



STATE OF CONNECTICUT
INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Anne Melissa Dowling, Deputy Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of The Hartford Steam Boiler Inspection and Insurance Company (the "Company") as of December 31, 2012, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

1. I, Anne Melissa Dowling, as the Deputy Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("CGS").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On December 23, 2013, the verified Examination Report of the Company was filed with the Connecticut Insurance Department ("Insurance Department").
4. In accordance with Section 38a-14(e)(3) of the CGS, the Company was afforded a period of thirty (30) days within which to submit to the Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On January 22, 2014, the Company filed a written submission indicating that they were in agreement with all of the recommendations contained in the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.



STATE OF CONNECTICUT
INSURANCE DEPARTMENT

NOW, THEREFORE, it is ordered as follows:

1. That the Report of the Company hereby is adopted as filed with the Insurance Department.
2. That the Company shall comply with all of the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the CGS.

Dated at Hartford, Connecticut, this 27th day of January, 2014.

A handwritten signature in cursive script, reading "Anne Melissa Dowling".

Anne Melissa Dowling
Deputy Insurance Commissioner

EXHIBIT A

EXAMINATION REPORT

OF

**THE HARTFORD STEAM BOILER INSPECTION
AND INSURANCE COMPANY**

AS OF

DECEMBER 31, 2012

BY THE

CONNECTICUT INSURANCE DEPARTMENT

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November 22, 2013

The Honorable Thomas B. Leonardi
Insurance Commissioner
State of Connecticut Insurance Department
153 Market Street, 6th Floor
Hartford, Connecticut 06103

Dear Commissioner:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the Connecticut General Statutes (CGS), the undersigned has made a financial examination of the condition and affairs of

THE HARTFORD STEAM BOILER INSPECTION
AND INSURANCE COMPANY

(hereinafter referred to as the Company or HSBIIIC), a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office and main administrative office located at One State Street, Hartford, Connecticut. The report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The Financial Regulation Division of the Connecticut Insurance Department (the Department) conducted the previous examination of the Company as of December 31, 2007. The current examination, which covers the subsequent five-year period was conducted at the statutory home office of the Company.

As part of the examination planning procedures, the Department reviewed certain material submitted by the Company:

- minutes of the Board of Directors (Board) meetings, reinsurance agreements, custodial agreements, and other documents related to significant transactions that require prior approval or requests for deviations from 2008 through 2012;
- a review of the 2011 and 2012 statutory audit reports completed by the Company's independent certified public accountants, KPMG LLP (KPMG);
- Management's Discussion and Analysis from 2008 through 2012;
- Statements of Actuarial Opinion from 2008 through 2012;
- documentation supporting Section 404 of the Sarbanes-Oxley Act of 2002 and the Model Audit Rule;
- 2012 Annual Report of Munich Re Group, the Company's ultimate parent;
- Annual Statements filed with the Department from 2008 through 2012; and
- reports of the Company's Internal Audit Department from 2008 through 2013.

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A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department, as well as reports obtained from the National Association of Insurance Commissioners (NAIC) database, as well as independent audit reports which indicated no material concerns with respect to financial condition or regulatory compliance issues.

Work papers prepared by KPMG in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (the Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management as well as evaluating the overall financial statement presentation with respect to management compliance with the NAIC Accounting Practices & Procedures Manual (Manual) and the NAIC Property and Casualty Annual Statement Instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Concurrent examinations were made of the Company's subsidiaries, The Hartford Steam Boiler Inspection and Insurance Company of Connecticut (HSBCT) and HSB Specialty Insurance Company (Specialty)

The Department retained the services of Risk & Regulatory Consulting, LLC (RRC) to conduct an evaluation of the Company's reserving and underwriting processes using the risk focused approach. The Department also retained the services of Grant Thornton, LLP (Grant Thornton) for accounting support.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

HISTORY

The Company was granted a charter by the General Assembly of the State of Connecticut on June 30, 1866 and commenced business in February 1867. The charter and bylaws were last amended and restated on February 23, 1998, by resolutions of the Board and stockholder.

The Company is wholly-owned by HSB Group, Inc. (HSB Group), an insurance holding company formed on June 24, 1997. Effective November 22, 2000, AIG acquired 100%

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of the outstanding stock of HSB Group pursuant to an agreement and plan of merger (the Merger) dated August 17, 2000. The Merger was approved by the Board's of both companies, the shareholders of HSB Group and the Department.

On April 25, 2007, AIG contributed HSB Group to a new holding company, AIG Property Casualty Group, Inc., a direct and wholly-owned subsidiary of AIG.

On December, 22, 2008, AIG and Munich-American Holding Corporation (MAHC) signed a Stock Purchase Agreement for the sale of HSB Group to MAHC. The sale was approved by the Department on March 27, 2009, and the closing occurred on March 31, 2009.

HSB Group is now a directly and wholly owned subsidiary of MAHC which is 100% directly owned by Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Re). Accordingly, due to the sale of HSB Group to MAHC, the Company requested and received approval from the Department on May 14, 2010, for a dividend payment of \$122,022,254 to HSB Group. The Company was required to obtain regulatory approval prior to making any dividend payouts for the two year period commencing March 31, 2009.

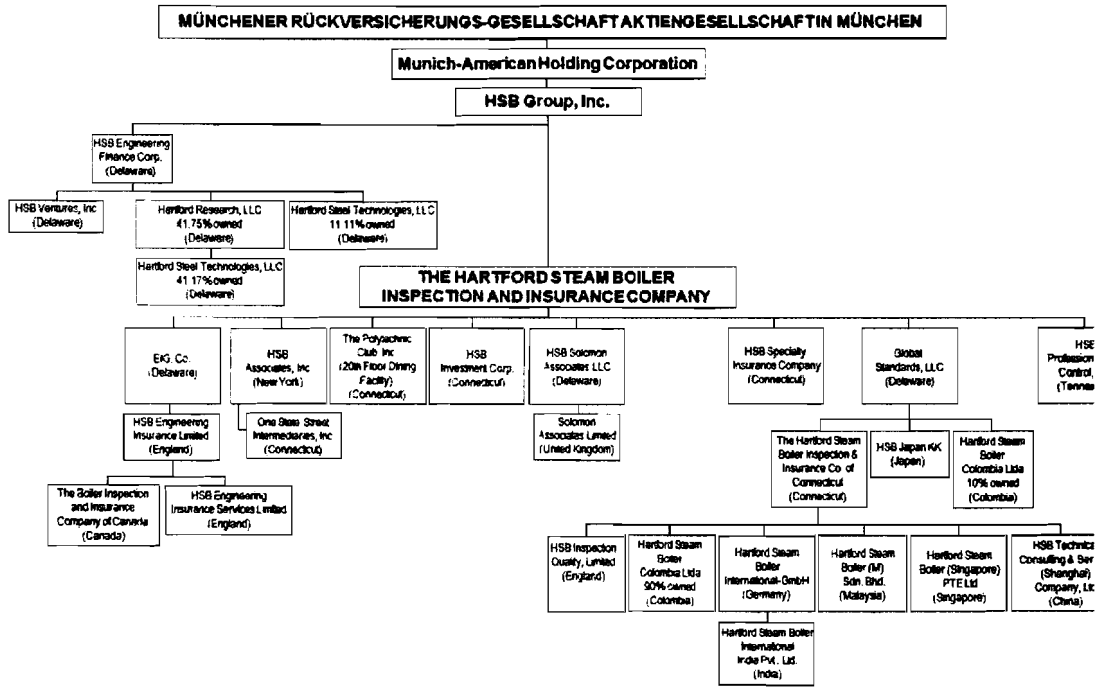
During 2012, the Company contributed cash totaling \$50,000,000 to the newly capitalized insurance subsidiary, Specialty.

As of December 31, 2012, the capital of the Company consisted of 50,000,000 shares of authorized common stock, of which 20,155,215 shares were outstanding with a stated value of \$10,000,000. All shares are owned by HSB Group. The Company holds 1,151,211 shares as treasury stock.

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

ORGANIZATIONAL CHART

The following is an organizational chart of the Company, its parent, main subsidiaries, and affiliates, as of December 31, 2012.



MANAGEMENT AND CONTROL

The charter, as amended and restated February 23, 1998, states: “the Corporation shall have the power to write boiler and machinery, fire, marine, casualty, liability, indemnity, accident and health, and fidelity insurance and any and all other forms of insurance against hazards or risks of every kind and description which on or after the effective date of this act may lawfully be the subject of insurance except life and endowment insurance and contracts for the payment of annuities; and the Corporation is specifically empowered to accept and cede reinsurance of any such risks or hazards. The Corporation shall have the power to make inspections and render inspection and engineering services in connection with the design, construction, maintenance or operations of boilers, machinery or any equipment regardless of whether policies of insurance are issued in connection therewith. The Corporation may exercise such powers outside of Connecticut to the extent permitted by the laws of the particular jurisdiction. Policies or other contracts may be issued, stipulated to be with or without participation in profits; and they may be with or without seal.”

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Annual Stockholders Meetings

The bylaws, as amended February 23, 1998, state that all meetings of the stockholders shall be held in the city of Hartford or such place within Connecticut as the Board may appoint. The annual meeting shall be held on the third Tuesday of April in each year or some other day within two months thereafter as fixed by the Board. Notice of every meeting of the stockholders and of the time and place thereof shall be given as required by law.

Special meetings of the stockholders may be held at such time as fixed by the Board.

Board of Directors

The Company's charter states that the business, property and affairs of the Corporation shall be managed by or under the direction of the Board. The number of directors shall consist of the number of directors fixed by, or in a manner provided in, the bylaws of the Corporation.

Actions of the Board shall be by majority vote of the directors present. At any meetings of the Board, a majority of the directors then in office, but not less than one-third of the directorships shall constitute a quorum for the transaction of business. Unless otherwise prescribed, action of the Board shall be by majority vote of the directors present.

Members of the Board serving the Company at December 31, 2012, were as follows:

<u>Director</u>	<u>Title and Principal Business Affiliation</u>
Gregory M. Barats	President and Chief Executive Officer – HSBIIIC
Charles A. Bryan	President – CAB Consulting, LLC
James J. Butler	Retired
Anthony J. Kuczinski	Chairman of the Board – HSB Group and Chief Executive Officer – Munich Re America
Murray S. Levy	Chairman of the Audit Committee – HSBIIIC and Chief Financial Officer – Munich Re America
Nancy C. Onken	Executive Vice President and Corporate Secretary – HSBIIIC
Peter Richter	Senior Vice President and Chief Financial Officer – HSBIIIC
George T. Van Gilder	Retired
Robin H. Willcox	Senior Vice President, Company Secretary and General Counsel – Munich Re America

Officers

According to the bylaws there shall be a president and there may be a chairman of the Board, each to be elected by the Board from their own number. The president shall be the chief executive officer and be responsible under the direction of the Board for the supervision, management and control of the affairs and properties of the Company.

The Board shall also appoint a corporate secretary, a treasurer, one or more senior vice presidents and one or more vice presidents and may elect one or more executive vice presidents.

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The president shall appoint such other officers as may be required for the prompt and orderly transaction of the business of the Company.

The officers shall be subject to the direction of and shall have such authority and perform such duties as may be assigned from time to time by the Board or the president.

The following individuals were serving the Company as officers, as of December 31, 2012:

<u>Officer</u>	<u>Title</u>
Gregory M. Barats	President and Chief Executive Officer
Peter Richter	Senior Vice President and Chief Financial Officer
Nancy C. Onken	Executive Vice President and Corporate Secretary
Kenneth A. Pisciotto	Senior Vice President
Dave P. Mercier	Senior Vice President and Chief Underwriting Officer
Anthony J. Trivella	Executive Vice President
Jeanne B. Merola	Senior Vice President
Roberta A. O'Brien	Senior Vice President, General Counsel and Compliance Officer
Susan W. Ahrens	Senior Vice President
William M. Heckles	Senior Vice President and Chief Reinsurance Officer
Theodore D. Kmiecik	Senior Vice President and Treasurer
William J. Rucci	Senior Vice President and Chief Information Officer
Amy E. Brodeur	Senior Vice President and Comptroller
Loren P. Shoemaker	Senior Vice President
Stephanie A. Watkins	Senior Vice President
Jack E. Volinski	Senior Vice President

Committees

The Company has an executive and audit committee (AC) of the Board. The AC is comprised of no fewer than two members. At least one member of the Board shall have accounting or related financial management related experience as determined by the Board. Each member of the committee shall be members of the Board with the percentage of the independent audit committee at least 75%. The committee shall meet as necessary in the opinion of the chairman but at least quarterly.

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INSURANCE COVERAGE

The Company and its parent, subsidiaries and affiliates are insured by a financial institution blanket bond/computer crime policy with Zurich - Fidelity and Deposit Company of Maryland. Primary and excess combined single limit coverages are in place. The aggregate limit of liability is greater than the prescribed minimum set forth by the Handbook's schedule of suggested minimum amounts of fidelity insurance.

The Company and its parent, subsidiaries and affiliates also have a directors and officers' liability policy to protect against wrongful acts on a per-occurrence basis and in the aggregate. In addition, the Company is a named insured on a series of additional master policies with its parent, subsidiaries and affiliates.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in all fifty states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

The Company's most significant business is boiler and machinery (equipment breakdown) insurance provides insurance for losses from accidents to boilers, pressure vessels and a wide variety of mechanical and electrical machinery and equipment. It also provides a high level of inspection services aimed at loss prevention and a variety of specialty insurance and reinsurance products and services such as reinsurance integration services, inspection services, risk management services, engineering services, and claim services. The Company makes its insurance and related engineering products available on an international basis primarily through HSB Engineering Insurance Limited and The Boiler Inspection and Insurance Company of Canada, wholly owned downstream subsidiaries.

The Company's strategic plan includes the development of new client companies to focus on equipment breakdown coverage through the use of a variety of specialty coverages and services. This business would be marketed by approximately 4,700 independent agents and brokers or through reinsurance arrangements with over 250 insurance companies.

REINSURANCE

Assumed Reinsurance

In addition to writing direct business through agencies and brokerage firms, the Company assumes reinsurance nationally and internationally from over 250 insurance companies, several insurance pools and several affiliated companies. The assumed premium volume reported in the year 2012 was in excess of \$675 million.

Although a wide range of specialty reinsurance coverages are offered, the Company predominately assumes equipment breakdown coverage. Other coverages offered are:

- Employment practices liability insurance
- Miscellaneous professional liability insurance

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- Data compromise
- Identity recovery insurance
- Computer systems

Ceded Reinsurance

The Company participates in various quota share, excess of loss and facultative reinsurance agreements to limit its exposure, particularly to catastrophic losses and high risk lines, as well as to provide additional capacity to write business. The Company evaluates its exposures and reinsurance needs annually to structure a program that corresponds with the level of exposure that it is willing to retain.

Under the Company's 2012 current treaty per risk excess of loss and underlying excess of loss reinsurance programs, its maximum retention on any one commercial risk is limited to \$1 million. Potentially higher per risk retentions will depend on aggregate losses experienced by the Company during the reinsurance program period. There is also a 5% intercompany quota share treaty with HSBCT. The Company places facultative reinsurance on certain high exposure risks.

The Company utilizes well capitalized domestic and international reinsurance companies and syndicates for its reinsurance program and monitors their financial strength on an ongoing basis. For those reinsurers that are classified as unauthorized, the Company obtains appropriate collateral to support reinsurance recoverables.

Certain treaties contain provisions for sub limits depending upon the risk reinsured.

The excess of loss reinsurance programs contain customized aggregate limits and reinstatement provisions that are unique to each agreement.

Summary of Significant 2012 Reinsurance Programs

Program	Cover*	Retention	Comments
Group Excess of Loss (Per risk)	\$245,000,000	\$5,000,000	The program consists of five layers with cover attaching at various thresholds. There is no coinsurance.
Group Underlyer Excess of Loss (Section 1a: Per Risk Underlyer and Per Program)	\$4,000,000	\$1,000,000	The program consists of one layer. There is no coinsurance.
Group Underlyer Excess of Loss (Section 1b: Per Risk - Third Party Liability only)	\$4,500,000	\$500,000	The program consists of one layer. There is no coinsurance.
Per Occurrence Catastrophe Excess of Loss	\$95,000,000	\$5,000,000	This program consists of one layer. There is no coinsurance.

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Data Compromise Per Named Program Quota Share	\$10,000,000	30%	This program consists of one layer. There is 70% coinsurance.
Data Compromise Per Named Program Excess of Loss	\$7,000,000	\$10,000,000	This program consists of one layer with 10% coinsurance.
Employment Practices Liability Quota Share	\$1,000,000	25%	This program consists of one layer with 75% coinsurance.
Intercompany Quota Share	Unlimited	95%	5% of HSBIIC net commercial property and casualty retention ceded to affiliate – HSBCT

* Reinsurance cover represents the maximum limit available under a particular agreement.

INFORMATION TECHNOLOGY (IT) CONTROLS

A risk-focused assessment and review of the Company's Information Technology General Controls (ITGC) was performed in accordance with the Handbook. The guidance and direction used to perform the review of the Company's IT general controls was derived from Exhibit C Part 1 – Information Technology Planning Questionnaire (ITPQ) and Exhibit C Part 2 – Information Technology Work Program.

The objectives of the IT review were to determine that IT resources align with the Company's objectives ensuring that significant risks (strategic, operational, reporting, and compliance) arising out of its IT environment are appropriately mitigated by strategies and controls as outlined in the Handbook's Exhibit C Part 2 – Evaluation of Controls in Information Technology Work Program.

The IT review identified and assessed the Company's internal controls, policies, and procedures established by (and for) the respective IT environments. The scope of the review included the identification, evaluation and assessment of the system of the controls over data input, processing and output.

The review of the Company's IT controls included the following financially significant systems: Phoenix (policy administration); Quoting, Rating and Issuance System (quotes, rates and issues policies); PeopleSoft Financials (financial reporting); and Claims Series III Plus (claims processing).

The key IT controls tested included but were not limited to the following areas:

- management controls such as authorization assignments, privileges, approvals, and compliance, including compliance with Company policies;
- administrative and organizational controls such as physical and logical access, business continuity and disaster recovery provisions, system development, and program change controls; and
- accounting controls such as data input, data processing and data output.

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No control deficiencies were noted which would impair the overall effectiveness of the IT control environment.

ACCOUNTS AND RECORDS

The Company uses a PeopleSoft general ledger accounting system within a local area network. Security controls within PeopleSoft limit access to general ledger data based on user function. The accounting system produces an automated trial balance, general journal report and a general ledger activity detail report on a monthly basis. The Company uses WINGS software from Eagle Technology Management, Inc. to produce its statutory annual statement.

Detail analyses were performed on individual general ledger accounts throughout the examination.

The 2012 year-end trial balance was reconciled to the 2012 filed annual statement, without exception.

FINANCIAL STATEMENTS

The following statements represent the Company's financial position as filed by the Company and as determined by this examination, as of December 31, 2012.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$791,121,870		\$791,121,870
Stocks:			
Preferred stocks	41,715,108		41,715,108
Common stocks	189,629,161	\$2,158,656	187,470,505
Mortgage loans-other than first liens	7,735,963		7,735,963
Real estate-properties held for production of income	2,500,000	2,500,000	
Real estate - properties held for sale	335,319		335,319
Cash, cash equivalents and short-term investments	114,111,351		114,111,351
Other invested assets	84,253,207	19,531,315	64,721,892
Investment income due and accrued	8,811,806		8,811,806
Premiums and considerations - uncollected premiums and agents' balances in course of collection	50,240,902	836,705	49,404,197
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,109,797		1,109,797
Reinsurance -- amounts recoverable from reinsurers	4,904,271		4,904,271
Net deferred tax asset	104,531,065	35,324,014	69,207,051
Electronic data processing equipment and software	1,008,792		1,008,792
Furniture and equipment, including health care delivery assets	5,955,610	5,955,610	
Receivable from parent, subsidiaries and affiliates	9,744,560		9,744,560
Aggregate write-ins for other than invested assets	6,276,866	3,788,136	2,488,730
Totals	\$1,423,985,648	\$70,094,436	\$1,353,891,212

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$172,074,175
Reinsurance payable on paid losses and loss adjustment expenses	1,000,000
Loss adjustment expenses	24,465,467
Commissions payable, contingent commissions and other similar charges	41,486,517
Other expenses (excluding taxes, licenses and fees)	96,717,883
Taxes, licenses and fees (excluding federal and foreign income taxes)	10,054,900
Current federal and foreign income taxes	9,368,732
Borrowed money	14,887,623
Unearned premiums	296,717,727
Advance premium	391,951
Ceded reinsurance premiums payable (net of ceding commissions)	5,474,779
Amounts withheld or retained by company for account of others	1,859,530
Provision for reinsurance	1,705,034
Payable to parent, subsidiaries and affiliates	5,902,021
Aggregate write-ins for liabilities	22,565,855
Total liabilities	704,672,194
Common capital stock	10,000,000
Gross paid in and contributed surplus	318,016,174
Unassigned funds (surplus)	375,167,976
Less- Treasury stock	(53,965,132)
Surplus as regards policyholders	649,219,018
Totals	<u>\$1,353,891,212</u>

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

STATEMENT OF INCOME

UNDERWRITING INCOME	
Premiums earned	\$646,099,518
DEDUCTIONS	
Losses incurred	156,735,723
Loss adjustment expenses incurred	16,532,695
Other underwriting expenses incurred	367,944,473
Total underwriting deductions	541,212,891
Net underwriting gain or (loss)	104,886,627
INVESTMENT INCOME	
Net investment income earned	66,724,562
Net realized capital gains or (losses)	7,222,795
Net investment gain or (loss)	73,947,357
OTHER INCOME	
Net gain or (loss) from agents' or premium balances charged off	77,017
Aggregate write-ins for miscellaneous income	(3,105)
Total other income	73,912
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	178,907,896
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	178,907,896
Federal and foreign income taxes incurred	50,884,520
Net income	128,023,376
CAPITAL AND SURPLUS ACCOUNT	
Surplus as regards policyholders, December 31 prior year	644,922,740
GAINS AND (LOSSES) IN SURPLUS	
Net income	128,023,376
Change in net unrealized capital gains or (losses)	19,236,138
Change in net deferred income tax	4,828,094
Change in nonadmitted assets	(1,542,937)
Change in provision for reinsurance	(320,852)
Cumulative effect of changes in accounting principles	14,322,472
Dividends to stockholders	(156,580,280)
Aggregate write-ins for gains and losses in surplus	(3,669,732)
Change in surplus as regards policyholders for the year	4,296,278
Surplus as regards policyholders, December 31 current year	<u>\$649,219,018</u>

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LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE) \$196,539,642

The following items were included in the captioned account:

Losses	\$172,074,175
LAE	<u>24,465,467</u>
	<u>\$196,539,642</u>

RRC conducted a risk based actuarial analysis of the loss and LAE reserves of the Company as of December 31, 2012. The actuarial analysis was conducted in accordance with generally accepted actuarial reserving standards and principles. RRC based its review on the following information provided by the Company:

- Statutory Annual Statement for the year ended December 31, 2012;
- Statements of Actuarial Opinion for the years under examination;
- the actuarial report prepared by the appointed actuary in support of the December 31, 2012, actuarial opinion;
- the Annual Statement Schedule P (Schedule P) reconciliation of data used for actuarial analysis;
- copies of certain reinsurance contracts and the Company's internal analysis of these contracts; and
- discussions with the Company's appointed actuary regarding the actuarial report.

In performing the analysis, the Department verified the accuracy of the data included in Schedule P and concluded that Schedule P data could be relied upon in the analysis of the loss and LAE reserves.

The scope of RRC's actuarial analysis included:

An assessment of reserve risk including but not limited to:

- meetings with appropriate reserve actuaries and/or other officers of the Company to assess the appropriateness of methodologies and the quality of assumptions, including but not limited to case reserve adequacy, expected loss ratios, claim emergence patterns, and anticipated recoveries;
- a review of the primary reserve risks and the controls in place to mitigate those risks and the frequency of reporting actuarial indications to management by line of business and in the aggregate;
- a review and evaluation of the Company's reconciliation of data used in the actuarial analysis of loss and loss adjustment expense liabilities in Schedule P;
- a review of the Company's claims handling procedures and processes used to estimate loss and LAE liabilities; and
- a review of the Company's reserve segments that may increase the risk that actual losses or other contractual payments reflected in the corresponding reserves will be greater than the carried liabilities.

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An assessment of pricing and underwriting risk including but not limited to:

- meetings with company officers responsible for establishing pricing and underwriting practices/policies to assess the processes and controls in place that are intended to mitigate the key areas of pricing and underwriting risk;
- evaluation of the actuarial process for development of rate indications, meeting with appropriate ratemaking actuaries and officers to assess the appropriateness of methodologies and the quality of assumptions, including but not limited to trend, loss development, expenses, catastrophes, large losses and profit; and
- evaluation of price monitoring processes and controls, meeting with appropriate underwriters and officers to assess the pricing and underwriting considerations that complement the actuarial indications.

An assessment of liquidity risk including but not limited to:

- meetings with company officers responsible for managing exposure due to catastrophic loss and risk concentration, including but not limited to claims for property and liability exposure.

Conclusion

Based upon the risk-based assessment and review, no material findings were noted which affected the Company's ability to manage its reserving, pricing and underwriting and liquidity risks.

UNASSIGNED FUNDS (SURPLUS) \$375,167,976

The following exhibit reflects the balance of this account at December 31, for the years under examination:

2012	\$375,167,976
2011	\$370,871,698
2010	\$380,590,180
2009	\$337,247,226
2008	\$168,501,838

During the period under examination, the unassigned funds (surplus) increased as a result of net income earned reduced by dividends paid.

THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY

CONCLUSION

The results of this examination disclosed that as of December 31, 2012, the Company had:

Admitted assets	<u>\$1,353,891,212</u>
Liabilities	<u>\$704,672,194</u>
Common capital stock	\$10,000,000
Gross paid in and contributed surplus	318,016,174
Unassigned funds (surplus)	375,167,976
Less treasury stock	<u>(53,965,132)</u>
Surplus as regards policyholders	\$649,219,018
Total liabilities, surplus and other funds	<u>\$1,353,891,212</u>

During the period under examination, admitted assets increased \$242,162,814, liabilities increased \$35,496,676, and capital and surplus increased \$206,666,138. It was determined that the Company's assets were fairly stated in accordance with guidance outlined in the Manual and were acceptable under Section 38a-102 of the CGS. The liabilities established were adequate to cover the Company's obligations to the policyholders.

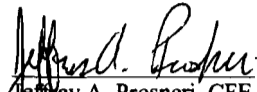
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SIGNATURE

In addition to the undersigned, Mark Murphy, CFE, Gerald Burke, CFE, Susan Gozzo-Andrews, FCAS, MAAA, RPLU+, Keith Kleindienst, Joseph Marcantonio, AES, AFE, CISA, and Lisa Pagliaro, AFE, of the Department and the professional services firms of RRC and Grant Thornton participated in this examination.

I, Jeffrey A. Prospero, CFE, CPA, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2012, to the best of my information, knowledge and belief.

Respectfully submitted,


Jeffrey A. Prospero, CFE
Insurance Certified Financial Examiner
State of Connecticut
Insurance Department

State of Connecticut

ss

County of Hartford

Subscribed and sworn to before me, Patricia Butler, Notary Public/Commissioner of the Superior Court, on this 23rd, day of December, 2013.


Notary Public/Commissioner of the Superior Court

My commission expires September 30, 2013