



Government of the District of Columbia
Department of Insurance, Securities and Banking

Stephen C. Taylor
Commissioner

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

Re: Report on Examination – **Health Care Industry Liability Reciprocal Insurance Company, a Risk Retention Group**, as of December 31, 2017

ORDER

In accord with the authority established by D.C. Official Code § 31-1402, an examination of **Health Care Industry Liability Reciprocal Insurance Company, a Risk Retention Group** (the “Company”), as of December 31, 2017 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“Department”). The Department reported on the financial condition of the Company in the attached Report on Examination (“Financial Condition Examination Report”).

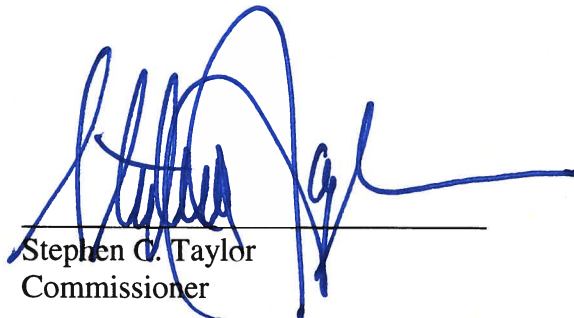
In accord with the provisions of D.C. Official Code § 31-1404(c), it is hereby ordered, on this 2nd day of April, 2019, that the attached Financial Condition Examination Report be adopted and filed as an official record of the Department.

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

Pursuant to D.C. Official Code § 31-1404(d)(1), the Company shall, within 30 days of the issuance of the adopted Financial Condition Examination Report, file affidavits executed by each of the Directors of the Company wherein each of the Directors shall state under oath that they have received a copy of the adopted Financial Condition Examination Report and this order.

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





Stephen C. Taylor
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

HEALTH CARE INDUSTRY LIABILITY
RECIPROCAL INSURANCE COMPANY, A RISK
RETENTION GROUP

AS OF

DECEMBER 31, 2017

NAIC NUMBER 11832

TABLE OF CONTENTS

Salutation	1
Scope of Examination	1
Summary of Significant Findings	2
Status of Prior Examination Findings	2
History	2
General	2
Membership	3
Dividends and Distributions	3
Management and Control	3
Board of Directors and Officers	3
Committees	4
Conflicts of Interest	4
Corporate Records	4
Captive Manager	4
Affiliated Parties and Transactions	5
Territory and Plan of Operation	5
Reinsurance	6
Financial Statements	8
Balance Sheet	9
Assets	9
Liabilities, Surplus and Other Funds	10
Statement of Income	11
Capital and Surplus Account	12
Analysis of Examination Changes to Surplus	12
Notes to Financial Statements	13
Subsequent Events	13
Summary of Recommendations	13
Signatures	14

Washington, D.C.
February 12, 2019

Honorable Stephen C. Taylor
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, D.C. 20002

Dear Commissioner Taylor:

In accordance with Section 31-3931.14 of the District of Columbia Official Code (“Code”), and with Chapter 14 of Title 31 of the Code, we have examined the financial condition and activities of

**Health Care Industry Liability Reciprocal Insurance Company,
a Risk Retention Group**

hereinafter referred to as the “Company” or “HealthCap RRG”.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from January 1, 2013 through December 31, 2017, including any material transactions and/or events noted occurring subsequent to December 31, 2017, was conducted by the District of Columbia Department of Insurance, Securities and Banking (the “Department”).

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”) and the policies and standards established by the Department. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Generally Accepted Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, pursuant to Section 31-1404(a) of the District of Columbia Official Code and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the company.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2013 through 2017. We placed substantial reliance on the audited financial statements for calendar years 2013 through 2016, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2017. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2017. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

SUMMARY OF SIGNIFICANT FINDINGS

The results of this examination disclosed no material adverse findings, significant findings of non-compliance, or material changes in financial statements.

STATUS OF PRIOR EXAMINATION FINDINGS

A full scope financial examination was conducted by the Department as of December 31, 2012, which covered the period January 1, 2008 through December 31, 2012 ("prior examination"). There were no material adverse findings, significant findings of non-compliance, or material changes in financial statements noted in the prior examination.

HISTORY

General:

The Company was organized as an assessable reciprocal insurance company, operating as risk retention group under the insurance laws of the District of Columbia on October 31, 2003, and commenced operations on the same date. The attorney-in-fact for the reciprocal, HCILRIC Attorney-In-Fact, Inc., is a District of Columbia corporation.

The Company's formation was sponsored by Health Care Industry Liability Insurance Program ("HealthCap PCA"), a protected cell account or cell captive of Universal Re-Insurance Company LTD, domiciled in Hamilton, Bermuda. HealthCap PCA provided the Company with initial capital of \$1,100,000 via a letter of credit. In March 2013, the Company received an additional \$5,500,000 capital infusion from HealthCap PCA in exchange for a surplus note. The Company writes general and professional liability coverage on either a claims-made or an occurrence basis to long-term care facilities.

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Membership:

The Company is owned by its subscribers/policyholders, which are long-term care facilities. As a reciprocal insurer, the Company does not issue stock or other certificates of ownership. Each subscriber is automatically a voting member of the Company. As an assessable reciprocal insurer, the Company may charge a supplemental premium to current and former subscribers in the event that a deficiency develops.

Dividends and Distributions:

The Company did not declare or pay any dividends or other distributions during the period under examination.

MANAGEMENT AND CONTROL

Board of Directors and Officers:

The Company's bylaws established a Board of Directors, as well as a Subscribers' Advisory Committee whose duties are to advise the Board. Since inception, a single body has served in both functions. The directors are elected by the full membership of subscribers. The Company's directors serving as of December 31, 2017 were as follows:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Ronald Wilson, Chairman Illinois	Chief Financial Officer RFMS, Inc.
Timothy Chesney Ohio	President MSTC Development, Inc.
Scott Ganton Michigan	President Ganton Senior Communities, LLC
Paul Liistro Connecticut	Managing Partner Arbors of Hop Brook, Manchester & Vernon Manor
Jay Moskowitz Colorado	President & CEO Vivage Quality Health Partners
Jeff Schade Michigan	President & CEO The Peplinski Group
Christopher Wright Connecticut	President & CEO iCare Management

The following persons were serving as the officers of HCILRIC Attorney-in-Fact, Inc. as of December 31, 2017. These same persons also acted as the officers of HealthCap RRG, as of December 31, 2017:

<u>Name</u>	<u>Position</u>
Peter M. Feeney	President
J. Marc Feeney	Secretary

Committees:

As of December 31, 2017, the Company's board of directors had established the following committee:

Audit Committee:

Timothy Chesney	Paul Liistro
J. Marc Feeney	Jay Moskowitz
Peter M. Feeney	Jeff Schade
Scott Ganton	Ronald Wilson
Stephen C. Lewis	Christopher Wright

Conflicts of Interest:

The Company has an established procedure for the disclosure of any material interests or affiliations on the part of its directors and officers. Our review of the conflict of interest statements signed by the Company directors and officers for the period under examination disclosed no conflicts that would adversely affect the Company. Furthermore, no additional conflicts of interest were identified during our examination.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and members for the period under examination. Based on our review, it appears that the minutes have documented the review and approval of the Company's significant transactions and events.

Captive Manager:

Chelsea Rhone, LLC ("Chelsea Rhone") is the administrator and captive manager of the Company. Chelsea Rhone provides captive management services in the areas of accounting, regulatory compliance, and records retention. In addition, Chelsea Rhone provides marketing, underwriting, claims management, risk management and administrative services to the Company and its policyholders, either directly or through subcontractors.

Affiliated Parties and Transactions:

The Company is not a member of a holding company group. However, the Company is related to its attorney-in-fact, HCILRIC Attorney-In-Fact, Inc., its captive manager, Chelsea Rhone, LLC, and its reinsurer, HealthCap PCA by common management.

The members of the Company rely on the attorney-in-fact to manage the affairs of the reciprocal insurer. The attorney-in-fact for the reciprocal is a District of Columbia corporation, HCILRIC Attorney-In-Fact, Inc. The attorney-in-fact has the legal authority to act on behalf of the Company's subscribers/policyholders. As previously noted, the officers of the Company are also officers of the attorney-in-fact. No compensation is paid to the attorney-in-fact for the services.

The Company's president and secretary are also principals of Chelsea Rhone. Chelsea Rhone manages all of the insurance operations of the Company under the terms of a management services agreement. Chelsea Rhone subcontracts certain services to third party entities with expertise in areas such as risk management or claims administration. The Company pays to Chelsea Rhone a fixed fee of 15 percent of annual gross written premium less return premium. This fee relates to captive management, risk management, claims administration, underwriting and other policyholder services. The Company also pays via Chelsea Rhone an additional fixed fee of up to 15 percent of gross premium to its agency representatives.

The Company and its reinsurer, HealthCap PCA, are under common management. The Company's president and secretary are the principles of Chelsea Rhone, which is the program administrator for HealthCap PCA. As mentioned in the "History" section of this Report, the Company's formation was sponsored by HealthCap PCA. HealthCap PCA provided the Company with initial capital of \$1,100,000 via a letter of credit and an additional capital infusion of \$5,500,000 in exchange for a surplus note. The Company cedes the majority of its business to HealthCap PCA. See the "Reinsurance" section of this report for further comments regarding the Company's reinsurance.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, the Company was licensed in the District of Columbia and was registered as a risk retention group in forty-eight states. In 2017, the Company reported gross direct written premium of \$44,516,056 in forty-four states. Approximately 55 percent (\$24,455,588) of premiums were written on an occurrence basis, and the remaining 45 percent (\$20,060,468) were written on a claims-made basis.

The Company provides general and professional liability insurance on either a claims-made or occurrence basis to its members. To be insured by the Company, members must meet eligibility requirements in accordance with the Company's underwriting guidelines. These include an acceptable loss history, a successful operating history, adherence to strict risk management protocols and claim reporting procedures.

The Company's base policy has coverage limits of \$1,000,000 per occurrence with a \$3,000,000 annual aggregate. The Company also offers an excess policy with coverage up to

\$5,000,000 per occurrence and \$5,000,000 annual aggregate. Defense costs are covered in addition to policy limits. Deductibles apply to policies based on underwriting guidelines. Policies are written as of various effective dates and are subject to renewal annually.

The Company also offers liquor liability coverage, with a maximum aggregate limit of \$1,000,000, on a limited basis to non-profit continuing care retirement communities, and cyber liability coverage of up to \$100,000 as supplemental coverage to the commercial general liability coverage.

Coverage is available to long-term care facilities through a select group of appointed agents. These agents are able to submit quotes for their clients and are not permitted to broker business from other agents. The Company seeks to find one or two agencies, who meet strict marketing criteria, in each state where it operates. These criteria include a dedicated long-term care practice, a significant established book of long-term care business, support for state long-term care associations and health care risk management expertise within the agency. Currently, there are approximately 42 agencies, with approximately 72 producers, that have an active relationship with the Company.

The Company has no employees and its daily business operations are managed by Chelsea Rhone through various affiliated and unaffiliated service providers. Chelsea Rhone, the captive manager, is providing underwriting and accounting services from its primary location in Ann Arbor, Michigan. Hamlin & Burton Liability Management, Inc. provides claims management services.

REINSURANCE

Assumed:

As of December 31, 2017, the Company does not assume business.

Ceded:

Effective November 1, 2003, the Company entered into a quota share reinsurance agreement with HealthCap PCA. Between November 1, 2003 and December 31, 2005, the Company ceded 100 percent of all liability to HealthCap PCA. Effective January 1, 2006, the parties amended the agreement to a 90 percent quota share with 10 percent retained by the Company. Coverage under this agreement is applied to the Company's losses net of the additional quota share treaty with Transatlantic Re described below. In conjunction with the agreement, the Company entered into a Reinsurance Treaty Trust Agreement with HealthCap PCA and Comerica Bank effective December 31, 2004. To qualify as an "accepted" reinsurer in the District of Columbia, HealthCap PCA established a trust fund account that fully securitizes all balances ceded by the Company. The ceded balances include reinsurance recoverables on paid losses, reported and unreported loss and loss adjustment expenses reserves and unearned premiums. As of December 31, 2017, the Company's ceded balances recoverable from HealthCap PCA totaled approximately \$85.8 million. The trust fund account at December 31, 2017 had a balance of approximately \$86.3 million, which represents adequate funding to cover the HealthCap PCA reinsurance balances.

During the examination period, the Company was a party to a variable quota share reinsurance treaty with Transatlantic Reinsurance Company (“Transatlantic Re”), an unrelated authorized reinsurer with an “A+” A.M. Best rating, domiciled in New York. Under the terms of the treaty, the Company ceded 10 percent of premiums written on its policies with per occurrence limits up to and included \$1 million, and 95 percent of premiums written on its policies with per occurrence limits up to \$4 million in excess of \$1 million as of December 31, 2017.

In addition, the Company ceded business under two additional ceded reinsurance treaties to insurers owned by specific member/insureds. The members’ insurers assumed all or part of the Company’s risk on those specific member/insureds’ policies written by the Company.

Under the terms of the above ceded reinsurance agreements, the Company’s maximum retention in any one risk is \$200,000.

The Company ceded \$40,643,711 of premiums during 2017. As of December 31, 2017, the Company reported ceded paid losses and loss adjustment expenses, ceded unpaid loss and loss adjustment expenses reserves, and ceded unearned premium reserves totaling \$112,678,890. If the reinsurers were not able to meet their obligations under the treaties, the Company would be liable for any defaulted amounts that were not covered by the reinsurance trust fund account or other security provided under the reinsurance agreements.

FINANCIAL STATEMENTS

The following financial statements are based on the Annual Statement filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2017. The financial statements were prepared in accordance with Generally Accepted Accounting Principles (“GAAP”) prescribed or permitted by the Department. Management is responsible for the preparation and fair presentation of these financial statements. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

<u>STATEMENT</u>	<u>PAGE</u>
Balance Sheet:	9
Assets	9
Liabilities, Surplus and Other Funds	10
Statement of Income	11
Capital and Surplus Account	12
Analysis of Examination Changes to Surplus	12

BALANCE SHEET

ASSETS

	<i>December 31, 2017</i>
Bonds	\$ 26,097,277
Cash (NOTE 1)	<u>2,279,651</u>
Subtotal cash and invested assets	\$ 28,376,928
Investment income due and accrued	166,524
Premiums and considerations:	
Uncollected premiums	2,631,891
Deferred premiums	13,357,699
Amounts recoverable from reinsurers	423,755
Current income tax recoverable	91,301
Net deferred tax asset	127,359
Health care and other amounts receivable	104,932
Aggregate write-ins for other than invested assets:	
Commissions receivable	4,678,283
Deferred acquisition costs	550,760
Total	<u><u>\$ 50,509,432</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<i>December 31, 2017</i>
Losses (NOTE 2)	\$ 6,608,858
Loss adjustment expenses (NOTE 2)	2,121,000
Commissions payable	4,773,487
Other expenses	831,672
Taxes, licenses and fees	590,484
Borrowed money	1,181,784
Unearned premium	1,962,410
Ceded reinsurance premiums payable	14,602,533
Aggregate write-ins:	
Deferred commission income	<u>605,231</u>
Total liabilities	<u>\$ 33,277,459</u>
Surplus notes	\$ 5,500,000
Gross paid-in and contributed surplus	1,100,000
Unassigned funds (surplus)	<u>10,631,973</u>
Total capital and surplus	<u>\$ 17,231,973</u>
Total liabilities, capital and surplus	<u><u>\$ 50,509,432</u></u>

STATEMENT OF INCOME

	<i>December 31, 2017</i>
UNDERWRITING INCOME	
Premiums earned	\$ 3,745,627
DEDUCTIONS	
Losses incurred	\$ 2,184,031
Loss adjustment expenses incurred	695,941
Other underwriting expenses	535,640
Total underwriting expenses	\$ 3,415,612
Underwriting profit	\$ 330,015
INVESTMENT INCOME	
Net investment income earned	\$ 157,458
Net realized capital loss	(2,575)
Net investment gain	\$ 154,883
Income before dividends and taxes	\$ 484,898
Federal taxes	131,726
Net income	\$ <u>353,172</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2012	<u>\$ 9,126,501</u>
Net income, 2013	882,073
Change in net unrealized capital gains (losses)	(246,174)
Change in surplus notes	<u>5,500,000</u>
Net change in surplus, 2013	6,135,899
Total capital and surplus, December 31, 2013	<u>\$ 15,262,400</u>
Net income, 2014	405,519
Change in net unrealized capital gains (losses)	<u>137,497</u>
Net change in surplus, 2014	543,016
Total capital and surplus, December 31, 2014	<u>\$ 15,805,416</u>
Net income, 2015	885,451
Change in net unrealized capital gains (losses)	<u>(38,739)</u>
Net change in surplus, 2015	846,712
Total capital and surplus, December 31, 2015	<u>\$ 16,652,128</u>
Net income, 2016	408,436
Change in net unrealized capital gains (losses)	<u>(72,880)</u>
Net change in surplus, 2016	335,556
Total capital and surplus, December 31, 2016	<u>\$ 16,987,684</u>
Net income, 2017	353,172
Change in net unrealized capital gains (losses)	<u>(108,883)</u>
Net change in surplus, 2017	244,289
Total capital and surplus, December 31, 2017	<u><u>\$ 17,231,973</u></u>

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

There were no changes to the Company's surplus as a result of our examination.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Cash:

As of December 31, 2017, the Company reported a “Cash” balance of \$2,279,651. This amount included a certificate of deposit that secured a \$1,100,000 irrevocable letter of credit (LOC) issued to the Insurance Commissioner of the District of Columbia on behalf of the Company. Because the LOC is secured by assets of the Company, the LOC is not separately recorded as an asset of the Company.

NOTE 2 – Loss and Loss Adjustment Expense Reserves:

The Company reported “Losses” and “Loss adjustment expenses” reserves net of reinsurance totaling \$6,608,858 and \$2,121,000, respectively. These reserves represent management’s best estimate of the amounts necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2017.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2017 were reviewed as part of our examination. As part of our review, we relied on the Company’s actuary, who concluded that the reserves on the Company’s books appeared to be sufficient. In addition, as part of our review, the Department utilized an examination actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company’s actuary. The examination actuary concluded that the methodologies and assumptions utilized by the Company’s independent actuary to compute the reserves, and the amount of the loss reserves reported by the Company as of December 31, 2017, were reasonable and adequate.

SUBSEQUENT EVENTS

We noted no significant subsequent events as of the date of this report.

SUMMARY OF RECOMMENDATIONS

During the examination, no issues warranting recommendations in this examination report were noted.

SIGNATURES

In addition to the undersigned, the following personnel from EWM Group, PC, representing the Department, participated in this examination as members of the examination team: Thomas L. Mayberry, CFE, Paul Sliwinski, ARe, and Chris Davis.

The actuarial portion of this examination was completed by David A. Christhlf, ACAS, MAAA, of the District of Columbia Department of Insurance, Securities and Banking.

Respectfully submitted,



Philip D. Engelhart, CFE
Examiner-In-Charge
EWM Group, PC

Under the Supervision of,



Xiangchun (Jessie) Li, CFE
Supervising Examiner
District of Columbia Department of Insurance,
Securities and Banking



Government of the District of Columbia
Department of Insurance, Securities and Banking

Stephen C. Taylor
Commissioner

March 28, 2019

Peter M. Feeney
President
Health Care Industry Liability Reciprocal Insurance Company, a Risk Retention Group
C/o Chelsea Rhone LLC.
130 South First Street, Suite 400
Ann Arbor, MI 48104

RE: Examination of Health Care Industry Liability Reciprocal Insurance Company, a Risk Retention Group, as of December 31, 2017

Dear Mr. Feeney:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination ("Report") of the affairs and financial condition of Health Care Industry Liability Reciprocal Insurance Company, a Risk Retention Group (the "Company") as of December 31, 2017.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report contains a section entitled "Summary of Recommendations" that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company's position on any of these points is contrary to the Examiner's findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there is no "Summary of Recommendations" requiring a response, please submit a statement that the Company accepts the Report.

The response must be in writing and shall be furnished to this Department by April 27, 2019. The signed response should be on company's letterhead and sent electronically via e-mail to me, in an adobe "pdf" format, to sean.odonnell@dc.gov.

Sincerely,

Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau

Enclosure

HealthCap. RRG

130 South First Street
Fourth Floor
Ann Arbor, MI 48104

Tel: 734.996.2700
Fax: 734.996.1261
www.HealthCapUSA.com

March 29, 2019

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
District of Columbia Department of Insurance, Securities and Banking
1050 First Street, NE, Suite 801
Washington, DC 20002

via email to sean.o'donnell@dc.gov

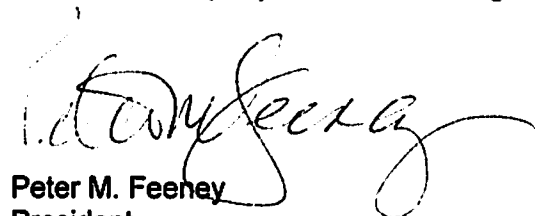
Re: Examination of Health Care Industry Liability Reciprocal Insurance Company, a risk retention group, as of December 31, 2017

Dear Mr. O'Donnell,

On behalf of the captioned risk retention group (the "Company") and in response to the Report of Examination (and your letter to me dated March 28, 2019 regarding same), please be advised that the Company accepts the Report as presented without correction or comment.

Sincerely,

Health Care Industry Liability Reciprocal
Insurance Company, a risk retention group



Peter M. Feeney
President

cc: J. Marc Feeney



**Government of the District of Columbia
Department of Insurance, Securities and Banking**

**Stephen C. Taylor
Commissioner**

April 1, 2019

Peter M. Feeney
President
Health Care Industry Liability Reciprocal Insurance Company, a Risk Retention Group
C/o Chelsea Rhone LLC.
130 South First Street, Suite 400
Ann Arbor, MI 48104

RE: Examination of Health Care Industry Liability Reciprocal Insurance Company, a Risk Retention Group, as of December 31, 2017

Dear Mr. Feeney:

We are in receipt of your response, dated March 29, 2019, regarding the Report on Examination of Health Care Industry Liability Reciprocal Insurance Company, a Risk Retention Group (the "Company"), as of December 31, 2017. The response is deemed adequate.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the District of Columbia Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10-day period has passed, the Report will be publicly available.

Pursuant to Section 31-1404(d)(1) of the District of Columbia Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each of the Company's directors stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-442-8153 if you have any questions.

Sincerely,

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures