



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
HINGHAM MUTUAL FIRE INSURANCE COMPANY

Hingham, Massachusetts

As of December 31, 2013

NAIC GROUP CODE 0787

NAIC COMPANY CODE 14192

EMPLOYER ID NUMBER 04-1442510

HINGHAM MUTUAL FIRE INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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April 28, 2015

Honorable Daniel R. Judson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

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 _____

HINGHAM MUTUAL FIRE INSURANCE COMPANY

at its home office located at 230 Beal Street, Hingham, Massachusetts, 02043. The following
report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Hingham Mutual Fire Insurance Company ("Company") was last examined as of December 31, 2008, by the Massachusetts Division of Insurance ("Division"). The current examination also was conducted by the Division and it covers the period from January 1, 2009, through December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

The current examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, 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.

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 bond and other insurance, employees' benefits plans, 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 PricewaterhouseCoopers LLP ("PwC"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2009 through 2013. A review and use of PwC's workpapers was made to the extent deemed appropriate and effective.

Effective September 10, 2010, the Company and its wholly-owned subsidiary, Danbury Insurance Company ("Danbury") became affiliated with New London County Mutual Insurance Company ("NLC") and Thames Insurance Company ("Thames"), insurers domiciled in Connecticut. An examination of NLC and Thames was conducted by the Connecticut Insurance Department ("Connecticut Department"). The Connecticut Department engaged the services of Merlinos and Associates to review the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2013. The Division relied on the work performed by the Connecticut Department wherever possible.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings identified during the examination.

SUBSEQUENT EVENTS

Subsequent to December 31, 2013, there were no material items that came to our attention for inclusion in the report of examination.

COMPANY HISTORY

General

The Company was incorporated under the laws of the Commonwealth of Massachusetts on March 1, 1826, and commenced business on September 1, 1826. As a licensed property and casualty insurer, the Company is subject to the provisions of Massachusetts General Law ("M.G.L.") Chapter 175, Section 4 and other Massachusetts Insurance Laws.

Effective September 10, 2010, the Company and its wholly-owned subsidiary, Danbury Insurance Company, became affiliated with New London County Mutual and the Thames Insurance Company, insurers domiciled in Connecticut. The affiliation agreement was approved by the Massachusetts Division of Insurance and the Connecticut Insurance Department.

CORPORATE RECORDS

Board of Directors Minutes

The minutes of meetings of the Board of Directors and its committees for the period under examination were read and they indicated that all meetings were held in accordance with the Company's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the committees were ratified at meetings of the Board of Directors. The previous Report of Examination was reviewed by the Board of Directors on July 15, 2010 as required by the Massachusetts statute. Affidavits were signed and submitted to the Division.

Articles of Organization and Bylaws

The articles of organization and bylaws of the Company were reviewed. The Company filed Amended and Restated Bylaws with the Division during 2010 which were effective at the time of the affiliation agreement with New London County Mutual Insurance Company. Among other changes, the number of Directors was set at ten, of which six were designees of NLC.

Hingham Mutual Fire Insurance Company

Conflict of Interest Procedures

The Company has a policy statement pertaining to conflict of interest. In support of its answer to Question 18 of Part 1 Common Interrogatories of the annual statement, the Company has an established procedure for the reporting of any material interest or affiliation on the part of any officer or director or responsible employee which is in or is likely to conflict with his / her official duties. Annually, each officer or director or responsible employee completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires for the examination period were reviewed and no discrepancies were noted to contradict the Company's response to the General Interrogatory regarding conflicts of interest reported in the Company's 2013 Annual Statement.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L. Chapter 175, Sections 180M through 180Q.

MANAGEMENT AND CONTROL

Board of Directors

According to the bylaws, the powers of the Company shall be exercised, its business and affairs shall be conducted and its property shall be controlled by the Board of Directors, except as otherwise provided by the laws of the Commonwealth of Massachusetts, the Articles of Organization or the bylaws. The number of Directors shall be no more than twelve (12) or less than seven (7).

At December 31, 2013, the Company's Board of Directors was composed of ten persons, which is in compliance with the Company's bylaws and General Laws of Massachusetts. The members of the Board are as follows:

<u>Name of Director</u>	<u>Title</u>
Steve Henry Chevalier	President and Chief Executive Officer
George Kowalsky	Treasurer, Vice President, and Chief Financial Officer
Dennis Joseph Nelson	Vice President
Melissa Jane Browne	Independent Member
Judy Sanstrom Jackson	Independent Member
Robert Trenchard Ramsdell	Independent Member
Bruce Taylor Cameron	Independent Member
Brian Anthony Williams	Independent Member
George Albert Cole III	Independent Member
Francis Pasquale Pandolfi	Independent Member

Hingham Mutual Fire Insurance Company

Committees of the Board of Directors

There are no other committees that have been established pursuant to the bylaws. However, the Company's Board of Directors has assumed the role of the Investment Committee. The Company does not have a formal Audit Committee. This function is addressed by the Audit Committee of its ultimate parent, New London County Mutual Insurance Company

Officers

According to the Company's bylaws, the Board of Directors shall elect the officers of the Company. The officers of the Company shall be the Chief Executive Officer, the President, the Treasurer, and the Secretary and such officers shall be elected. The positions of operational vice presidents, assistant secretaries, and assistant treasurers may be created by the Chief Executive Officer in consultation with the Chairman of the Board. The officers shall hold office until the date of the next annual meeting and until their respective successors are elected and qualified.

The officers of the Company at December 31, 2013, are as follows:

<u>Name of Officer</u>	<u>Title</u>
Steve Henry Chevalier	President and Chief Executive Officer
George Kowalsky	Treasurer, Vice President, and Chief Financial Officer
Debra Lin Cusimano	Secretary
George William Francis Jr	Vice President
Dennis Joseph Nelson	Vice President
Cheryl Elizabeth Wigmore	Vice President
Janice Viscio Ingarra	Vice President
James William Parylak	Vice President

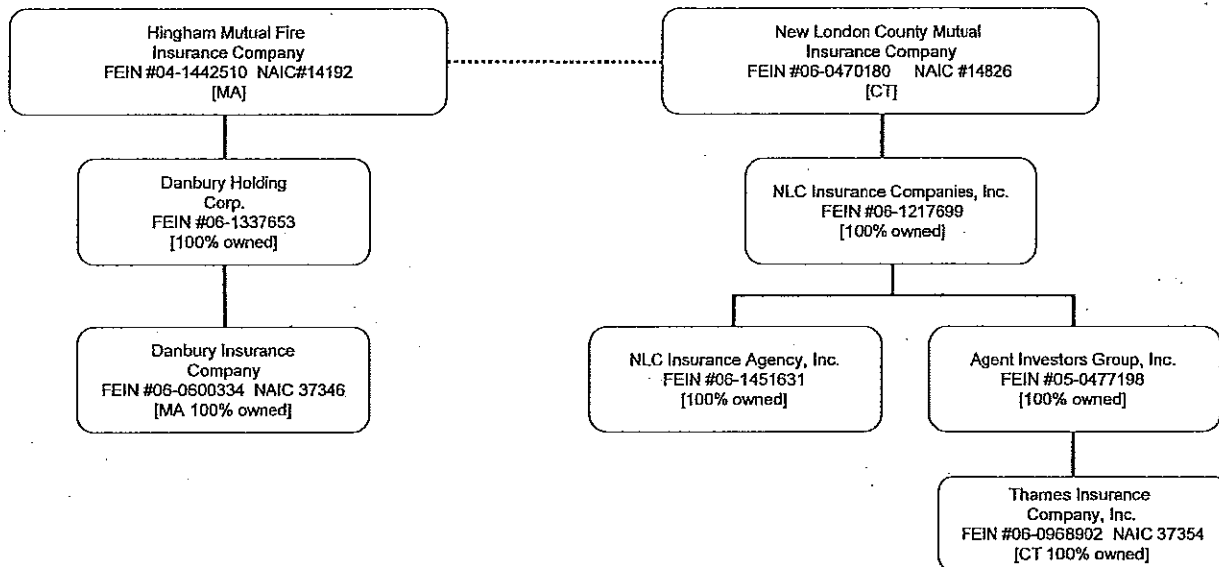
Affiliated Companies

As stated in the Insurance Holding Company System Form B and Form C as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L., Chapter 175, Section 206C and Regulation 211 CMR 7.00. The ultimate controlling entity of the system is New London County Mutual Insurance Company by virtue of controlling six (6) out of ten (10) seats on the Board of Directors of the Company.

Hingham Mutual Fire Insurance Company

Organization Chart

At December 31, 2013, the following Companies were part of the following organizational structure:



Transactions and Agreements with Subsidiaries and Affiliates

Administrative Services Agreements

The Company receives certain management, administrative, and data processing services from its affiliate, NLC, for which it pays a fee. Charges incurred by the Company to NLC are based upon actual expenses incurred by NLC.

Inter-Company Pooling Agreement

Effective with the affiliation agreement on September 10, 2010, the Company participates in an intercompany pooling agreement that combines underwriting results with affiliated entities. NLC is the lead company of the pool.

Tax Sharing Agreement

Effective January 1, 2001, the Company participates in a written tax allocation agreement with two of its subsidiaries, Danbury Holding Corporation and Danbury Insurance 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. Tax-related intercompany balances are settled annually upon finalization of the consolidated return.

Hingham Mutual Fire Insurance Company

FIDELITY BONDS AND OTHER INSURANCE

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

The Company has further protected its interests and property by other policies of insurance covering other insurable risks. Coverages were provided by insurers licensed in the Commonwealth of Massachusetts and were in force as of December 31, 2013.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no retirement, deferred compensation, or other post-retirement benefit plans. Effective January 1, 2012, the Company's employees became employees of NLC and subject to their compensation arrangements.

TERRITORY AND PLAN OF OPERATION

The Company currently is licensed to write business in the following six states: Massachusetts, Rhode Island, New Hampshire, Maine, Connecticut, and Vermont. All Certificates of Authority were current and in force.

Through its appointed independent agents, the Company's lines of business are homeowners provided to personal risks and some multiple peril coverage provided to commercial risks. Its predominant concentration of business is homeowners' coverage in Massachusetts.

Treatment of Policyholders

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2013 through December 31, 2013. The market conduct examination was called pursuant to authority in M.G.L. Chapter 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose and Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Regulation Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The business areas that were reviewed under the market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating and Claims. Each business area reviewed includes the identification and evaluation of the insurer's internal controls.

Hingham Mutual Fire Insurance Company

GROWTH OF COMPANY

The growth of the Company for the years 2009 through 2013 is shown in the following schedule, which was prepared from the Company's annual statements.

	Admitted			Net
<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Premiums Written</u>
2009	\$99,574,130	\$58,538,381	\$41,035,749	\$36,160,906
2010	83,218,805	42,445,879	40,772,926	15,806,976
2011	71,655,288	36,855,362	34,799,925	20,474,963
2012	70,999,226	35,197,260	35,801,966	19,681,716
2013	64,856,825	27,764,967	37,091,858	20,808,449

LOSS EXPERIENCE

The Company experienced an increase in incurred losses and loss adjustment expenses ("LAE") in 2011 due to several weather related events.

	2009	2010	2011	2012	2013
Premiums earned	\$37,359,776	\$24,972,401	\$21,481,199	\$19,886,165	\$20,445,535
Losses and LAE incurred	\$23,510,746	\$15,803,983	\$21,250,669	\$11,136,919	\$10,785,680
Loss ratio	62.9%	63.3%	98.9%	56%	52.8%

Losses and LAE incurred for the year ended December 31, 2013, decreased by \$351,239 or 3.1%, to \$10,785,680 from \$11,136,919 for the comparable 2012 period. Losses and LAE incurred as a percentage of premiums decreased from 63% in 2009 to 53% in 2013. See commentary on the reasonableness of the Loss and LAE reserves under Note 1 of the Comments on Financial Statement Items section of this Report of Examination.

REINSURANCE

Intercompany Pooling Arrangements

Effective September 10, 2010, the Company participates in an intercompany pooling agreement that combines underwriting results with affiliated entities. New London County Mutual Insurance Company is the lead company of the pool. The participation percentages are as follows:

New London County Mutual Insurance Company	50%
Hingham Mutual Fire Insurance Company	29%
Thames Insurance Company	15%
Danbury Insurance Company	6%

Hingham Mutual Fire Insurance Company

Ceded Reinsurance

The Company's affiliate, New London County Mutual, purchases pro-rata, excess of loss, and catastrophe reinsurance on behalf of the pool. In addition, the Company cedes a small amount of reinsurance to unaffiliated reinsurers. For the year ended December 31, 2013, the total amount of premium ceded was \$95,503.

Assumed Reinsurance

The Company assumes a small amount of reinsurance from unaffiliated reinsurers. For the year ended December 31, 2013, the total amount of premium assumed from non-affiliates was \$320,863.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires, interviews and through a review of the work performed by the Company's independent certified public accounting firm. Testing of the following key activities was performed: investments; premiums and underwriting; reserves and claims; reinsurance ceded; and other assets and liabilities and equity. No material deficiencies were noted. The Company's claims inventory was tested on a sample basis for completeness and accuracy. No material errors or exceptions were detected.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews with Company staff were conducted to gather supplemental information and corroborate the Company's responses to the questionnaire. A review was also made of the documentation supporting Management and Organization Controls, Application Systems Development and Maintenance Controls, Operating and Processing Controls, Logical and Physical Security Controls, Contingency Planning Controls, Personal Computer, Local Area Network ("LAN"), Wide Area Network ("WAN") and Internet Controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input to this data processing system, which then generates general ledger and supporting reports, as well as other reports common to the insurance industry. No material exceptions were noted.

The books and records of the Company are audited annually by PwC, independent certified public accountants, in accordance with 211 CMR 23.00 and 211 CMR 26.00.

Hingham Mutual Fire Insurance Company

STATUTORY DEPOSITS

The Company's statutory deposits as of December 31, 2013, are as follows:

<u>Jurisdiction</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Massachusetts	U.S. Treasury Note	\$1,500,000	\$1,488,579	\$1,670,900
		<u>\$1,500,000</u>	<u>\$1,488,579</u>	<u>\$1,670,900</u>

Hingham Mutual Fire Insurance Company

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2013. The financial statements are the responsibility of Company management. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2013

Statement of Income for the Year Ended December 31, 2013

Statement of Capital and Surplus for the Year Ended December 31, 2013

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2013

Hingham Mutual Fire Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2013

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$27,209,952	\$ 0	\$27,209,952
Common stocks	15,060,783		15,060,783
Real Estate	4,736,772		4,736,772
Cash & Short Term Investments	3,156,365		3,156,365
Subtotals, cash and invested assets	50,163,873	0	50,163,873
Investment income due and accrued	360,974		360,974
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	2,357,300		2,357,300
Deferred premium, agents' balances booked but deferred and not yet due	1,934,145		1,934,145
Amounts recoverable from reinsurers	1,254,779		1,254,779
Current federal and foreign income tax recoverable and interest thereon	161,160		161,160
Net deferred tax asset	1,159,323		1,159,323
Receivable from parent, subsidiaries and affiliates	478,321		478,321
Aggregate write-ins for other than invested assets	6,986,949		6,986,949
Total Assets	<u>\$64,856,825</u>	<u>\$ 0</u>	<u>\$64,856,825</u>

Hingham Mutual Fire Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds (continued)
As of December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Liabilities				
Losses	\$6,305,982	\$ 0	\$6,305,982	(1)
Reinsurance Payable on paid losses and loss adjustment expenses	1,448,287		1,448,287	(1)
Loss adjustment expenses	1,670,587		1,670,587	
Commissions payable, contingent commissions and other similar charges	974,196		974,196	
Other expenses	683,684		683,684	
Taxes, licenses and fees	(3,892)		(3,892)	
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$12,040,696)	13,533,725		13,533,725	
Advance premium	263,941		263,941	
Ceded reinsurance premiums payable	2,777,312		2,777,312	
Aggregate write-ins for liabilities	111,144		111,144	
Total Liabilities	<u>27,764,967</u>	<u>0</u>	<u>27,764,967</u>	
Common capital stock				
Gross paid in and contributed surplus				
Unassigned funds (surplus)	<u>37,091,858</u>		<u>37,091,858</u>	
Surplus as regards policyholders	<u>37,091,858</u>		<u>37,091,858</u>	
Total Liabilities, Surplus and Other Funds	<u>\$64,856,825</u>	<u>\$ 0</u>	<u>\$64,856,825</u>	

Hingham Mutual Fire Insurance Company
Statement of Income
For the Year Ended December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$20,445,535	\$ 0	\$20,445,535
Deductions:			
Losses incurred	9,042,781		9,042,781
Loss adjustment expenses incurred	1,742,899		1,742,899
Other underwriting expenses incurred	10,254,256		10,254,256
Total underwriting deductions	21,039,935	0	21,039,935
Net underwriting gain (loss)	(594,399)	0	(594,399)
Net investment income earned	855,249	0	855,249
Net realized capital gains (losses) less capital gains tax of \$116,040	225,254	0	225,254
Net investment gain (loss)	1,080,504	0	1,080,504
Net gain(loss) from agents' or premium balances charged off (amount recovered \$1,062 amount charged off \$13,915)	(12,852)	0	(12,852)
Finance and service charges not included in premium	200,779	0	200,779
Aggregate write-ins for miscellaneous income	(280,090)	0	(280,090)
Total other income	(92,163)		(92,163)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	393,942	0	393,942
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	393,942	0	393,942
Federal and foreign income taxes incurred	(34,233)	0	(34,233)
Net income (loss)	\$ 428,176	\$ 0	\$ 428,176

Hingham Mutual Fire Insurance Company
Statement of Capital and Surplus
For the Year Ended December 31, 2013

	As Reported by the Company	Examination Changes	Per Statutory Examination
Surplus as regards policyholders, December 31 prior year	\$35,801,966	\$ 0	\$35,801,966
Net income (loss)	428,176		428,176
Change in net unrealized capital gains or (losses) less capital gains tax of \$ 244,515	589,237		589,237
Change in net deferred income tax	(202,908)		(202,908)
Change in nonadmitted assets	456,602		456,602
Aggregate write-ins for gains and losses in surplus	18,784		18,784
Change in surplus as regards policyholders for the year	1,289,892	0	1,289,892
Surplus as regards policyholders, December 31 current year	\$37,091,858	\$ 0	\$37,091,858

Hingham Mutual Fire Insurance Company
Reconciliation of Capital and Surplus
For Each Year in the Five-Year Period Ended December 31, 2013

	2013	2012	2011	2010	2009
Capital and surplus, December 31 prior year	\$35,801,966	\$34,799,925	\$40,772,926	\$41,035,749	\$39,847,706
Net income (loss)	428,176	520,509	921,134	5,829,922	2,173,357
Change in net unrealized capital gains or (losses)	589,237	360,436	(6,692,362)	(4,802,460)	(554,491)
Change in net deferred income tax	(202,908)	(219,284)	43,701	(1,229,236)	(539,429)
Change in nonadmitted assets	456,602	360,662	(671,942)	100,498	108,606
Aggregate write-ins for gains and losses in surplus	18,784	(20,282)	426,468	(161,547)	
Net change in capital and surplus for the year	1,289,892	1,002,041	(5,973,001)	(262,823)	1,188,043
Capital and surplus, December 31 current year	<u>\$37,091,858</u>	<u>\$35,801,966</u>	<u>\$34,799,925</u>	<u>\$40,772,926</u>	<u>\$41,035,749</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1 – Summary of Loss and Loss Adjustment Expense Reserves (“Loss and LAE Reserves”)

NLC acts as the lead company in an intercompany pooling arrangement with its affiliates. The relevant pooling percentages are as follows:

New London County Mutual Insurance Company	50%
Hingham Mutual Fire Insurance Company	29%
Thames Insurance Company	15%
Danbury Insurance Company	6%

Merlinos and Associates (“Merlinos”) was engaged by the Connecticut Insurance Department to perform an actuarial analysis of the Loss and LAE reserves of the insurance companies in the pool. The analysis evaluated the processes, procedures, methods, and assumptions used to determine the reasonableness of the carried Loss and LAE reserves of the pool as of December 31, 2013. The Merlinos actuary concurred with the Company actuary’s conclusion regarding the reasonableness of the carried reserve.

After reviewing the work performed on the NLC pool, the Division determined that there was sufficient work done and that it could rely upon the work of Connecticut and the actuarial work performed on the entire pool in which the Company participates as indicated above. The conclusion reached is that the carried reserves of the Company as of December 31, 2013 are reasonable and no adjustment to these liabilities has been made in the financial statement within the Report of Examination.

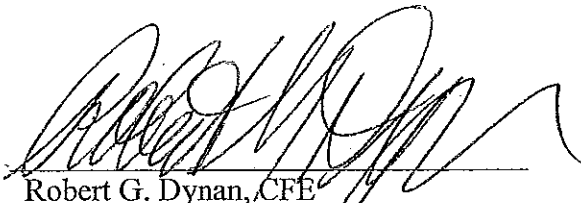
Hingham Mutual Fire Insurance Company

ACKNOWLEDGEMENT

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

The assistance rendered by the following Division examiner who participated in this examination hereby is acknowledged.

Steven Tsimtsos, CFE, Financial Examiner II



Robert G. Dynan, CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance