



**THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
**ASSOCIATED INDUSTRIES OF MASSACHUSETTS MUTUAL
INSURANCE COMPANY**

Burlington, Massachusetts

As of December 31, 2008

NAIC GROUP CODE 2498

NAIC COMPANY CODE 33758

EMPLOYERS ID NO. 22-2946313

For Informational purposes Only

**ASSOCIATED INDUSTRIES OF MASSACHUSETTS MUTUAL INSURANCE
COMPANY**

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Status of Prior Examination Findings	2
History	3
General	3
Guaranty Capital	4
Dividends to Shareholders	4
Dividends to Policyholders	4
Growth of Company	5
Management	5
Annual Meeting	5
Board of Directors	5
Committees of the Board of Directors	7
Officers	7
Conflict of Interest Procedures	7
Corporate Records	8
Articles of Organization and Bylaws	8
Disaster Recovery and Business Continuity	8
Minutes of the Meetings of the Board of Directors	8
Affiliated Companies	8
Organization Chart	9
Management Agreement	9
Tax Sharing Agreement	9
Fidelity Bonds and Other Insurance	10
Statutory Deposits	10
Insurance Products and Related Practices	10
Territory and Plan of Operation	10
Treatment of Policyholders	11
Reinsurance	11
Pooling Agreement	11
Voluntary Business	11
Assigned Risk Business	14
Subsequent Events	14
Accounts and Records	14
Financial Statements	15
Statement of Assets, Liabilities, Surplus and Other Funds	16
Underwriting and Investment Exhibit Statement of Income	18
Reconciliation of Capital and Surplus, 2004 - 2008	19
Notes to the Financial Statements	20
Comments and Recommendations	21
Acknowledgement	22



COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

1000 Washington Street Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • FAX (617) 521-7771
TTY/TDD (617) 521-7490
<http://www.state.ma.us/doi>

DEVAL PATRICK
GOVERNOR

TIMOTHY MURRAY
LIEUTENANT GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

April 26, 2010

The Honorable Alfred Gross, Chairman
Financial Condition (E) Committee, NAIC
Commissioner of Insurance
Bureau of Insurance
Commonwealth of Virginia
1300 East Main Street
Richmond, VA 23219

The Honorable Paulette Thabault, Secretary
Northeastern Zone, NAIC
Commissioner of Insurance
Department of Banking, Insurance,
Securities and Health Care Administration
Insurance Division
89 Main Street
Montpelier, VT 05620-3101

The Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioners:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

**ASSOCIATED INDUSTRIES OF MASSACHUSETTS MUTUAL
INSURANCE COMPANY**

at its home office located at 54 Third Avenue, Burlington, MA, 01803. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Associated Industries of Massachusetts Mutual Insurance Company (hereinafter referred to as “Company” or “A.I.M. Mutual”) was last examined as of December 31, 2003 under the association plan of the *National Association of Insurance Commissioners* (“NAIC”) by the Massachusetts Division of Insurance (“Division”). The current association plan examination was also conducted by the Division and covers the period from January 1, 2004 through December 31, 2008, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Concurrent with this examination, the following insurance affiliates in the A.I.M. Mutual insurance group were also examined and separate Reports of Examination have been issued:

Associated Employers Insurance Company
Massachusetts Employers Insurance Company
Employers Security Assurance Company

The examination was conducted in accordance with standards established by the Financial Condition (E) Committee of the NAIC as well as with the requirements of the NAIC Financial Condition Examiner’s Handbook, the examination standards of the Division and consistent with Massachusetts General Laws (“M.G.L.”). The principal focus of the examination was 2008 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Company, the examination included a review of the Company’s business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by Ernst & Young LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2004 through 2008. A review and use of the Certified Public Accountants’ work papers was made to the extent deemed appropriate and effective. An independent certified public accounting and actuarial firm, KPMG LLP, was retained by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2008. An evaluation of the adequacy and effectiveness of the Information Technology Systems’ controls was done to determine the level of reliance to be placed on summary information generated by the data processing systems.

Status of Prior Examination Findings

The prior report of examination did not have any findings.

HISTORY

General

The Company was originally organized as a reciprocal insurance exchange, named Massachusetts Employers Insurance Exchange (“MEIE”). The Company received a provisional Certificate of Authority effective December 9, 1988, commenced business on January 1, 1989 and received a permanent Certificate of Authority on June 9, 1989. MEIE was a cooperative organization where workers’ compensation and employers’ liability coverages had been provided on an exchange basis through mutual covenants executed among MEIE’s subscribers and a designated attorney-in-fact for MEIE; the subscribers thereby insured one another. MEIE’s subscribers were also members of MEIE’s sponsoring organization: Associated Industries of Massachusetts, Inc. (“AIM”), a not-for-profit employer service organization.

During 1995, MEIE’s subscriber members and its Board of Advisors approved a plan to convert MEIE from a reciprocal insurance exchange into a mutual insurance company. A Commissioner’s Order dated January 25, 1996, approved the Plan of Conversion. On February 27, 1996, a Certificate of Authority was issued to the organization under the name “Associated Industries of Massachusetts Mutual Insurance Company”.

As part of the Plan of Conversion and as required by statute, various aspects of MEIE’s structure and obligations were to be addressed by the new company. Previously, subscribers were required to enter into a subscription agreement whereby the subscribers agreed to insure each other through the exchange of reciprocal contracts executed with MEIE’s attorney-in-fact. The reciprocal insurance contracts issued through MEIE were endorsed and subsequently replaced by the Company’s policies on the respective anniversary dates of coverage renewal.

Subscribers previously had committed to pay a surplus contribution equal to ten percent of the final annual premium for each of the first five years of their membership in the exchange. Following the conversion, the balance in each member’s surplus contribution account remained unchanged. In accordance with the Plan of Conversion, the subscriber savings accounts were converted into interest bearing surplus notes in the Company with principal amounts, terms, and payment schedules equivalent to those of the subscriber savings accounts. As part of the conversion, AIM contributed its existing \$200,000 subordinated surplus note in exchange for \$200,000 of the Company’s guaranty capital shares.

On April 4, 1996, the Division designated the Company as a servicing carrier to the Massachusetts Workers’ Compensation Assigned Risk Pool (“MWCARP”) effective July 1, 1996. MWCARP is a residual market for workers’ compensation coverage to those employers’ entitled to coverage. The Company also became a voluntary direct assignment carrier (“VDAC”) to MWCARP effective January 1, 1998.

The Company formed three subsidiaries; Associated Employers Insurance Company (“AEIC”), Massachusetts Employers Insurance Company (“MEIC”) and Employers Security Assurance Company (“ESAC”), to offer rates different from A.I.M. Mutual. AEIC was formed in 2001, MEIC in 2007 and ESAC in 2008. All subsidiaries participate in a reinsurance pooling

Associated Industries of Massachusetts Mutual Insurance Company

agreement with A.I.M. Mutual whereby the subsidiary cedes 100% to A.I.M. Mutual but does not assume any percentage from the pool.

Guaranty Capital

As a mutual company, the Company has no capital stock. As a reciprocal insurance exchange, MEIE had entered into an unsecured subordinated surplus loan agreement on December 9, 1988, with AIM to satisfy the requirements of statute. By terms of the agreement, MEIE borrowed \$200,000 to be used as the unencumbered surplus of the exchange and repayment of the loan was subject to the prior approval of the Commissioner of Insurance.

In accordance with the Plan of Conversion, AIM contributed the \$200,000 subordinated surplus note it held in exchange for 2,000 shares or \$100 par value guaranty capital of the Company. The shares were issued on February 27, 1996, with an annual dividend rate of seven percent.

Dividends to Shareholders

The Company declared and paid dividends during the examination period as follows:

2008	\$14,000
2007	14,000
2006	14,000
2005	14,000
2004	14,000

Dividends to Policyholders

During the examination period, the Company declared dividends to policyholders as follows:

2008	\$249,717
2007	-0-
2006	-0-
2005	266,336
2004	-0-

All dividends were paid during the examination period except for 2008, which was paid in 2009.

Associated Industries of Massachusetts Mutual Insurance Company

Growth of the Company

The growth of the Company for the years 2004 through 2008 is shown in the following schedule, which was prepared from the Company's Annual Statements, including any changes as a result of the examination.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus</u>
2008	\$354,947,570	\$78,286,528	\$124,169,847
2007	352,122,392	85,267,615	117,293,489
2006	339,470,406	94,351,416	103,320,839
2005	316,881,618	93,237,762	88,592,846
2004	295,980,592	98,718,753	79,441,616

Management

Annual Meeting

In accordance with the by-laws, the annual meeting of the Company is held on the first Tuesday in May. Every person or organization first named on the Information Page of a policy issued voluntarily by the company shall be a member of the Company and shall be entitled to one vote for each policy of insurance held by such member. A majority of members constitutes a quorum. The minutes indicated that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

The by-laws provide that the business and affairs of the Company shall be managed by the board of directors except as otherwise provided by the Articles of Incorporation or by a valid shareholder agreement. The board of directors shall consist of not less than eight or more than twelve directors with the number of directors determined at each annual member's meeting coinciding with the expiration of one or more director's term. Each director holds office for a term of two years. Upon expiration or resignation, his/her successor is elected at the next annual meeting. As long as shares of the authorized guaranty capital remain outstanding, one-half of the directors shall be elected from the holders of guaranty capital and one-half shall be elected from the members who are not holders of guaranty capital.

Associated Industries of Massachusetts Mutual Insurance Company

At December 31, 2008 the board was comprised of eight directors, which is in compliance with the Company's by-laws. Directors duly elected and serving at December 31, 2008, with business affiliations, follow:

<u>Director</u>	<u>Business Affiliation</u>
John J. Gould, Chairman	Vice Chairman Associated Industries of Massachusetts
William C. Blanker	Director of Special Projects Southworth Company
Peter R. Chase	President and CEO Chase Corporation
Michael G. Faucher	President Superior Cake Products, Inc.
Richard C. Lord	President and CEO Associated Industries of Massachusetts
John A. Myers	President and CEO A.I.M. Mutual Insurance Company
Michael J. Riley	Chief Financial/Administrative Officer Community Foundation of Western Massachusetts
Ralph P. Schlenker	President R.P. Schlenker, Inc

The by-laws do not specify the number of meetings of directors to be held during the year. The minutes of the board of directors indicate that meetings were held four times per year during the examination period. The by-laws provide that at any meeting of the board a majority of the directors then in office (but not less than five) shall constitute a quorum. The minutes indicate that a quorum was present at all meetings of the board of directors held during the examination period.

The board of directors appointed two committees in accordance with the by-laws. The members of each committee at December 31, 2008 follow:

Associated Industries of Massachusetts Mutual Insurance Company

Investment Committee

Michael J. Riley, Chairman
John J. Gould
John A. Myers

Audit Committee

Ralph P. Schlenker, Chairman
John J. Gould
Michael G. Faucher

Officers

The by-laws of the Company provide that the officers of the Company shall be a president, a secretary, a clerk, a treasurer, a Chairman of the board of directors and other officers as deemed necessary. Pursuant to the by-laws, the officers of the Company are elected by the board of directors. Vacancies among the officers shall be filled by the board of directors.

The elected officers and their respective titles at December 31, 2008 follow:

<u>Name</u>	<u>Title</u>
John J. Gould	Chairman of the Board
John A. Myers	President and Chief Executive Officer
Gregory R. Shah	Vice President and Secretary/Treasurer
Robert R. Cella	Vice President Operations
Mitchell H. Kaplan, Esq.*	Clerk
Thomas J. Crupi	Vice President Loss Control
Michael P. Kelley	Vice President Claim

*At the May 5, 2009 board meeting Mitchell H. Kaplan resigned as Clerk, at which time Gregory R. Shah became Clerk.

Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflicts of interest in accordance with Question 13 of the General Interrogatories of the Annual Statement. The Company has an established procedure for the disclosure to the board of directors of any material interest or affiliation on the part of any officer or director, which conflicts or is likely to conflict with his or her official duties.

Associated Industries of Massachusetts Mutual Insurance Company

Annually, each officer and director completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and no discrepancies were noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Company's 2008 Annual Statement.

Corporate Records

Articles of Organization and By-laws

The by-laws and Articles of Organization and amendments thereto were read. During the exam period there was one amendment to the Articles of Organization. This amendment has been approved by the Secretary of State.

Disaster Recovery and Business Continuity

The Company does provide for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L. c.175 ss.180M-180Q.

Board of Directors Minutes

The minutes of the board of directors and committee meetings for the period under statutory examination were read. The minutes indicated that all meetings were held in accordance with the Company's by-laws and the laws of the Commonwealth of Massachusetts. Activities of the committees were ratified at each meeting of the board of directors.

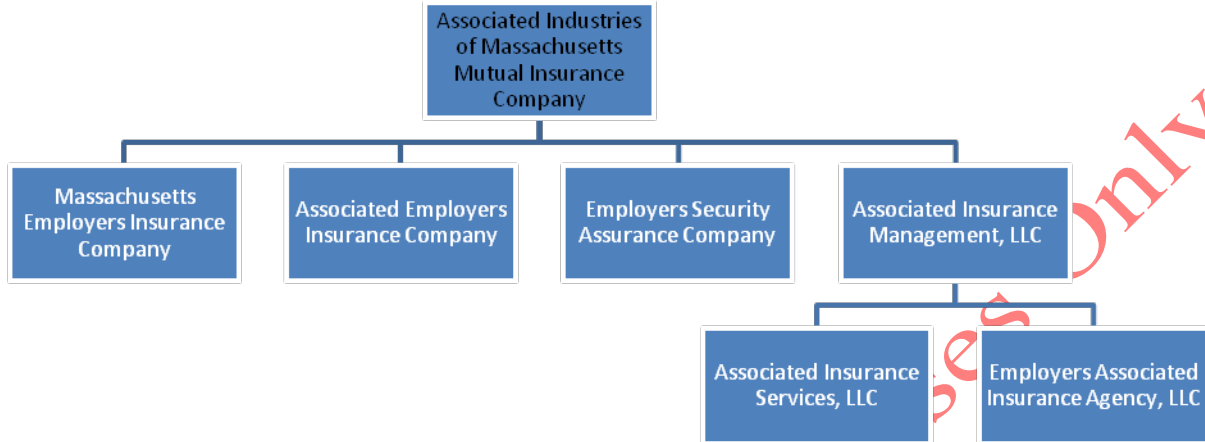
The minutes of the March 16, 2005 board of directors meeting noted that the prior Report of Examination as of December 31, 2003 was reviewed and accepted by the board.

AFFILIATED COMPANIES

Per Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L. c.175, s206C of the Massachusetts General Laws. A.I.M. Mutual is the "ultimate controlling person".

Associated Industries of Massachusetts Mutual Insurance Company

Organization Chart



Transactions and Agreements with Subsidiaries and Affiliates

Management Agreement

In 1996, the Company entered into a management agreement with MEIE Attorney-in-Fact. Under the agreement, MEIE provides services to run the day-to-day operations of the Company. MEIE later became Associated Insurance Management, Inc. (“AIM Inc.”), now Associated Insurance Management, LLC (“AIM, LLC”). These services include but are not limited to underwriting, claims and accounting services. A.I.M. Mutual reimburses AIM, LLC 100% for the costs of running the business. In addition, if the board determines that there are excess funds available for distribution to its policyholders, then AIM, LLC shall be entitled to receive 5% of any distributions paid or credited to the policyholders.

In 1994, the Company entered into a licensing agreement with AIM. Under the agreement, AIM Mutual is permitted to use the Licensed Marks of AIM. These marks are “A.I.M.” and “Associated Industries of Massachusetts” and the A.I.M. logo. In return for the use of these marks, A.I.M. Mutual pays to AIM a royalty of 3% of Earned Premiums for each calendar year to a maximum of \$1,200,000.

Tax Sharing Agreement

The Company participates in tax allocation agreements with its wholly owned subsidiaries, Associated Employers Insurance Company, Massachusetts Employers Insurance Company and Employers Security Assurance Company. The allocation method is based upon the respective tax liability of each member computed as if a separate return were filed, in accordance with the Internal Revenue Code.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L. c.175 s.60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by purchasing policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2008

STATUTORY DEPOSITS

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Massachusetts	U.S. Treasury Note 5.75% Due 8/15/10	\$ 200,000	\$ 202,010	\$ 217,172
New Hampshire	FNMA 4.625% Due 10/15/14	50,000	50,000	55,516
U.S Department of Labor	U.S. Treasury Note 3.875% Due 5/15/10	200,000	200,300	209,680
Total all Locations		<u>\$ 450,000</u>	<u>\$ 452,310</u>	<u>\$ 482,368</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write workers' compensation and employers' liability in Massachusetts and New Hampshire. The company writes business on a direct basis and through brokers.

Treatment of Policyholders

Policyholder Complaints

During the course of the examination, a general review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was limited in nature and was substantially narrower than a full scope market conduct examination. During the claims test work, it was noted that the Company investigates and settles claims on a timely and fair basis.

A sample of complaints against the Company for the years 2004 through 2008 were reviewed. Based on the complaints reviewed, the Company responded in a timely and efficient manner. In addition, the complaints reflected no adverse pattern in the types of complaints reported.

REINSURANCE

Pooling Agreement

The Company and its subsidiaries, AEIC, MEIC and ESAC entered into a Reinsurance Pooling Agreement. The agreements were effective in 2001 for AEIC, 2007 for MEIC and 2008 for ESAC. Under terms of the agreement, the Company's subsidiaries cede 100% to A.I.M. Mutual but assume nothing from the pool.

Reinsurance

The Company does not assume reinsurance from any non-affiliated companies but it does assume from two involuntary pools, MWCARP and New Hampshire Workers' Compensation Plan. The Company has protected its interests by ceding business to various reinsurers.

Voluntary Business

A brief summary of the reinsurance for voluntary business follows:

General Re

Effective January 1, 1989 to January 1, 1990
Retention \$100,000
Limit \$150,000

American Re Aggregate Excess of Loss

This agreement is a retrospective agreement for the years 1989 to 1993.

Associated Industries of Massachusetts Mutual Insurance Company

For workers compensation and employers liability coverages

Retention \$250,000 with an aggregate retention of \$7,140,000
Limit \$4,750,000

For workers compensation

Retention \$5,000,000
Limit Ultimate net loss xs \$5,000,000

American Re Excess of Loss 1994 - 1996

Effective January 1, 1994
Retention \$250,000
Limit excess \$250,000 statutory limits

American Re Excess of Loss 1997 - 2001

Effective January 1, 1997
Retention \$250,000
Limit Excess \$250,000 statutory limits

American Re Excess of Loss 2002 – 3/2/2003

This covers both voluntary and VDAC business

Effective January 1, 2002
Retention \$250,000
Limit \$25,000,000 limit per occurrence with a \$50,000,000 aggregate limit

Swiss Re Excess of Loss 2003

Layer	Reinsurance	Retention
First \$1,000,000	\$500,000	\$500,000
Next \$4,000,000	\$4,000,000	\$0
Next \$5,000,000	\$4,500,000	\$500,000
Next \$10,000,000	\$9,500,000	\$500,000
Next \$5,000,000	\$4,750,000	\$250,000

Associated Industries of Massachusetts Mutual Insurance Company

Guy Carpenter Excess of Loss 2004

Layer	Reinsurance	Retention
First \$2,000,000	\$1,500,000	\$500,000
Next \$3,000,000	\$2,550,000	\$450,000
Next \$5,000,000	\$5,000,000	\$0
Next \$15,000,000	\$15,000,000	\$0

Guy Carpenter Excess of Loss 2005

Layer	Reinsurance	Retention
First \$2,000,000	\$1,275,000	\$725,000
Next \$3,000,000	\$2,550,000	\$450,000
Next \$5,000,000	\$5,000,000	\$0
Next \$15,000,000	\$15,000,000	\$0

Guy Carpenter Excess of Loss 2006

Layer	Reinsurance	Retention
First \$2,000,000	\$1,275,000	\$725,000
Next \$3,000,000	\$2,550,000	\$450,000
Next \$5,000,000	\$5,000,000	\$0
Next \$15,000,000	\$15,000,000	\$0

Guy Carpenter Excess of Loss 2007

Layer	Reinsurance	Retention
First \$2,000,000	\$1,250,000	\$750,000
Next \$8,000,000	\$8,000,000	\$0
Next \$15,000,000	\$15,000,000	\$0

Guy Carpenter Excess of Loss 2008

Layer	Reinsurance	Retention
First \$2,000,000	\$1,000,000	\$1,000,000
Next \$8,000,000	\$8,000,000	\$0
Next \$15,000,000	\$15,000,000	\$0

Associated Industries of Massachusetts Mutual Insurance Company

In addition, starting in 2007, the Company has purchased excess reinsurance with Safety National Casualty to supplement the \$10,000,000 MAOL on the underlying treaties. The treaties are \$10,000,000 excess \$10,000,000.

Participation in Assigned Risk Business

The Company began participating in the MWCARP pool effective with policy year 1991. In 1994, they exercised the option to make a lump sum settlement of its obligations for policy year 1991. For policy years 1992 to 1994 the Company retroceded 100% to American Reinsurance Company. Subsequent to policy year 1994, the Company participates in the MWCARP results relative to its market share.

On April 4, 1996, the Company was designated as a servicing carrier to MWCARP effective July 1, 1996. The Company is assigned risks to be insured and provides services including policy issuance, claim handling and loss control to those risks. In turn, the Company cedes all of the premiums and losses of such risks to MWCARP, but remains responsible for the certain loss adjustment expenses and underwriting expenses it incurs. The Company receives a servicing carrier fee based on written premiums with certain adjustments.

Effective January 1, 1998, the Company was approved as a voluntary direct assignment carrier (VDAC) to MWCARP. As such, the Company takes its approximate equivalent share of the pool in the form of specific policies assigned to it in lieu of accepting a percentage share of the pool. All of the premiums, losses, loss adjustment expenses, and underwriting expenses for these policies are retained by the Company, subject to applicable reinsurance.

SUBSEQUENT EVENTS

In January 2010, the subsidiary ESAC redomesticated to the state of New Hampshire and its name changed to New Hampshire Employers Insurance Company.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent Certified Public Accountants. No material differences were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the Information Technology environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the Information Technology controls. No material deficiencies were noted.

Associated Industries of Massachusetts Mutual Insurance Company

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2008 annual statement. No material exceptions were noted.

The books and records of the Company are audited annually by Ernst & Young LLP, independent Certified Public Accountants, in accordance with 211 CMR 23.00.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by the *National Association of Insurance Commissioners* as of December 31, 2008:

Statement of Assets, Liabilities and Surplus and Other Funds as of December 31, 2008

Underwriting and Investment Exhibit of Income for the Year Ended December 31, 2008

Reconciliation of Capital and Surplus, For the Five Year Period Ended
December 31, 2008

For Informational Purposes Only

Associated Industries of Massachusetts Mutual Insurance Company

Statement of Assets, Liabilities and Other Funds as of December 31, 2008

Assets	Per Company	Examination Changes	Per Statutory Examination	Notes
Bonds	\$ 294,250,128	\$ 0	\$ 294,250,128	
Common stocks	18,955,480		18,955,480	
Cash and short term investments	8,445,907		8,445,907	
Other Invested Assets	1,519,642		1,519,642	
Subtotal cash and invested assets	323,171,157	0	323,171,157	
Investment income due and accrued	2,902,662		2,902,662	
Premiums and considerations:				
Uncollected premiums	6,243,616		6,243,616	
Deferred premiums	10,677,116		10,677,116	
Accrued retrospective premiums	149,407		149,407	
Amounts recoverable from reinsurers	3,468,259		3,468,259	
Current federal income tax recoverable	1,549,921		1,549,921	
Net deferred tax asset	6,659,880		6,659,880	
Electronic data processing equipment & software	113,871		113,871	
Aggregate write-ins for other than invested assets	11,681		11,681	
TOTAL ASSETS	\$ 354,947,570	\$ 0	\$ 354,947,570	

For Informational Purposes Only

Associated Industries of Massachusetts Mutual Insurance Company

Statement of Assets, Liabilities and Other Funds as of December 31, 2008

Liabilities	Per Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 149,025,633	\$ 0	\$ 149,025,633	(1)
Loss adjustment expenses	32,447,298		32,447,298	(1)
Commissions Payable	1,170,000		1,170,000	
Other expenses	2,868,579		2,868,579	
Taxes, licenses and fees	3,642,335		3,642,335	
Unearned premiums	30,234,588		30,234,588	
Advance premiums	1,872,349		1,872,349	
Dividends declared but unpaid:				
Policyholders	249,717		249,717	
Provision for reinsurance	4,668,439		4,668,439	
Amounts withheld for account of others	1,004,751		1,004,751	
Payable to parent, subsidiaries and affiliates	2,319,822		2,319,822	
Aggregate write-ins for liabilities	1,274,212		1,274,212	
Total liabilities	230,777,723	0	230,777,723	
Aggregate write-ins for other than special surplus funds	200,000		200,000	
Surplus notes	15,000,000		15,000,000	
Unassigned funds	108,969,847		108,969,847	
Total surplus	124,169,847	0	124,169,847	
TOTAL LIABILITIES AND SURPLUS	\$ 354,947,570	\$ 0	\$ 354,947,570	

Associated Industries of Massachusetts Mutual Insurance Company

Underwriting and Investment Exhibit Statement of Income the Year Ended December 31, 2008

	Per Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	\$ 80,410,817	\$ 0	\$ 80,410,817	
Deductions				
Losses incurred	46,921,740		46,921,740	
Loss expenses incurred	8,884,203		8,884,203	
Other underwriting expenses incurred	20,490,982		20,490,982	
Total underwriting deductions	<u>76,296,925</u>	<u>0</u>	<u>76,296,925</u>	
Net underwriting gain (loss)	<u>4,113,892</u>	<u>0</u>	<u>4,113,892</u>	
Net investment income earned	11,353,738		11,353,738	
Net realized capital gains (losses)	<u>(551,900)</u>		<u>(551,900)</u>	
Net investment gain (loss)	<u>10,801,838</u>	<u>0</u>	<u>10,801,838</u>	
Net gain or (loss) from premium balances	(935,322)		(935,322)	
Aggregate write-ins for miscellaneous income	20,171		20,171	
Total other income	<u>(915,151)</u>	<u>0</u>	<u>(915,151)</u>	
Net income before dividends to policyholders	14,000,579		14,000,579	
Dividends to policyholders	<u>249,717</u>		<u>249,717</u>	
Net income before federal taxes	13,750,862	0	13,750,862	
Federal and foreign taxes incurred	<u>1,677,374</u>		<u>1,677,374</u>	
Net Income	<u>\$ 12,073,488</u>	<u>\$ 0</u>	<u>\$ 12,073,488</u>	

Associated Industries of Massachusetts Mutual Insurance Company

Reconciliation of Capital and Surplus
For the Five Year Period Ended December 31, 2008

	2008	2007	2006	2005	2004
Capital and Surplus, December 31, prior year	\$ 117,293,489	\$ 103,320,839	\$ 88,592,846	\$ 79,441,616	\$ 71,888,713
Net income	12,073,488	14,196,814	12,881,832	9,371,102	4,914,725
Change in net unrealized capital gains or (losses)	(4,885,836)	708,032	1,776,396	(161,323)	1,025,724
Change in net deferred income tax	154,225	2,273	1,023,464	1,016,678	284,441
Change in nonadmitted assets	(496,119)	(875,869)	(939,699)	(1,061,227)	1,342,013
Change in provision for reinsurance	44,600	(44,600)			
Aggregate write-ins for gains and losses in surplus	(14,000)	(14,000)	(14,000)	(14,000)	(14,000)
Net change in capital and surplus for the year	6,876,358	13,972,650	14,727,993	9,151,230	7,552,903
Capital and Surplus, December 31, current year	\$ 124,169,847	\$ 117,293,489	\$ 103,320,839	\$ 88,592,846	\$ 79,441,616

For Informational Purposes Only

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Loss and Loss Adjustment Expense Reserves

The Division retained the services of KPMG LLP to provide an actuarial evaluation of the Loss and Loss Adjustment Expense reserves recorded by the company. The table below shows the findings resulting from their actuarial evaluation of the company on both a net of reinsurance and gross of reinsurance basis.

Loss & Loss Adjustment Expense Reserves as of December 31, 2008
(000's omitted)

Reserve Category	KPMG Indicated			Carried
	Low	Selected	High	
<i><u>Net of Reinsurance</u></i>				
Losses	100,883	120,275	141,750	149,026
Defense & Cost Containment	8,208	9,707	11,357	10,063
<u>Adjusting & Other</u>	<u>15,191</u>	<u>17,825</u>	<u>21,385</u>	<u>22,384</u>
Total Loss & Expense	124,282	147,806	174,491	181,473
<i><u>Gross of Reinsurance</u></i>				
Losses	154,863	178,483	210,370	219,342
Defense & Cost Containment	13,225	15,115	17,662	15,394
<u>Adjusting & Other</u>	<u>15,191</u>	<u>17,825</u>	<u>21,385</u>	<u>22,384</u>
Total Loss & Expense	183,279	211,423	249,417	257,120

The reserves carried by the company exceed the high end of the range as determined by KPMG LLP by \$6,982,000 on a net of reinsurance basis and by \$7,703,000 on a gross of reinsurance basis.

COMMENTS AND RECOMMENDATIONS

MGL Chapter 175 section 64 requires that investment transactions ratified by the board be recorded in the minutes. The board minutes do not include a recording of the investment transactions.

It is recommended that the investment transactions be recorded in the board minutes.

For Informational Purposes Only

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company to all the examiners during the course of the examination.

The assistance rendered by the following Massachusetts Division of Insurance examiners who participated in this examination is hereby acknowledged:

Linda Dow, Financial Examiner II
Brian Knowlton, Financial Examiner II

Raffaele J. Ciaramella, Jr., CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance

Maria Gannon, CFE
Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance

For Informational Purposes Only