

Report on Examination
of
NARRAGANSETT BAY INSURANCE COMPANY
Johnston, Rhode Island
as of
December 31, 2021



State of Rhode Island
Department of Business Regulation
Insurance Division



**State of Rhode Island
DEPARTMENT OF BUSINESS REGULATION
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920**

Insurance Division

ADOPTION ORDER

The attached Report of Examination as of December 31, 2021, of the condition and affairs of

Narragansett Bay Insurance Company

was recently completed by duly qualified examiners, pursuant to the provisions of the Rhode Island General Laws.

Due consideration has been given to the comments of the examiners regarding the operation of the Companies and their financial condition, as reflected in the report.

It is therefore ORDERED that said Report be, and it is hereby, adopted and filed and made an official record of this Department as of this date.

Department of Business Regulation

A handwritten signature in black ink that reads "Elizabeth Kelleher Dwyer".

Dated: June 14, 2023

Elizabeth Kelleher Dwyer
Superintendent of Insurance

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April 28, 2023

Ms. Elizabeth Kelleher Dwyer
Superintendent of Insurance
State of Rhode Island
Department of Business Regulation
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Dear Superintendent Dwyer:

In accordance with your instructions and pursuant to Chapters 13.1 and 35 of Title 27 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2021, of the financial condition and affairs of

NARRAGANSETT BAY INSURANCE COMPANY

located at 1301 Atwood Avenue, Suite 316E, Johnston, Rhode Island. The report of such examination is herewith, submitted.

Narragansett Bay Insurance Company, also referred to within this report as “NBIC,” or “the Company,” was previously examined as of December 31, 2018. Both the current and prior examinations were conducted by the Insurance Division of the State of Rhode Island (“Insurance Division”).

SCOPE OF EXAMINATION

The last examination of the Company covered the five-year period from January 1, 2014, through December 31, 2018. The current examination covered the three-year period from January 1, 2019, through December 31, 2021 and was performed in compliance with the above-mentioned sections of the General Laws of the State of Rhode Island, as amended. The current examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”) risk-focused examination process, performed in conjunction with the 2021 full-scope coordinated multi-state risk-focused examination (“2021 Coordinated Exam”) of Heritage Insurance Holdings, Inc (“HIH”). The 2021 Coordinated Exam consisted of four (4) entities within the HIH holding company system. The Florida Office of Insurance Regulation served as the Lead State for the 2021 Coordinated Exam. In addition to Florida, the states of Rhode Island and Hawaii participated in the 2021 Coordinated Exam, which encompassed the following insurers (state of domicile in parenthesis) :

- Heritage Property & Casualty Insurance Company (FL) – “HPCIC”
- Narragansett Bay Insurance Company (RI) – “NBIC”
- Pawtucket Insurance Company (RI) – “PIC”
- Zephyr Insurance Company, Inc. (HI) – “ZIC”

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 Statutory 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 in the following financial statements.

This examination report includes significant findings of fact, 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 separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse or significant non-compliance findings noted during the examination conducted as of December 31, 2021.

COMPANY HISTORY

The Company was established in 1981 by the Rhode Island General Assembly as a wholly owned subsidiary of Pawtucket Mutual Insurance Company ("PMIC") and it commenced business on April 1, 1982. NBIC, in conjunction with PMIC, wrote personal lines of insurance in New England and certain Mid-Atlantic States.

Effective January 1, 2006, the Company commenced writing homeowners and fire policies in Rhode Island, and in early 2007, the Company expanded its direct writings to Massachusetts and in September 2007, to New York. Since then, the Company has received approval to write in Connecticut, Delaware, New Jersey, Maryland, Pennsylvania and Virginia. The Company also received approval to write business in the states of Florida and California on an Excess & Surplus lines basis. As of December 31, 2021, Pennsylvania is the only state listed above in which the Company is not actively writing.

On November 30, 2017, HIH, a Delaware insurance holdings company, acquired NBIC Holdings, Inc., the parent company of NBIC. HIH acquired NBIC Holdings, Inc. for \$250,000,000. The acquisition was financed with \$210,000,000 in cash and \$40,000,000 of the HIH common stock.

Stockholder Dividends and Contributions

Dividends were neither declared nor paid during the period under examination. The Company received a capital contribution from its parent, NBIC Holdings Company, in the amount of \$5,000,000 which was effective in 2020 and received on February 24, 2021.

MANAGEMENT AND CONTROL

Shareholders

The bylaws provide that the annual meeting of the shareholders shall be held at the principal office of the Company or at such other place within the State of Rhode Island on such date and at such hour as specified in the notice of meeting or the notice's waiver. The annual meeting shall be held for the election of directors and the transaction of such other business as may come before the meeting.

Special meetings of the shareholders for any purpose may be called by the President, by order of the Board of Directors (“Board”), or by the shareholder or shareholders of record holding at least fifty percent (50%) in voting power of the outstanding shares of the Company entitled to vote at such meeting.

At each meeting of the shareholders, a majority of the outstanding shares of the Company entitled to vote, represented in person or by proxy, shall constitute a quorum for the transaction of business.

Board of Directors

The bylaws provide that the property, affairs and business of the Company shall be managed by the Board, and the Board shall have, and may exercise, all of the powers of the Company, except such as are conferred by the bylaws upon the shareholders.

The bylaws also stipulate that the number of directors to constitute the Board shall consist of five (5) as set forth in Section 4.2 of the Company’s bylaws, as amended on September 27, 2019. Each elected director shall hold office until the expiration of his or her term and until his or her successor is elected and qualified, or until the death, resignation or removal of such directors.

A majority of the total number of directors at the time in office shall constitute a quorum for the transaction of business at any meeting. In the absence of a quorum, a majority of the directors present may adjourn any meeting without further notice until a quorum is present.

Regular meetings of the Board shall be held at such places and at such times as the Board shall from time to time vote to determine; provided however, that the Board shall meet at least quarterly.

The Board shall have the authority to meet in executive session without the attendance by Company management without notice at such place as shall from time to time be determined by the Board.

Special meetings of the Board shall be held whenever called by the President or by not less than forty percent (40%) of the members of the Board.

Any director may be removed, either with or without cause, at any time, by the affirmative vote of the holders of record of a majority of the issued and outstanding shares entitled to vote for the election of directors given at a special meeting of the shareholders called and held for that purpose.

Subject to any provisions of the Articles of Incorporation providing for cumulative voting, any vacancy in the Board may be filled at a regular meeting or Special Meetings of the Shareholder.

The membership of the Board, together with the principal business or professional affiliation of each director, was as follows at December 31, 2021:

Name	Business Affiliation	Term Expires
Richard Alexander Widdicombe	Chairman Heritage Insurance Holdings, Inc.	2023
Ernesto Jose Garateix	Chief Executive Officer Heritage Insurance Holdings, Inc.	2023
Irimi Barlas	Chief Financial Officer Megastar Advisors, LLC	2023
Joseph Shanju Vattamattam	President Healthmap Solutions	2023
Vijay Shankarro Walvekar	Vice President Central Home Healthcare	2023

On December 16, 2018, the sole shareholder removed Trifon Houvardas from the Board, as well as the Audit Committee. This action created a vacancy in the Board, as well as the Audit Committee, as of December 31, 2018. Joseph Vattamattam filled the vacancy in 2019.

Committees

Pursuant to the bylaws, the Company shall establish an Audit Committee, which shall oversee the financial reporting process of the Company and receive reports directly from the Company's internal auditor. The Audit Committee shall be comprised of three (3) members appointed by the Board and such members may, but are not required to, consist of members of the Board. The Audit Committee members shall be financially literate and at least one (1) member shall have knowledge of statutory accounting principles.

The Audit Committee shall have the following responsibilities: (i) oversee the internal audit function of the Company, including reporting and personnel matters; (ii) oversee performance evaluations and compensation of the Internal Audit Director; (iii) oversee the outside auditor including recommending the firm evaluating the auditor's performance and the rotation of senior audit personnel; (iv) review major accounting policies, judgments, and estimates; and (v) oversee the financial reporting process. At December 31, 2021, the Audit Committee was comprised of the following individuals:

Irimi Barlas, Chairman
Joseph Vattamattam
Vijay Walvekar

The bylaws also stipulate that the Audit Committee shall meet at least quarterly and shall maintain the minutes of its meetings, which shall be provided to the Board and reviewed and accepted at the Board's meeting following an Audit Committee meeting.

In addition to the Audit Committee, the Board established an Investment Committee. At December 31, 2021, the Investment Committee was comprised of the following individuals:

Richard Widdicome
Ernesto Garateix
Kirk Lusk

Officers

The bylaws provide that the officers of the Company shall be a President, a Secretary, a Chief Financial Officer, and such other officers as the Board may appoint. One person may hold the offices and perform the duties of any two or more of said officers, except that one person may not serve as both the President and Secretary. Each officer shall be elected annually by the Board and shall hold office until a successor is duly elected and qualified, or until the death, resignation or removal of such officer. A vacancy in any office shall be filled for the unexpired portion of the term by the Board at any regular or special meeting.

The officers serving, and their respective titles at December 31, 2021, are as follows:

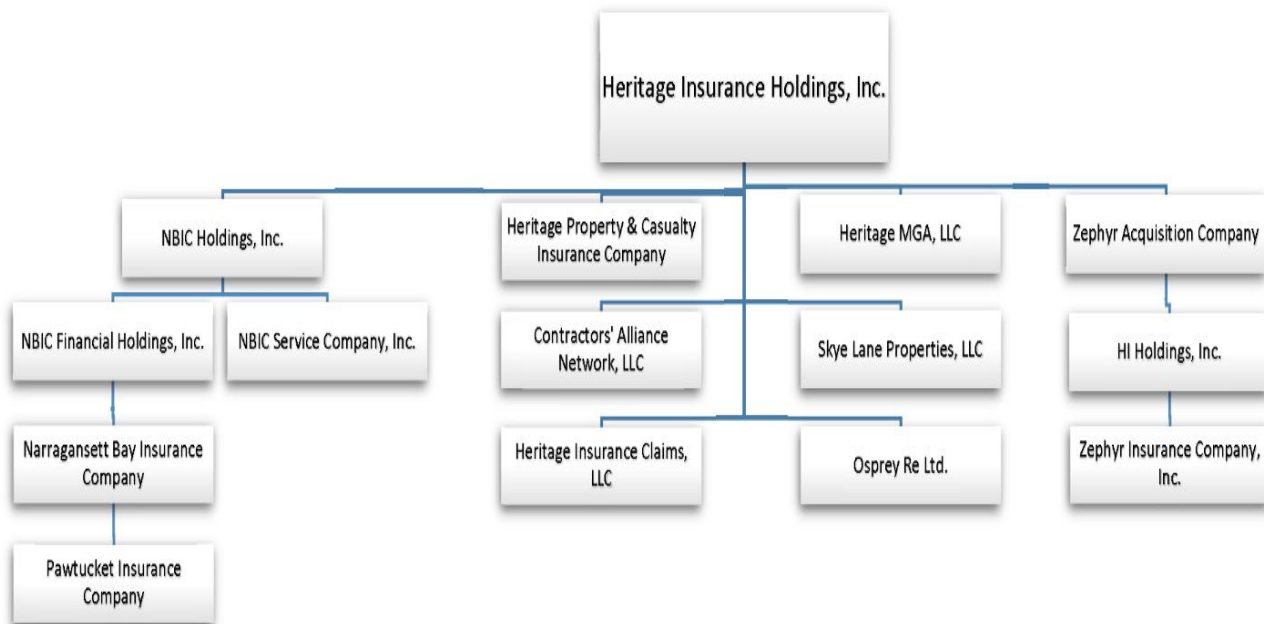
Ernesto Garateix	Chief Executive Officer
Timothy Moura	President
Kirk Lusk	Chief Financial Officer, Secretary, Treasurer

Organizational Structure

HIH, established in 2012 and incorporated in the state of Delaware in 2014, is a property and casualty insurance holding company that provides personal and commercial residential property insurance. HIH is headquartered in Clearwater, Florida and, through its insurance company subsidiaries, HPCIC, NBIC and ZIC, writes personal residential property insurance for single-family homeowners and condominium owners, and rental property insurance in the states of Alabama, Delaware, California, Connecticut, Florida, Georgia, Hawaii, Maryland, Massachusetts, Mississippi, New Jersey, New York, North Carolina, Pennsylvania Rhode Island, South Carolina and Virginia. HIH subsidiaries also provides commercial residential insurance for Florida and New York properties. HIH is vertically integrated and controls or manages substantially all aspects of insurance underwriting, customer service, actuarial analysis, distribution and claims processing and adjusting. HIH is led by a senior management team with significant insurance industry experience. HPCIC, NBIC and ZIC are the direct insurance risk bearing entities in the group (collectively, the "Insurers").

In 2017, HIH acquired NBIC Holdings Inc., NBIC's indirect parent. NBIC is a wholly owned subsidiary of NBIC Financial Holdings, Inc., a Delaware insurance holding company, which is a wholly owned subsidiary of NBIC Holdings. NBIC owns 100% of PIC. PIC is currently in run off. NBIC Service Company, Inc. ("NBIC Service") provides administrative services and human resources according to the terms of their Administrative Services and Employee Leasing Agreement.

The following presentation of the holding company system as of December 31, 2021 reflects the identities and interrelationships between the Company and its affiliates:



Intercompany Agreement

Administrative Services and Employee Leasing Agreement

Effective January 1, 2010, NBIC entered into an Administrative Services and Employee Leasing Agreement (“Services and Employee Leasing Agreement”) with NBIC Service, whereby NBIC Service agrees to provide certain administrative services and to make available to NBIC the services of certain of its employees as NBIC may require from time to time. The employees made available by NBIC Service to NBIC shall have such skills and shall devote such portion of their time to the affairs of NBIC as NBIC may reasonably request.

NBIC Service shall be responsible for all employment matters, including payment of wages, distribution of paychecks, withholding of all federal, state and local employment taxes, provision

of appropriate workers' compensation coverage, state-mandated disability and unemployment coverage and any other government-mandated benefits, for employees made available to or otherwise providing services to NBIC.

As remuneration for services provided under this agreement, NBIC shall pay to NBIC Service an annual fee based upon a percentage of the Company's gross written premium.

Cost Allocation Agreement

The Company is party to a Cost Allocation Agreement, dated April 15, 2015, which applies to all current and future affiliates being wholly-owned by HHH. The agreement defines allocable expenses and the allocation methods used to assign the expense among the agreement's participants.

Vendor Service Agreement

The Company is party to a Vendor Service Agreement, dated February 4, 2019, for vendor services between NBIC and Contractors Alliance Network, LLC., ("CAN"), an affiliated company. The agreement provides for CAN to provide or arrange for claims adjusting, contractors and loss mitigation and repair services to be provided to NBIC claimants that NBIC refers to CAN.

Managing Agency Contract

The Company is party to a Managing Agency Contract, dated September 1, 2019, for managing general agency services between NBIC and Heritage MGA, LLC, an affiliated company. The agreement provides for Heritage MGA, LLC to provide to the Company comprehensive management and administration of the Company's insurance business, relating to excess and

surplus lines business, and shall provide underwriting and policy issuance, claims management, premium collection, and other services, as defined in the agreement, for the Company.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2021, NBIC was licensed to transact business in the states of Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, Pennsylvania Virginia and Rhode Island. The Company also received approval to write business in Florida and California on an Excess & Surplus lines basis.

The Company is a stock insurer, and its charter empowers it to write all lines of insurance except life, annuities, title, mortgage guaranty, workers' compensation, and accident & health insurance.

The Company is headquartered in Johnston, Rhode Island and offers specialty insurance services and products to homeowners along the eastern seaboard, through a network of select independent agents. Its focus is on risk management and loss prevention utilizing its exclusive risk management and underwriting program. Operations are conducted in the same facilities and managed by the same individuals as its wholly owned subsidiary, PIC.

REINSURANCE

Ceded Reinsurance

At December 31, 2021, the Company's ceded reinsurance program consisted of the following agreements: Property Catastrophe Excess of Loss Reinsurance, Aggregate Coverage, General Excess of Loss, Umbrella Facultative Quote Share, All Perils Flood Endorsed Quota Share, Semi-

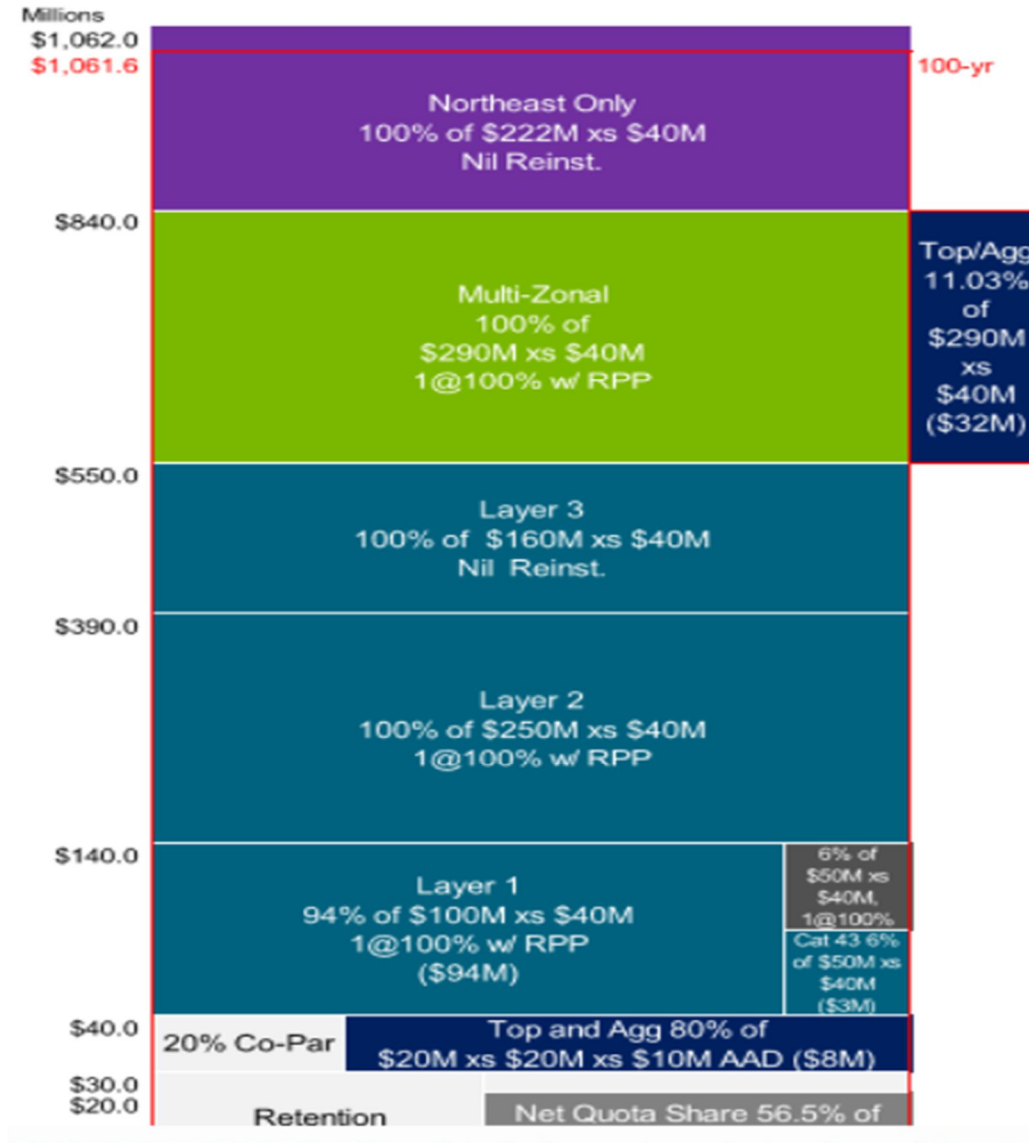
Automatic Facultative Excess of Loss, Umbrella Facultative Reinsurance. The following is a brief description of each agreement in place as of December 31, 2021:

Property Catastrophe Excess of Loss Reinsurance

Effective June 1, 2021, the Company entered into catastrophe excess of loss reinsurance agreements covering, on a shared basis, the Company and its affiliates, HPCIC and ZIC.

The Company's estimated net cost for the 2021-2022 catastrophe reinsurance programs is approximately \$68.2 million. The Company is responsible for all losses and loss adjustment expenses in excess of its reinsurance program. This coverage exceeds the requirements established by the Companies' rating agency, Demotech, Inc and the Department.

The reinsurance program, which is segmented into layers of coverage, protects the Company for excess property catastrophe losses and loss adjustment expenses. The 2021-2022 reinsurance program provides the Company first event coverage up to \$1,062.0 million. The first event retention for the Company is \$20.7 million. Following is a summary of the Company's Property Catastrophe Excess of Loss Reinsurance (1st event towers).



NBIC's Net Quota Share (NQS) coverage is proportional reinsurance for which certain reinsurance inures to the quota share (property catastrophe excess of loss and reinstatement premium protection and the second layer of the general excess of loss). An occurrence limit of \$20.0 million for catastrophe losses is in effect on the quota share, subject to certain aggregate loss limits that vary by reinsurer. The amount and rate of reinsurance commissions slide, within a prescribed minimum and maximum, depending on loss performance. NBIC ceded 56.5% of net premiums and losses during 2021 to the NQS and 3% of the 2020 NQS was runoff. The NQS program was renewed on

December 31, 2021 ceding 50% of the net premiums and losses and 5% of the prior year quota share will runoff.

Aggregate Coverage

On December 1, 2021, the Company placed 50% of an aggregate contract, which covers all catastrophe losses excluding named storms, expiring March 31, 2022. The limit on the contract is \$20 million, retention of \$20 million and franchise deductible of \$1 million. Additionally, the Company placed 100% of an occurrence contract which covers catastrophe losses excluding named storms, on December 31, 2021, expiring on December 31, 2022. The limit on the contract is \$20 million with a retention of \$20 million and has one reinstatement available.

General Excess of Loss

NBIC's general excess of loss reinsurance protects NBIC from single risk losses, both property and casualty. The contract was effective July 1, 2021 and expires June 30, 2022. The casualty coverage provided by this contract also responds on a "Clash" basis, meaning that multiple policies involved in a single loss occurrence can be aggregated into one loss and applied to the reinsurance contract. The coverage is in two layers in excess of NBIC's retention of the first \$500,000 of loss. The first layer is \$250,000 excess \$500,000 and the second layer is \$2.75 million excess \$750,000. The Casualty second layer is \$1.25 million excess \$750,000.

Umbrella Facultative Quota Share

NBIC's automatic umbrella facultative contract protects it from single risk losses. The contract was effective January 1, 2021 and expired December 31, 2021. The coverage is in two layers. The first layer is a 90% quota share of the first \$1 million of loss per occurrence. The second layer

is a 100% quota share of the \$4 million excess of \$1 million. The contract has a ceding commission of 30%.

All Perils Flood Endorsed Quota Share

NBIC provides coverage for the peril of Flood by an endorsement to policies in the state of New Jersey. Policies with the Flood endorsement are subject to this quota share treaty, which is placed on two contracts. The first contract is a 36% quota share effective December 31, 2020 with an expiration of January 31, 2022. The second contract is a 36% quota share effective November 20, 2018, with an amended expiration of January 31, 2022, resulting in a combined 72% quota share through December 31, 2022.

Semi-Automatic Facultative Excess of Loss

NBIC's automatic property facultative reinsurance protects NBIC from single risk losses, for property risks with a total insured value excess of \$3.5 million subject to a limit of \$6.5 million excluding California and a limit of \$3.25 million for California risks. The contract became effective July 1, 2021 and expires June 30, 2022

Umbrella Facultative Reinsurance Contract

This program, effective January 1, 2021 to December 31, 2021, protects the Company's Umbrella Liability business through a Quota Share structure whereby the reinsurer provides reinsurance to the Company for 90% of the first \$1,000,000 each occurrence and 100% for \$4,000,000 excess of \$1,000,000.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Rhode Island Insurance Division and present the financial condition of the Company for the period ending December 31, 2021. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Comparative Statement of Assets
December 31, 2021 and December 31, 2018

Comparative Statement of Liabilities, Surplus and Other Funds
December 31, 2021 and December 31, 2018

Statement of Income
Year ended December 31, 2021

Reconciliation of Capital and Surplus
December 31, 2018 to December 31, 2021

Analysis of Examination Adjustments
December 31, 2021

NARRAGANSETT BAY INSURANCE COMPANY
Comparative Statement of Assets
December 31, 2021 and December 31, 2018

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2018</u>	<u>Increase</u> <u>(Decrease)</u>
Bonds	\$ 129,507,617	\$ 90,251,594	\$ 39,256,023
Preferred stocks	2,550,000	-	2,550,000
Common stocks	4,164,879	4,105,615	59,264
Cash, cash equivalents, and short-term investments	124,836,868	102,802,125	22,034,743
Other invested assets	1,488,833	-	1,488,833
Investment income due and accrued	540,510	611,704	(71,194)
Uncollected premiums and agents' balances in the course of collection	7,931,423	6,244,083	1,687,340
Deferred premiums and agents' balances and installments booked but deferred and not yet due	31,204,758	21,128,997	10,075,761
Amounts recoverable from reinsurers	35,311,747	37,293,717	(1,981,970)
Current federal and foreign income tax recoverable and interest thereon	2,406,217	6,913,797	(4,507,580)
Net deferred tax asset	3,877,913	1,810,010	2,067,903
Aggregate write-ins for other than invested assets	<u>3,956,465</u>	<u>6,992,459</u>	<u>(3,035,994)</u>
Total Assets	<u>\$ 347,777,230</u>	<u>\$ 278,154,101</u>	<u>\$ 69,623,129</u>

NARRAGANSETT BAY INSURANCE COMPANY
Comparative Statement of Liabilities, Surplus and Other Funds
December 31, 2021 and December 31, 2018

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2018</u>	<u>Increase</u> <u>(Decrease)</u>
Losses	\$ 28,310,819	\$ 15,955,920	\$ 12,354,899
Loss adjustment expenses	7,687,762	6,552,281	1,135,481
Commissions payable, contingent commissions and other similar charges	10,108,713	7,812,097	2,296,616
Other expenses	487,719	362,578	125,141
Taxes, licenses and fees	2,174,446	1,516,974	657,472
Unearned premiums	73,086,867	30,663,681	42,423,186
Advance premium	8,425,620	6,079,491	2,346,129
Ceded reinsurance premiums payable	109,879,887	92,962,799	16,917,088
Funds held by company under reinsurance treaties	15,890	15,890	-
Remittances and items not allocated	1,238	-	1,238
Provision for reinsurance	297,400	10,000	287,400
Payable to parent, subsidiaries and affiliates	4,365,493	2,619,814	1,745,679
Payable for securities	600,000	-	600,000
Aggregate write-ins for liabilities	<u>701,782</u>	<u>609,472</u>	<u>92,310</u>
 Total Liabilities	 <u>246,143,636</u>	 <u>165,160,997</u>	 <u>80,982,639</u>
 Common capital stock	 4,000,000	 4,000,000	 -
Gross paid in and contributed surplus	88,007,995	83,007,995	5,000,000
Unassigned funds (surplus)	<u>9,625,599</u>	<u>25,985,109</u>	<u>(16,359,510)</u>
 Surplus as regards policyholders	 <u>101,633,594</u>	 <u>112,993,104</u>	 <u>(11,359,510)</u>
 Total Liabilities, Surplus and Other Funds	 <u>\$ 347,777,230</u>	 <u>\$ 278,154,101</u>	 <u>\$ 69,623,129</u>

NARRAGANSETT BAY INSURANCE COMPANY
Statement of Income
Year Ended December 31, 2021

UNDERWRITING INCOME

Premiums earned	\$ 136,916,341
Losses incurred	76,367,489
Loss adjustment expenses incurred	16,833,743
Other underwriting expenses incurred	<u>60,723,118</u>
Total underwriting deductions	<u>153,924,350</u>
Net underwriting gain or (loss)	<u>(17,008,009)</u>

INVESTMENT INCOME

Net investment income earned	433,266
Net realized capital gains or (losses)	<u>(52,820)</u>
Net investment gain or (loss)	<u>380,446</u>

OTHER INCOME

Net gain (loss) from agents' balances or premium balances charged off	(1,179,648)
Finance and service charges not included in premiums	1,906,552
Aggregate write-ins for miscellaneous income	<u>153,733</u>
Total other income	<u>880,637</u>
Net income (loss), after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(15,746,926)
Federal and foreign income taxes incurred	<u>(2,437,343)</u>
Net income (loss)	<u>\$ (13,309,583)</u>

NARRAGANSETT BAY INSURANCE COMPANY
Reconciliation of Capital and Surplus
December 31, 2018 to December 31, 2021

Capital and Surplus at December 31, 2018			\$ 112,993,104
	<u>Gains</u>	<u>Losses</u>	
Net Income		17,207,914	
Change in net unrealized capital gains		544,051	
Change in net deferred income tax	2,141,523		
Change in nonadmitted assets		461,670	
Change in provision for reinsurance		287,400	
Surplus adjustment: paid in	<u>5,000,000</u>	<u> </u>	
Total Gains and Losses	<u>7,141,523</u>	<u>18,501,035</u>	
Net increase (or decrease)			<u>(11,359,512)</u>
Capital and Surplus at December 31, 2021			<u>\$ 101,633,594</u>

NARRAGANSETT BAY INSURANCE COMPANY
Analysis of Examination Adjustments
December 31, 2021

The examination of the Company, performed as of December 31, 2021, did not disclose any material misstatements to the financial statements contained in its 2021 Annual Statement filing. Accordingly, the amounts reported by the Company have been accepted for the purposes of this report.

COMMENTS ON FINANCIAL STATEMENTS

ASSETS

Bonds **\$ 129,507,617**

The above amount is the net admitted value of bonds held by the Company and is the same as that reported in its 2021 Annual Statement. All bonds owned at year-end 2021 are held in accordance with a custodial agreement with a third party.

In excess of eighty-six percent (86.2%) of all bonds in the Company's portfolio at December 31, 2021, were rated as Class 1 based upon evaluation methods established by the NAIC's Securities Valuation Office. All other bonds were rated as Class 2. Class 1 and Class 2 securities are considered the "highest" and "high quality" respectively.

The amortized book value of bonds owned at December 31, 2021, represents in excess of thirty-seven percent (37.2%) of the Company's total admitted assets. The book/adjusted carrying value, fair value, actual cost and par value of the bond portfolio at December 31, 2021, were as follows:

<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>	<u>Par Value</u>
\$129,507,617	\$128,363,836	\$130,711,753	\$127,147,788

Cash, Cash Equivalents and Short-Term Investments **\$ 124,836,868**

Cash	\$ 82,192,807
Cash Equivalents	\$ 31,929,040
Short-Term Investments	\$ 10,715,021

The above amounts are the net admitted values of the individually listed Annual Statement lines, which in the aggregate, represent nearly thirty-six percent (35.9%) of the Company's total admitted assets. The amounts shown are the same as that reported in the 2021 Annual Statement.

LIABILITIES, SURPLUS AND OTHER FUNDS

<u>Losses</u>	<u>\$ 28,310,819</u>
<u>Loss Adjustment Expenses</u>	<u>\$ 7,687,762</u>

The significant actuarially determined amounts above are the same as those reported in the Company's 2021 Annual Statement. The Company's reported reserves were reviewed for reasonableness by INS Consultants, Inc. ("INS"), consulting actuaries for the Florida Office of Insurance Regulation, the Lead State for the 2021 Coordinated Exam. INS relied upon the underlying data reported by the Company, which was tested by the examiners without exception. INS' analyses included a review of the actuarial assumptions and methods utilized in determining the reserves, and such tests of actuarial calculations as deemed necessary.

Based upon the review performed by INS, the Company's reported reserves were found to be calculated in accordance with commonly accepted reserving methods and are based on appropriate actuarial factors given the risk exposures under the policy provisions. INS also concluded that the reported reserves make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company, under the terms of their policies and agreements.

Surplus as Regards Policyholders

\$ 101,633,594

The above amount is the same as that reported by the Company in its December 31, 2021 Annual Statement and consists of \$4,000,000 of common capital stock, \$88,007,995 in gross paid-in and contributed surplus, and \$9,625,599 in unassigned funds.

SUBSEQUENT EVENTS

A review of financial information, the Company's records, and the minutes to the meetings of the Board and Board Committees, for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Company's operations or financial statements. In addition, an inquiry was made of the Company's management regarding subsequent events. The following significant events identified subsequent to December 31, 2021, and through the date of this report are noted.

Fees Due NBIC Service Company

On October 31, 2022, through a Written Consent of the Board of HIH, \$8,000,000 in fees due NBIC Service Company was waived.

Capital Contribution

On February 23, 2023, NBIC received an additional \$5,000,000 capital contribution from its parent, NBIC Holdings Company. The contribution was made to support the Company's business plan, capital levels and to compensate for the 2022 net loss of \$17,188,148 as reflected in the 2022 Annual Statement. The Company's Risk-Based Capital as of December 31, 2021 and 2022, was 423% and 397%, respectively.

Suspension of New Business

On December 8, 2022, the Company notified the Insurance Division that effective March 8, 2023, it will begin suspension of new business writings regarding for of business presently written by NBIC in the state of Rhode Island which includes homeowners and dwelling fire policy forms. During the suspension, no new business will be written by NBIC but full servicing on inforce policies will continue.

CONCLUSION

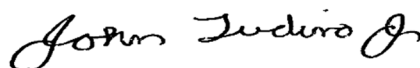
We have applied verification procedures to the data and information contained in this report using sampling techniques and other examination procedures as deemed appropriate. While sampling and other examination procedures do not give complete assurance that all errors and irregularities will be detected, had any been detected during the course of this examination, such errors and/or irregularities would have been disclosed in this report. Other than what may have been noted in the body of this report, we were not informed of, and did not become aware of any errors or irregularities that could have a material effect on the financial condition of the Company as presented in this report.

Participating in the examination with the undersigned were various staff insurance examiners from the Rhode Island Insurance Division. In addition, acknowledgment is made of INS Regulatory Insurance Services, Inc., and INS Consultants for the services rendered to assist with the examination by providing consulting financial examiners and actuarial specialists, respectively.

Respectfully submitted,



Kelly M. Willison, CPA, CFE, CFE (Fraud)
Insurance Examiner-In-Charge
INS Regulatory Insurance Services, Inc., on behalf of
Rhode Island Insurance Division



John Tudino Jr., CFE, CIE, CFSA
Chief Insurance Examiner
Rhode Island Insurance Division