u> </u>	<u>\$ 50,999,475</u>
Total liabilities and surplus	<u><u>\$ 77,250,607</u></u>	<u><u> </u></u>	<u><u>\$ 77,250,607</u></u>

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Statement of Income

Underwriting Income:

Premiums earned	\$ <u>0</u>
Total underwriting deductions	\$ <u>0</u>
Net underwriting gain (loss)	\$ 0

Investment Income:

Net investment income earned	\$ 2,113,688
Net realized capital losses less capital gains tax of \$(48,791)	<u>(90,612)</u>
Net investment gain	\$ 2,023,076

Other Income:

Total other income	<u>0</u>
Net income after dividends to policyholders and before federal and foreign income taxes	\$ 2,023,076
Federal and foreign income taxes incurred	<u>735,995</u>
Net income	<u>\$ 1,287,081</u>

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Capital and Surplus Account

Surplus as regards policyholders, December 31, 2007	\$	<u>0</u>
Net income, 2008	\$	759,918
Change in net deferred income tax		(440)
Paid in capital		300,000
Paid in surplus		24,700,000
Aggregate write-in for gains and losses in surplus		203,045
Net change in surplus as regards policyholders, 2008	\$	<u>25,962,523</u>
Surplus as regards policyholders, December 31, 2008	\$	<u>25,962,523</u>
Net income, 2009	\$	581,304
Change in net deferred income tax		(3,219)
Paid in capital		3,200,000
Net change in surplus as regards policyholders, 2009	\$	<u>3,778,085</u>
Surplus as regards policyholders, December 31, 2009	\$	<u>29,740,608</u>
Net income, 2010	\$	660,840
Change in net deferred income tax		(3,568)
Paid in surplus		19,319,003
Net change in surplus as regards policyholders, 2010	\$	<u>19,976,275</u>
Surplus as regards policyholders, December 31, 2010	\$	<u>49,716,883</u>
Net income, 2011	\$	1,287,081
Change in net deferred income tax		(3,742)
Change in nonadmitted assets		(750)
Rounding		3
Net change in surplus as regards policyholders, 2011	\$	<u>1,282,592</u>
Surplus as regards policyholders, December 31, 2011	\$	<u>50,999,475</u>

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Analysis of Examination Changes to Surplus

Surplus as regards policyholders per annual statement, December 31, 2011	\$50,999,475
Examination change to surplus	0
Surplus as regards policyholders per examination, December 31, 2011	\$50,999,475

Comparative Financial Position of the Company

The comparative financial position of the Company for the period since inception, September 24, 2007 through December 31, 2011, is as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets	\$77,250,607	\$56,804,389	\$31,146,726	\$26,380,585	\$0
Liabilities	26,251,132	7,087,506	1,406,117	418,062	0
Policyholders surplus	50,999,475	49,716,883	29,740,609	25,962,523	0
Premiums earned	0	0	0	0	0
Dividends to Shareholder	0	0	0	0	0
Net underwriting gain	0	0	0	(59,039)	0
Net investment gain	2,023,076	1,063,088	873,834	1,198,972	0
Net income	1,287,081	660,840	581,304	759,918	0

Note: Amounts for the years ended December 31, 2008 through 2010 were taken from the Company's annual statements as filed with the Department. Amounts for the year ended December 31, 2011, are amounts per examination.

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COMMENTS AND RECOMMENDATIONS

Intercompany Agreements

It was noted during the examination that the “Service Agreement” and the “Income Tax Allocation Agreement” were entered into prior to the date of submission or approval by the Department. Pursuant to Section 31-706(a)(2)(D) of the District of Columbia Official Code, an insurer is required to notify the Department for its approval at least 30 days prior to its intention to enter into such agreements.

It is recommend that the Company notify the Department for its approval at least 30 days prior to its intention to enter into any intercompany agreements or amendments to current intercompany agreements pursuant to Section 31-706(a)(2)(D) of the District of Columbia Official Code.

Reinsurance

The Company did not file for prior approval of the Multiple Line Quota Share Reinsurance Agreement with its Parent. The agreement became effective January 1, 2008 and was approved by the Department on May 19, 2008. Although the agreement was later approved, the Company was in violation of Section 31-706(a)(2)(C) of the District of Columbia Official Code for not filing the agreement 30 days in advance of its effective date. In addition, the August 11, 2008 amendment was never submitted to the Department for approval.

It is recommended that all agreements, amendments or changes to agreements be submitted to the Department for approval 30 days in advance of their effective date in accordance with Section 31-706(a)(2)(C) of the District of Columbia Official Code.

Investment Plan

The Company has adopted a written investment policy; however, the policy is missing the provision of compliance with District of Columbia Official Code.

It is recommended that the Company amend its written investment policy to require compliance with Section 31-1371.04 of the District of Columbia Official Code.

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Additional Comments and Recommendations

During our examination, in addition to the above Comments and Recommendations, we made other suggestions and recommendations to the Company with regard to recordkeeping and other procedures related to its operations. These additional suggestions and recommendations were not deemed significant for the purpose of our Report on Examination and were not included in our Report on Examination.

SUBSEQUENT EVENTS

There were no significant subsequent events.

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CONCLUSION

Our examination disclosed that as of December 31, 2011, the Company had:

Admitted assets	<u>\$ 77,250,607</u>
Liabilities	<u>\$ 26,251,132</u>
Common capital stock	\$ 3,500,000
Gross paid in and contributed surplus	44,222,048
Unassigned funds (surplus)	3,277,427
Surplus as regards policyholders	<u>\$ 50,999,475</u>
Total liabilities, capital and surplus	<u>\$ 77,250,607</u>

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company as of December 31, 2011, and the accompanying statement of income properly presents the statutory results of operations for the period then ended. The supporting financial statements properly present the information prescribed by the District of Columbia Official Code and the National Association of Insurance Commissioners.

Chapters 20 (“Risk-Based Capital”) and 25 (“Fire, Casualty and Marine Insurance”) of Title 31 (“Insurance and Securities”) of the District of Columbia Official Code specify the level of capital and surplus required for the Company. We concluded that the Company’s capital and surplus funds exceeded the minimum requirements during the period under examination.

Companion Specialty Insurance Company

Report on Examination

December 31, 2011

SIGNATURES

In addition to the undersigned, the following examiner representing the District of Columbia Department of Insurance, Securities and Banking participated in this examination:

Donald Carbone, CFE, CIE, AIAF, ARE, ARC, MCM
INS Consultants, Inc.

Concurrently with this examination the Parent Company, Companion Property & Casualty Insurance Company, was examined by the South Carolina Department of Insurance. As a part of that examination, the actuarial consulting firm of AGI Services participated in various phases of the examination. AGI Services' examination analysis disclosed no changes were required to the reserves of the Parent Company.

Respectfully submitted,



Donna Letterio, CFE, CPA, MST
Examiner-In-Charge
Representing the District of Columbia
Department of Insurance, Securities and
Banking



Nathaniel Kevin Brown, CFE, CPA
Chief Examiner
District of Columbia Department of
Insurance, Securities and Banking