

RISK POOL PRACTICES AGREEMENT

Now come New Hampshire Public Risk Management Exchange, 46 Donovan Street, Concord, NH 03301 ("Primex") and the New Hampshire Secretary of State, by and through the New Hampshire Bureau of Securities Regulations (the "Bureau") and hereby stipulate and agree to the terms stated in this RISK POOL PRACTICES AGREEMENT (the "Agreement"). Primex and the Bureau are collectively referred to herein as the "Parties" and singularly as a "Party." Capitalized terms are defined in Appendix A which is incorporated by reference as though set forth herein.

Recitals

1.0 The following recitals in Section 1 below are a material part of this Agreement and the Parties have relied upon them in entering into this Agreement.

Statutory Framework

1.1. Primex operates one or more pooled risk management programs ("Pools" or "pooled risk programs") pursuant to RSA ch. 5-B.

1.2 The purpose for operating a pooled risk program is:

[I]nsurance and risk management [are] essential to the proper functioning of political subdivisions; that risk management can be achieved through purchase of traditional insurance or by participation in pooled risk management programs established for the benefit of political subdivisions; that pooled risk management is an essential governmental function by providing focused public sector loss prevention programs, accrual of interest and dividend earnings which may be returned to the public benefit and establishment of costs predicated solely on the actual experience of political subdivisions within the state; that the resources of political subdivisions are presently burdened by the securing of insurance protection through standard carriers; and that pooled risk management programs which meet the standards established by this chapter should not be subject to insurance regulation and taxation by the state.

RSA 5-B:1. It is the intent of the Parties that the operation of the Primex Pools be consistent with the letter, spirit and intent of RSA ch. 5-B and this Agreement, and that the operation of pooled risk programs by Primex be open, transparent and for the sole and exclusive purpose of supporting the political subdivisions participating in the Pools ("Members").

1.3 The Bureau has legal authority to enforce New Hampshire law regarding the regulation of the operations of the Primex Pools and to inquire and determine that the Pools are managed in conformity with RSA ch. 5-B. *See* RSA 5-B:4-a. Included in this regulatory authority is the Bureau's right and responsibility to conduct formal and informal investigations and examinations, the right to issue orders designed to address instances of non-compliance with RSA ch. 5-B and 421-B and the right to initiate enforcement proceedings should a Pool contest an enforcement action. *Id.* Included in the foregoing is the Bureau's right, authority and power to negotiate informal resolutions with pooled risk programs under its jurisdiction.

1.4 The Bureau first was assigned regulatory responsibility for pooled risk programs on June 29, 2009 and its current regulatory powers did not become effective until June 14, 2010. Prior to June 29, 2009, the Secretary of State only had the authority to collect and maintain financial statements, but not to act upon any irregularity apparent therein.

Relevant Background

1.5 The Bureau commenced an investigation of pooled risk programs operated by the Local Government Center ("LGC") in 2010. The investigation resulted in the release of a report and the issuance of an enforcement order demanding that LGC comply with RSA ch. 5-B by, *inter alia*:

- Operating its Pools exclusively through legal entities organized under the laws of New Hampshire, and not under the laws of any other state;
- Ensuring that each New Hampshire entity be governed directly by a board of directors whose members are chosen completely in conformity with the standards set out in RSA 5-B:5,I,b and subject to written bylaws and not other forms of governance documents;
- Returning all earnings and surpluses in excess of amounts required for the proper administration of the Pools, payment of claims, maintenance of reserves, and purchase of excess insurance coverage;
- Discontinuing the practice of subsidizing the operation of pooled risk programs with monies collected through premiums and investments related to other pooled risk programs; and
- Operating its Pools in compliance with the letter, spirit and intent of RSA ch. 5-B.

1.6 After the Bureau's investigation of LGC became publicly known, the Bureau received a complaint dated June 1, 2010 that in some respects made similar complaints against New Hampshire's other RSA 5-B entities, namely Primex and SchoolCare (the "other pools complaint"). The LGC, orally and in writing, has subsequently made inquiry about the complaint filed against Primex and SchoolCare and challenged the Bureau's decision to marshal its limited resources to first complete the enforcement action against the LGC before taking action with regard to allegations contained in the "other pools complaint." The LGC has also asserted as a defense to the enforcement action that the Bureau is engaged in selective prosecution against it, a defense that the Bureau denies.

1.7 As part of the enforcement action against the LGC, the Bureau and LGC engaged in settlement discussions. LGC insisted that Primex and SchoolCare participate with regard to industry issues impacting operations of all pools. At the invitation of the Bureau, Primex voluntarily agreed to participate in said discussions and later agreed to participate in direct two-party negotiations with the Bureau. Primex, in its communications and actions, has demonstrated an intention to be open and transparent with the regulator and its risk pool members, and to promptly and efficiently work toward a mutual agreement regarding best practices for the benefit of public entity risk pool members. In addition to reaching agreement on pooling best practices, Primex requested that the "other pools complaint" be appropriately reviewed, addressed and resolved as it pertains to Primex. The Bureau, after conducting an on-site examination has agreed to do so.

1.8. As part of the two-party discussions, Primex voluntarily permitted the Bureau to conduct an on-site examination of its operations and certified to the Bureau the accuracy of the books and records provided to the Bureau for review and the representations made to the Bureau by its officers, counsel and staff as part of the examination. *See* Appendix B. Primex was cooperative, responsive, respectful and open in its dealings with the Bureau. The Bureau is satisfied with the results of the on-site examination.

The Primex Operations

1.9 Primex operates as a New Hampshire trust that was formed in 1980. Primex has a written trust agreement and bylaws that govern its operations that are on file with the Bureau. The bylaws originated in 1998. Primex has never operated, nor attempted to operate, through an entity organized under the laws of another state.

1.10 The governing board of the Primex trust is selected in conformity with RSA 5-B:5,I,b and the board operates with the benefit of clear written policies that prohibit self dealing, conflicts or other unethical activities and that define financial and other internal controls.

1.11 Primex operates pooled risk programs that offer Members coverages similar or equivalent to property and liability insurance, workers compensation insurance and unemployment compensation insurance. The premiums for these programs are exclusively paid by political subdivisions or their instrumentalities, and not directly by individuals. Primex also provides risk management, training, member services and claims management directly associated with these lines of coverage.

1.12 Beginning in 2004, Primex also offered health coverage. A portion of the premiums for this program was indirectly paid by active and retired public employees or through COBRA. In 2011, the Primex board decided to discontinue this program and, except for the winding up of outstanding claims and other commitments, will no longer offer this program after June 30, 2012. Primex has not used health premiums, employee contributions or retiree payments to support other coverage programs. In an effort to be transparent, the Bureau requested and Primex agreed to include a description of the Primex Board's decision making with respect to its health coverage as Appendix C.

1.13 Primex does not maintain a staff dedicated to lobbying activities, although it occasionally contracts with an outside law firm to represent its interests in legislative matters which relate to RSA 5-B or risk pool coverage lines. Primex does not require its Members to belong to or participate in the activities of any other organization or municipal lobbying entity.

1.14 Primex directly owns the land and building from which it principally conducts business located at 46 Donovan Street, Concord, New Hampshire 03301. Primex does not own any real estate at any other location.

1.15 Primex does not operate its business through the use of a parent and subsidiary corporate model of organization. Primex is organized as a New Hampshire trust.

1.16 Primex has received "Best Practices" certifications from the Association of Governmental Risk Pools ("AGRiP") from 2009 through 2014. AGRiP was organized in late 1998 as a

membership organization for public entity risk and benefits pools in North America. It is a successor to the pooling section that operated for nearly 20 years under the auspices of the Public Risk Management Association.

Provisions of the Agreement

2.0 Based upon the foregoing recitals, the Parties agree to the following terms and conditions applicable to the operation of the Primex Pools as of the Effective Date of this Agreement.

Board Governance

2.1 Primex, in the event it offers employee benefit coverages in the future (health, dental, disability, pharmacy and the like) shall create and maintain for such coverages a separate and distinct New Hampshire risk pool entity governed by an independent board. This is in recognition that such coverages collect premiums obtained directly or indirectly from active or retired employees of members or directly from other individuals. Primex's existing coverage lines of workers compensation, property-liability and unemployment compensation are in the nature of property-casualty coverages that do not obtain premiums directly or indirectly from active or retired employees and may be operated under one risk pool with a single governing board separate and distinct from any potential future employee benefits pool. The governing boards of any such separate pools shall be composed of directors selected in conformity with RSA 5-B:5,I,b. Primex has not, and shall not in the future, offer lines of coverage not specifically approved by statute. See RSA 5-B:3,III.

2.2 All Primex governing boards in existence or created during the Term of this Agreement shall comply with the following terms, in addition to the express terms of RSA ch. 5-B and in addition to the terms stated in the preceding section:

2.2.1 No board shall exceed eleven (11) members nor be less than five (5) members. Each board shall include at least one (1) board member elected on an unweighted basis by the participating Members. No board term shall exceed three years and no board member shall serve more than three consecutive terms.

2.2.2 Each Primex board shall adopt and operate pursuant to written bylaws and written policies that address financial and internal controls, prohibit conflicts of interest and self-dealing, and address business ethics. The written policies shall generally conform with best practices in the industry described in the publications of AGRiP or similar organizations and shall be submitted to the Bureau for approval prior to their adoption. The Bureau acknowledges that Primex's current bylaws and written policies meet these standards. Further, said written policies shall expressly recognize as a disqualifying conflict of interest any board member's use of or participation in any employment search conducted by Primex on behalf of a political subdivision that is then a Member in a Primex Pool during a period of time that extends from three years before to three years after the contemplated board service. There is no evidence that Primex engages in this practice and Primex agrees not to engage in this practice in the future.

2.2.3 By written policy and supported by appropriate training and budgeting, Primex shall provide its board(s) with direct access to consultants and lawyers independent from consultants and legal counsel retained for Primex by its management, officers and general counsel. Said

retention of independent consultants and lawyers shall be for the purpose of allowing board members to obtain second opinions and different perspectives on important business, financial, actuarial, and legal issues apart from those opinions and perspectives that may be proposed and supported by management. Primex currently operates in this manner in that its board members can have access to outside expertise. Primex will memorialize these requirements in the form of a written policy and through adoption of a specific budget line item to provide funds for board retention of consultants and lawyers.

2.3 Primex agrees that its most senior executive officer, generally referred to as a CEO, shall be selected or confirmed by the board(s) and that only persons experienced in the operations of risk pools or insurance companies shall be eligible for appointment or retention as CEO. Primex's present CEO meets these requirements.

Surplus and Reserves

3.0 Primex acknowledges that RSA Ch. 5-B requires pools to annually return surplus funds, in excess of any amounts required for administration, claims, reserves and purchase of excess insurance, to its Members. Primex believed it complied with RSA Ch. 5-B's provisions concerning surplus by choosing to return this surplus to members in the form of cash, and in recent years, Crediting Rates. The Bureau does not agree that the use of Crediting Rates is appropriate and desires all pools to comply with RSA Ch. 5-B's surplus return requirement in a different manner, as described in section 3.5 below. Primex agrees to implement the Bureau's preferred surplus return methodology.

3.1 By specific and express board resolution, with the assistance of actuaries and other consultants and in the exercise of sound business judgment, Primex shall adopt a means of calculating Loss Reserves for each of its coverage lines and a means of calculating Contingent Reserves for each of its coverage lines. Said resolution shall expressly provide that funds held by Primex in any form, including in investments and cash, in excess of Loss Reserves and Contingent Reserves shall be considered Surplus. All such Surplus shall be returned to Members annually. Primex agrees that it may not deviate from the below stated method for calculating Contingent Reserve targets without the adoption of a board resolution at least thirty (30) days prior to the deviation, and said resolution shall expressly state each and every reason, including but not limited to an actuarial analysis, in support of the deviation. Primex recognizes that a change in Loss or Contingent Reserves may cause a resultant change in surplus and member premiums, and these changes may impact upon the operations of the Members. The board resolution in support of the deviation from the established target for Contingent Reserves shall be distributed to each and every Member and to the Bureau by electronic or regular mail and shall be posted for public review on the Primex web site upon adoption.

3.2 On or before the Effective Date, by specific and express board resolution, Primex shall adopt the following Risk Based Capital levels ("RBC") as a means of mathematically calculating Contingent Reserves as targets for each coverage line. For the initial term of this Agreement, the calculation of Loss Reserves and RBC for the Contingent Reserves for the Primex lines of coverage shall be as follows:

3.3 Loss Reserves shall be based on an actuarially determined point estimate and associated range of values, within which range Primex shall determine the reasonable and prudent Loss Reserves for each coverage line.

3.4 Contingent Reserves shall be based for each coverage line on Risk Based Capital principles, at a target level not to exceed 3.0 as determined by Primex.

3.5 The Parties agree that the adoption of the above-referenced Loss and Contingent Reserves will at present result in Primex having Surplus in the approximate amount of \$16-\$21 million on annual premium revenues of approximately \$30 million. The Parties further agree that Primex shall return this Surplus in three phases as follows.

3.5.1 Phase I: Primex shall return approximately \$8 million to its eligible Members as soon as practicable, but not later than September 30, 2012. Primex agrees that the Members eligible to receive this return of Surplus shall be determined by coverage line and shall include those Members who participated in each such coverage line as of June 29, 2009 and who are Members in that coverage line as of the time the Surplus is distributed. Primex may consider the nature of its current investment holdings, the timing of its plan and underwriting years and when premiums are received in determining when to complete the Phase I return of Surplus.

3.5.2 Phase II: Primex shall return approximately \$8 million to its eligible Members as soon as practicable, but not later than December 31, 2013. Primex agrees that the Members eligible to receive this return of Surplus shall be determined by coverage line and shall include those Members who participated in each such coverage line as of June 29, 2009 and who are Members in that coverage line as of the time the Surplus is distributed. Primex may consider the nature of its current investment holdings, the timing of its plan and underwriting years and when premiums are received in determining when to complete the Phase II return of Surplus.

3.5.3 Phase III Primex shall return an amount not to exceed \$5 million to its eligible Members as soon as practicable, but not later than December 31, 2014. The amount of Surplus to be returned by Primex in Phase III shall be negotiated between the Parties no later than September 30, 2013. The Parties shall consider the following concerns in their negotiation of the amount of Surplus to be returned in Phase III: any unbudgeted and unreserved costs associated with the run out and wrap up of the health program, the financial needs of the unemployment compensation line of coverage which is currently experiencing adverse claims experience and any changes in industry practices that may result from the LGC enforcement action or legislation. Primex agrees that the Members eligible to receive this return of Surplus shall be determined by coverage line and shall include those Members who participated in each coverage line as of June 29, 2009 and who are Members in the Primex Pools as of the time the Surplus is distributed. Primex may consider the nature of its current investment holdings, the timing of its plan and underwriting years and when premiums are received in determining when to complete the Phase III return of Surplus

3.5.4 All returns of Surplus shall be in the form of Premium Holidays in which Primex will forego, in whole or in part, premium payments from Members. Surplus shall not be returned through the use of Crediting Rates.

Annual Returns of Surplus

4.0 Annual returns of Surplus shall be determined by Primex for adequately developed plan years based on its audited financial statements. Each Member shall be advised electronically or in writing of the amount of Surplus, if any, how much the Member is entitled to receive in return of the Surplus, and when that Member will receive a Premium Holiday as re-payment of Surplus to the Member. Primex shall advise the Bureau in writing of the amounts and timing of annual returns of Surplus no later than 90 days after Primex receives its completed audited financial statement. Surpluses shall not be returned through the use of Crediting Rates.

Investments

5.0 No later than 24 months after the Effective Date, Primex shall cause all of its investments to be compliant with the requirements imposed upon municipalities pursuant to RSA 35:9, allowing for exceptions for investments in inter-pool loans (i.e., property-casualty pool to employee benefits pool, or vice versa) and other non-compliant investments which together shall not exceed ten (10) percent of the entire Primex investment portfolio.

5.1 The ownership of real estate from which Primex operates its business shall not be considered an investment. The ownership shall be considered a capital asset. Primex agrees that it shall not own real estate as an investment due to the illiquid nature of investment in realty.

5.2 Primex may except from compliance with RSA 35:9 any loan made between or among separate risk pool boards maintained for different categories of coverage (e.g., property-casualty on the one hand and employee benefits on the other) so long as such loans are commercially reasonable in terms of having a fixed repayment schedule and interest, the loans are clearly documented when made and approved in advance by the appropriate board(s) before they are made. Such loans shall be considered a part of the Primex investment portfolio. A notice of the making of a loan between or among risk pools shall be contemporaneously posted on the Primex web site when board approval is granted. The Parties agree that Primex shall not cause monies to be transferred between or among risk pools representing the two different categories of coverage except as commercially reasonable loans.

5.3 Primex's investment portfolio may vary from RSA 35:9 investments to an amount not to exceed ten percent (10%) of its overall portfolio value, including any investments in risk pool board loans and otherwise non-compliant investments provided such non-compliant investments are specifically approved for investment by a non-life insurer pursuant to RSA 402:28, I, with the exception of 402:28, I, o.

5.4 Primex's membership related contributions to Government Entities Mutual reinsurance pool shall be considered a RSA 35:9 compliant investment if Government Entities Mutual causes same to be invested in vehicles which would be allowed by RSA 35:9 if directly invested by Primex so long as Primex's membership may be liquidated in 12 months or less. Primex shall negotiate any changes necessary to comply with this Agreement in its membership agreement no later than 24 months after the effective date.

5.5 Primex shall annually file the formal investment policy statement(s) adopted by its board(s) with the Bureau and shall publish its investment policy statement(s) on its web site.

The current investment policy statements shall be modified to reflect the terms of this Agreement.

General Terms and Conditions

6.0 This Agreement is intended by the Parties to be a binding contract fully enforceable in a court of law or through an administrative enforcement action as of the time of its execution by both parties.

6.1 This Agreement shall be governed by the laws of the state of New Hampshire without reference to its conflicts of laws principles.

6.2 The Effective Date for this Agreement is upon execution by both parties. . Modification of this Agreement may occur only as a result of a written agreement executed by the Parties. To the extent either Party encounters unanticipated hardship as a result of any provision of this Agreement, the Parties agree to negotiate proposed ameliorative modifications in good faith.

6.3 The Term of this Agreement is five years from the Effective Date. Primex shall have a reasonable period of time to implement any policy or procedural changes required by this Agreement and shall begin working on same forthwith.

6.4 In negotiating and agreeing to be bound by the terms of this Agreement, each Party has relied upon the representations and warranties, all of which are set forth herein, made to it by the other Party, its officers, directors, legal counsel, and agents.

6.5 The provisions set forth in this Agreement constitute the Parties' entire Agreement, and supersede all prior agreements, discussions, negotiations and understandings, written or oral.

6.6 This Agreement is not intended to constitute an admission of any fact or circumstance not expressly stated herein. The Agreement is not evidence of wrongdoing or misconduct. Primex expressly denies any misconduct and has voluntarily entered into this Agreement to promote transparency and cooperation with the regulatory authority and reach agreement on certain important best practices for risk pools. Primex, its employees, officers, and agents have not been coerced or threatened to induce their execution of this Agreement. No promises have been made by the Bureau to Primex except those expressed herein.

6.7 This Agreement was jointly negotiated by the Parties and is not to be strictly construed for or against any party. Headings are merely for convenience and not a part of this Agreement. Appendices A, B and C are a part of this Agreement and are incorporated by reference.

6.8 In addition to the terms of this Agreement, Primex agrees to obey all laws pertaining to the operation of its Pools, to the extent the provisions of said laws are not inconsistent with this Agreement. These laws include, but are not limited to, RSA 5-B, 15:5, 35:9, 281-A, 282-A and 421-B:26-a.

6.9 In light of Primex's cooperation and transparency, the results of the Bureau's on-site examination of Primex, Primex' history and organizational structure, and this best practices agreement, the Bureau agrees that any sanctions, fines and fees are waived. Costs in the amount

of \$10,000.00 are assessed against Primex for the voluntary on-site examination but are suspended pending Primex's compliance with the terms of this Agreement.

6.10 As this is a voluntary agreement, an enforcement action was not begun against Primex pursuant to RSA 5-B:4-a. Nonetheless, Primex, by entering into this Agreement voluntarily waives its rights to an administrative proceeding and any appeal therefrom.

6.11 The Bureau forever releases, discharges and waives any enforcement, legal or regulatory action or remedy based on, related to, or arising out of the conduct of Primex (including the Primex trust, its trustees, officers, employees and agents) expressly described in the Recitals to this Agreement, or as alleged, described or questioned in the other pools complaint, up to and including the Effective Date of this Agreement. In light of Primex's disclosure in Appendix C advising its Members about the business reasons for discontinuing the health coverage line, it is agreed that Primex need not create an independent board or otherwise alter current operations to manage the remaining several months, wrap up, and run out of the health program. Any funds remaining in the health program after run out and wrap up shall be re-paid to the other Primex pools that contributed to the health program.

6.12 Primex and the Bureau agree not to take any action or make any public statement, including statements made in regulatory filings, that are inconsistent with the recitals, terms or conditions of this agreement.

6.13 In signing this Agreement, Primex's representative warrants that he has the authorization of the Primex Board of Trustees and the Bureau's representative warrants that he has the authorization of the New Hampshire Secretary of State.

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK.

THE PARTIES EXECUTE THIS AGREEMENT AFTER FULL OPPORTUNITY TO CONSULT WITH COUNSEL AND AGREE TO BE FULLY BOUND BY ITS TERMS AND CONDITIONS.

New Hampshire Public Risk Management Exchange ("Primex")

By: 
Ty Gagne, CEO, Duly
Authorized

Date: 3-26-2012

New Hampshire Secretary of State

By: 
~~Duly Authorized by the~~ Secretary of State

Date: 3-23-2012

APPENDIX A

Definitions

The underlined terms used herein shall have the meanings indicated.

Agreement shall mean the Risk Pool Practices Agreement executed between the Parties on or about March 22, 2012.

AGRiP shall refer to a membership organization formed in late 1998 for public entity risk and benefits pools in North America. It is a successor to the pooling section that operated for nearly 20 years under the auspices of the Public Risk Management Association.

Bureau refers to the New Hampshire Bureau of Securities Regulation of the office of the New Hampshire Secretary of State.

COBRA refers to the Consolidated Omnibus Budget Reconciliation Act.

Contingent Reserves means funds reserved for all business risks not included in Loss Reserves, including but not limited to excess claim losses, underwriting risk, premium risk, catastrophic claim losses, adverse market developments, uncollectible ceded reinsurance, capital asset losses, and capital investment losses.

Crediting Rates means utilizing Surplus to reduce rating factors or variables in the rating model.

Effective Date means upon execution by both parties.

Loss Reserves means the sum of funds (i) reserved for claims reported but not fully settled ("Case Reserves") including loss adjustment expenses related to such claims, (ii) reserved for incurred but not reported claims ("IBNR") including (x) estimates of future loss adjustment expenses (excluding paid ULAE) relating to such claims and (y) reserves for adverse development on known claims. Loss adjustment expenses include allocated and unallocated loss adjustment expenses. Loss Reserves do not include claims which have been settled but not paid as of the financial statement date and which are recorded as "Claims Payable" or equivalent balance sheet liability nor do Loss Reserves include any company expenses not related to claims and generally referred to as "Underwriting Expenses."

Members refers to those political subdivisions who have signed participating agreements or who are otherwise contractually permitted to participate in one or more Primex Pools.

Parties or Party shall refer to the Bureau and Primex.

Pools or Pooled Risk Programs refers to programs of self-insurance or through which insurance is purchased for political subdivisions of the State of New Hampshire pursuant to RSA 5-B.

Premium Holiday means utilizing surplus to reduce a member's calculated and invoiced coverage premium.

Primex refers to a New Hampshire trust known as the New Hampshire Public Risk Management Exchange with offices located at 46 Donovan Street, Concord, NH 03301.

Primex Pool(s) refers to one or more lines of coverage offered by Primex to its Members.

Risk Based Capital refers to a method utilized by the National Association of Insurance Commissioners and actuaries to calculate and measure Contingent Reserves.

Surplus means funds held in excess of the sum of Loss Reserves and Contingency Reserves.

Term means the term of this Agreement which is for a period of five (5) years beginning on the Effective Date of July 1, 2012.

APPENDIX B

Primex Certification



Bow Brook Place
46 Donovan Street
Concord, NH 03301-2624

(603) 225-2841
(800) 698-2364

www.nhprimex.org

Fax Numbers

Claims
(603) 228-3833

Education, Training & Consulting
(603) 228-3905

Primex³ Finance & Health
(603) 226-6903

Member Services/
Risk Management Services
(603) 228-0650

March 20, 2012

The State of New Hampshire
Department of State
Bureau of Securities Regulation (BSR)
Attention: Kevin Bannon
107 North Main Street Room 204
Concord, NH 03301-4989

Dear Mr. Long:

This letter is in connection with your Office's on-site examination of Primex. We understand the examination included reviews of financial statements, supporting documentation and transactions from FY 2006 to FY 2011 (the "financial statements") as well as other specific scope items.

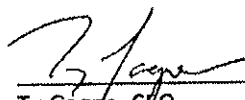
During the examination your Office had discussions with the Chief Executive Officer and Director of Finance and received copies of documentation from them as a result of these discussions. We also understand that your Office did not perform an examination of Primex internal controls and will not be issuing an opinion on any financial statements.

We confirm, to the best of our knowledge and belief, that the following representations made to your Office during the examination are accurate as of the date of your Office's last fieldwork date of March 19, 2012, and pertain to the period covered by our audited financial statements for FY 2006 through FY 2010.

1. We have made available all of the following, relative to your questions asked:
 - a. Financial statements, records and related data;
 - b. Where applicable, minutes of all Board of Director and Board Committees meetings from FY 2006 to FY 2011 meetings
2. We are responsible for the fair and proper presentation of the financial information in financial reports submitted.
3. The financial statements given to your Office are fairly presented in conformity with generally accepted accounting principles.
4. The accounting records underlying our financial statements accurately and fairly reflect, in reasonable detail, the transactions of our business.

5. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.
6. Primex has satisfactory title to all owned assets reported in the financial statements, except for the land and building, cash and some investments which are security for a note payable to a bank; and restricted cash to comply with the requirements of a reinsurance agreement, as per footnote disclosure in the audited financial statements.
7. We have no undisclosed plans or intentions that materially affect the carrying value or classification of assets and liabilities. (note: In May 2012, Primex plans to pay the note in full relative to the building and retirement plan initial funding costs; Primex plans to make a return of surplus; Primex has intention to purchase on-site training apparatus).
8. Guarantees under which Primex has material contingent liabilities have been properly reported or disclosed.
9. Provisions, where material, have been made to reduce asset values to their estimated net realizable value.
10. Related party transactions between entities, management and Board members and their related accounts receivable or payable, including distribution, contributions, transfers, assessments, loans, and guarantees, have been properly recorded and disclosed.
11. People identified as having authority to approve expenditures identified in our examination; at the gross amounts identified in the transactions, have in fact that authority.
12. There are no
 - a. Possible violations of laws or regulations whose effects should be considered for disclosure, which have not been disclosed, in the financial statements or to the BSR, as a basis for recording a loss contingency;
 - b. Material liabilities or gain or loss contingencies that are required to be accrued or disclosed beyond those contained in the financial statements; or
 - c. Unasserted claims or assessments that are probable of assertion and that must be disclosed.
13. We have complied with all respects of contractual agreements that would have material effect on the financial statements in the event of noncompliance.

14. No material events or transactions have occurred subsequent to December 31, 2010 that have not been properly recorded in the financial statements or disclosed in the notes.
15. We have made all material, recommended auditor adjustments to the financial statements.
16. There has been no material fraud involving
- a. Management or employees;
 - b. Others that could have a material effect on the financial statements.
17. We are responsible for establishing and maintaining internal control.



Ty Gagne, CEO

3/20/12
Date



Julie Converse, Director of Finance

3/20/2012
Date

Appendix C

Primex Health Program Financial Overview

Primex, in 2003, began discussing and evaluating the feasibility of developing a health coverage program. Reasons identified for entering the market included bringing an additional option to the marketplace for the benefit of the public sector, integrating occupational and non-occupational healthcare, and enabling Primex to compete with other pools and carriers who packaged their coverages. The Primex Board of Trustees appointed a Health Care Program Development Committee. The Board of Trustees, on the recommendation of the Health Care Program Development Committee, approved a work plan and development budget of \$500,000. Ultimately, Harvard Pilgrim was identified for claims administration and network access due to their not-for-profit status, strong regional presence and high quality service. Primex executed an Administrative Services Agreement with Harvard Pilgrim in 2004, and established July 1, 2004 for program implementation. The Administrative Services Agreement was not exclusive and did not prevent Harvard Pilgrim from offering claims administration or health insurance to municipalities in New Hampshire.

In April 2011, the Primex Board of Trustees unanimously voted to discontinue the Primex Health Program effective June 30, 2012. Reasons identified for exiting the market included insufficient progress in achieving scale, inability to price competitively without making underwriting compromises, the program's dependence on Primex for financial support, rising health care claims and cost trends, and the expenses and uncertainties associated with healthcare coverage mandates. Primex immediately notified its members of the Board of Trustees' decision to discontinue healthcare coverage and the reasons for its decision and devoted considerable resources to explaining the reasons for the decision to its Members. In both entering and exiting the healthcare coverage field Primex has worked hard to be transparent about its decisions. Primex has also dedicated significant time to assisting members with transition related questions.

The Primex Health Program, with infrequent exception, carried a negative balance throughout its history, with year ending balances ranging from a negative \$3,722,710 to a negative \$27,215. Efforts to bring the program positive prior to 2011 were, for the most part, unsuccessful, and the program's highest negative year-ending balance occurred in 2010 and this was a significant factor in the Board's April 2011 decision to exit the market. However, Primex's December 2011 unaudited financial information indicates that the Primex Health Program had made significant progress and was \$136,347 positive as of December 31, 2011. This is attributed to certain groups with high losses departing the program in anticipation of program termination.

Health claims will be processed and paid up to December 31, 2012, inclusive of program run-out. In addition, the program will incur administrative expense allocations during run-out. Because Primex does not anticipate premium revenue during run-out, it expects a negative

balance of an uncertain amount at final program wrap-up, taking into account its stop loss insurance coverage with essentially a self-insured retention of \$200,000 per claim, a \$2,000,000 annual maximum per claim, and an unlimited lifetime maximum per claimant.