

Report of Examination of

Transport Insurance Company
Cleveland, Ohio

As of December 31, 2010

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Columbus, Ohio
April 1, 2012

Mr. Joseph Torti, III
National Association of Insurance Commissions
Financial Condition (E) Committee
Deputy Director and Superintendent of Insurance
Rhode Island Department of Business Regulation Division of Insurance Regulation
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920-4407

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam and Sir:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Transport Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2005. The Department’s current examination covers the period of January 1, 2006 to and including December 31, 2010.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks, and evaluate 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, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

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

For all years under examination, the Certified Public Accounting firm of Rosen Seymour Shapss Martin & Company, LLP provided an unqualified opinion on the Company's financial statements based on Statutory Accounting Principles. The audited financial reports and work papers were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
Gerald J. Caldwell	President and Chief Executive Officer, Caring Communities Insurance Company
Susan E. Grondine	Vice President and General Counsel, The Company
William E. Lape	Senior Advisor, B&D Consulting, a Division of Baker & Douglas LLP
Andrew W. McCarthy	Vice President, The Company
Alan C. Pollard	Retired
Alan K. Quilter	Chief Operating Officer, R&Q Investment Holdings plc
Kenneth E. Randall	Chief Executive Officer, R&Q Investment Holdings plc
Pamela S. Sellers-Hoelsken	President, The Company

Officers

As of the examination date, the following officers were serving in the designated position:

Name	Title
Pamela S. Sellers-Hoelsken	President
John W. Fischer	Treasurer
Michael L. Glover	Secretary

Susan E. Grondine

Vice President and General Counsel

Andrew W. McCarthy

Vice President

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. On November 30, 2004, Randall & Quilter Investment Holdings plc (“R&Q”) purchased the Company from Great American Insurance Company (“GAIC”) and assigned it to a wholly owned subsidiary company, Cavell America Inc. (now known as Randall & Quilter America Holdings, Inc.). R&Q is a UK holding company, which, through its subsidiaries, is engaged in providing services and exit strategies to the insurance industry. The Parent, now known as Randall & Quilter America Holdings Inc., is a Delaware domiciled company.

Territory and Plan of Operations

The Company is licensed to operate in 34 states and the District of Columbia. The Company has not written any business on a net basis since 1998 and is currently in run-off. Previously, the Company wrote personal automobile business on a direct basis in California, which is ceded 100% to Leader Insurance Company, a former affiliate. The Company has outstanding reserves from workers’ compensation, commercial auto liability, other liability, and reinsurance assumed lines of business. The other liability and reinsurance assumed liabilities primarily consist of asbestos and environmental claims.

Reinsurance

The Company’s workers’ compensation, other liability, private passenger auto, commercial auto and reinsurance assumed lines of business are reinsured by various reinsurance agreements with authorized and unauthorized reinsurers. Cessions to unauthorized reinsurers are typically not collateralized with funds held or letters of credit.

As part of the sale of the Company from GAIC to R&Q, an aggregate reinsurance agreement was entered into between the Company and National Indemnity Company for a premium of \$93 million. This reinsurance agreement protects the Company from losses, loss adjustment expenses (“LAE”), and unrecoverable amounts from other insurers incurred after the purchase date, up to a maximum of \$120 million. Specifically, this contract includes coverage from losses and Defense and Cost Containment LAE but excludes Adjusting and Other Expenses. This contract does not cover the non-standard auto policies and does not apply to certain insureds as per the terms of the reinsurance agreement.

Significant Operating Results

The Company reported the following net underwriting results during the examination period, reported in thousands.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Premiums earned	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Losses incurred	(1,613)	(1,079)	(3,879)	(966)	(4,849)
Loss adjustment exp. incurred	763	3,141	8,972	3,472	5,209
Underwriting expenses incurred	<u>1,035</u>	<u>1,051</u>	<u>1,442</u>	<u>1,284</u>	<u>1,290</u>
Total underwriting deductions	<u>185</u>	<u>3,113</u>	<u>6,535</u>	<u>3,790</u>	<u>1,650</u>
Net underwriting loss	<u>\$ (185)</u>	<u>\$ (3,113)</u>	<u>\$ (6,535)</u>	<u>\$ (3,790)</u>	<u>\$ (1,650)</u>

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Capital and Surplus
December 31, 2010

Bonds	\$ 9,657,125
Cash, cash equivalents, and short-term investments	<u>11,880,530</u>
Subtotal, cash and invested assets	21,537,655
Investment income due and accrued	106,887
Amounts recoverable from reinsurers	21,992,157
Funds held by or deposited with reinsured companies	17,545
Electronic data processing equipment and software	<u>557</u>
Total admitted assets	<u>\$ 43,654,801</u>

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2010**

Losses	\$ 66,208,189
Reinsurance payable on paid losses and loss adjustment expenses	10,564
Loss adjustment expenses	6,486,815
Other expenses	164,569
Current federal and foreign income taxes	1,463,252
Net deferred tax liability	6,769,420
Ceded reinsurance premiums payable	(14)
Funds held by company under reinsurance treaties	117,969
Amounts withheld or retained by company for accounts of others	15,726
Provision for reinsurance	7,222,781
Payable to parent, subsidiaries and affiliates	109,862
Retroactive reinsurance ceded	(59,872,621)
Miscellaneous payable	<u>24,980</u>
Total liabilities	28,721,492
Retroactive reinsurance gain	3,127,852
Common capital stock	3,526,000
Gross paid in and contributed surplus	144,505,663
Unassigned funds (surplus)	<u>(136,226,206)</u>
Total capital and surplus	<u>14,933,309</u>
Total liabilities, capital and surplus	<u>\$ 43,654,801</u>

Statement of Income
As of December 31, 2010

Premiums earned	<u>\$ 0</u>
Losses incurred	(1,613,079)
Loss adjustment expenses incurred	763,030
Other underwriting expenses incurred	<u>1,034,632</u>
Total underwriting deductions	<u>184,583</u>
Net underwriting loss	<u>(184,583)</u>
Net investment income earned	<u>284,819</u>
Net investment gain	<u>284,819</u>
Aggregate write-ins for miscellaneous income:	
Retroactive reinsurance ceded – losses	<u>2,181,258</u>
Total other income	<u>2,181,258</u>
Net Income before federal income taxes	2,281,494
Federal income taxes incurred	<u>1,558,701</u>
Net income	<u>\$ 722,793</u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Capital and surplus, beginning of the year	<u>\$13,361</u>	<u>\$14,697</u>	<u>\$16,238</u>	<u>\$17,647</u>	<u>\$17,069</u>
Net income (loss)	723	(3,491)	(7,387)	(1,692)	(1,663)
Change in net deferred income tax	796	1,930	3,273	(149)	1,404
Change in non-admitted assets	6	1	982	(7)	69
Change in provision for reinsurance	47	7	1,591	439	768
Capital changes	0	1	0	0	0
Surplus adjustment	<u>0</u>	<u>216</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in surplus during the year	<u>1,572</u>	<u>(1,336)</u>	<u>(1,541)</u>	<u>(1,409)</u>	<u>578</u>
Capital and surplus, end of the year	<u>\$14,933</u>	<u>\$13,361</u>	<u>\$14,697</u>	<u>\$16,238</u>	<u>\$17,647</u>

Notes to Financial Statements

Investments

The Company's investment in a BNY Mellon Money Market fund was not in compliance with ORC 3925.08. In early 2011, the Company took the necessary steps in order to comply with ORC 3925.08 which resulted in no gain or loss to the Company.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Christina L. Gwilliam, FCAS, MAAA, of Towers Watson, to render the Company's Statement of Actuarial Opinion ("Opinion"). Ms. Gwilliam prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2010 Annual Statement.

Mary D. Miller, FCAS, MAAA, Assistant Director, Product Regulation and Actuarial Services, of the Department, reviewed the actuarial report provided by Ms. Gwilliam. Based on her review, Ms. Miller determined the loss and LAE reserves presented in the Company's 2010 Annual Statement are reasonably stated.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Assets	<u>\$ 43,654,801</u>
Liabilities	28,721,492
Capital and Surplus	<u>14,933,309</u>
Total Liabilities, Capital and Surplus	<u>\$ 43,654,801</u>

Subsequent Events

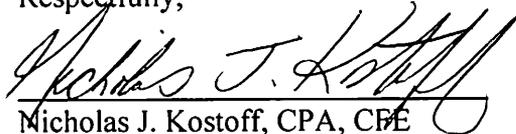
Reinsurance receivables due from reinsurers in the amount of \$12.3 million were subject of pending litigation in the California Court of Appeals. On January 13, 2012, the California Court of Appeals affirmed in full a decision of a lower court denying the Company's claim for this reinsurance recoverable. The Company recorded the effect of this decision in its 2011 financial statements. For the year ended December 31, 2011, the Company recorded a net loss of \$15,261,686, statutory surplus of \$8,710,942, liabilities of \$30,631,332 and total assets of \$39,342,275.

On April 5, 2012, the Ohio Department of Insurance approved the Company's request to acquire via contribution 100% of the issued and outstanding shares of GoldStreet Insurance Company ("GoldStreet") from its immediate parent, Randall & Quilter America Holdings Inc. Once finalized, GoldStreet will become a wholly-owned subsidiary of the Company.

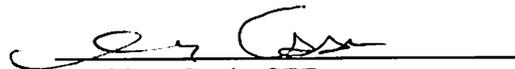
Acknowledgement

In addition to the undersigned, Jeffrey Ferris, AES, CFE, CISA; David Finkler, CPA, CFE; Ryan Gibson, CFE; Mary Miller, FCAS, MAAA; and Bradley Schroer, of the Department, participated in this examination.

Respectfully,



Nicholas J. Kostoff, CPA, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

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1. The purpose of this document is to provide a comprehensive overview of the project's objectives and scope.

2. The project is designed to address the current challenges faced by the organization.

3. The primary goal is to enhance operational efficiency and reduce costs.

4. This document will serve as a reference for all project-related activities.

2. Objectives

The main objective of the project is to implement a new system that will streamline the workflow and improve data accuracy. This will be achieved through a series of phases, including analysis, design, development, testing, and deployment. The project is expected to be completed within a six-month period.

The project will be managed using a structured approach, with regular communication and reporting to ensure transparency and accountability. The success of the project will be measured by the extent to which the objectives are met and the user satisfaction levels.

3. Scope

The project scope includes the development and implementation of the core system components, as well as the training of end-users. It does not include the procurement of hardware or the integration with existing legacy systems.

Project Manager
Name: [Name]
Title: [Title]
Contact: [Contact]

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Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2010.

Nicholas J. Kostoff 4/23/12 *Jan Chan* 4/23/12
Examiner-In-Charge Date Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 23 day of April, 2012.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~ 2017
My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 23 day of April, 2012.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~ 2017
My Commission Expires

APR 23 2015

Elizabeth Chase

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2015

APR 23 2015

Elizabeth Chase

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2015