THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION

OF THE

BARNSTABLE COUNTY INSURANCE COMPANY

Yarmouth Port, Massachusetts

As of December 31, 2010

N.A.I.C. GROUP CODE 0919

N.A.I.C. COMPANY CODE 41955

EMPLOYER ID NUMBER 04-2747990

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COMMONWEALTH OF MASSACHUSETTS

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May 30, 2012

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street
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 as of December 31, 2010 of the

BARNSTABLE COUNTY INSURANCE COMPANY

at its home office, located at 108 Hallet Street, Yarmouth Port, Massachusetts 02675. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Barnstable County Insurance Company hereinafter referred as the ("Company") was last examined as of December 31, 2005, under the association plan of the National Association of Insurance Commissioners ("NAIC") by the Massachusetts Division of Insurance ("Division"). The current association plan examination also was conducted by the Division and it covers the period from January 1, 2006, through December 31, 2010, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

Concurrent with this examination, the following insurance affiliate in the Barnstable Insurance Group was also examined and a separate report has been issued:

Barnstable County Mutual Insurance Company

The examination was conducted in accordance with standards and procedures established by the NAIC Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook. 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' pension and 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 2006 through 2010. A review and use of PwC's work papers were made to the extent deemed appropriate and effective.

The Division retained the consulting actuarial services of KPMG LLP ("KPMG"), an independent certified public accounting firm, to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2010. KPMG was also retained to review the Reinsurance and Catastrophe programs in place at the Company. 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.

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Status of Findings from the Prior Examination

This examination included a review to verify the current status of exception conditions commented upon in the Report of Examination as of December 31, 2005. It was determined that the Company had addressed all outstanding items.

HISTORY

General

The Company, a stock company, was incorporated December 30, 1981 under the laws of the Commonwealth of Massachusetts and commenced business June 1, 1982. Paid up capital of $475,000 consists of 9,500 common shares of stock at a par value of $50.00 per share. All authorized shares are outstanding and owned by Barnstable County Mutual Insurance Company (Parent). The Company is authorized to issue policies for homeowner and commercial multi-peril, fire, allied lines, inland marine and other liability.

The management of both companies is the same. The Company shares facilities and employees with the parent and related costs applicable from the Company are paid by management fees.

The Company is currently licensed to conduct business in Massachusetts.

Capital Stock

The Company's Articles of Organization authorized the Company to issue 9,500 shares of common stock at $50 per share par value on December 8, 1981. On February 1, 1982, the parent company, Barnstable County Mutual Insurance Company, acquired all of the authorized shares at a price of $150 per share, resulting in $475,000 of paid in capital and $950,000 of paid-in surplus.

In 1994, the Company's parent paid-in an additional $250,000 for a total of $1,200,000 in paid-in-surplus.

In 2001 the Company received permission from the Massachusetts Division of Insurance to write commercial lines. As a condition of approval, the Division of Insurance required the Company to increase its capital by $475,000. Accordingly, the Company increased the par value of common shares from $50 per share to $100 per share.

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Growth of the Company

The growth of the Company for the years 2006 through 2010 is shown in the following schedule which was prepared from information in the Company's annual statements:

Year	Admitted Assets	Liabilities	Surplus
2010	$ 19,343,454	$ 2,861,630	$ 14,331,824
2009	17,905,001	2,806,889	12,948,112
2008	16,299,991	2,701,357	11,448,634
2007	17,748,990	3,340,960	12,258,030
2006	16,579,081	3,135,154	11,293,928

Management

Annual Meeting

In accordance with the Bylaws, the Annual Meeting of the Company is held at the home office in Yarmouth Port, Massachusetts, on the second Tuesday in February at nine o'clock in the morning. Ten Members of the Company present in person or represented by proxy shall constitute a quorum. The minutes indicate that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

The Bylaws 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 policyholder agreement. The Board of Directors shall consist of not fewer than nine or not more than thirteen Directors. The Directors are divided into four classes of not more than four Directors each. The term of office of the Directors of one class expires each year and their successors are chosen by ballot at the annual meeting of members for a term of four years or until successors are elected and qualified.

At December 31, 2010, the Board was composed of eleven Directors, which is in compliance with the Company's Bylaws.

Directors duly elected and serving at December 31, 2010, with business affiliations, are as follows:

Director	Business Affiliation
John L. DeMello	President & Chief Executive Officer
Ronald E. Reed	Retired Chief Financial Officer, Bank of Cape Cod
Charles H. Ritch	Owner, Ritch Financial Solutions

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Noel Almeida	President, Almeida & Carlson Insurance Agency
Gary M. DellaPosta	Self Employed CPA
Robert G. Dowling III	Retired President, Dowling & O'Neil Insurance Agency, Inc.
Henry C. Farnham	Retired Vice President for Cape Cod Bank & Trust
Jane M. Remy	President, Callahan Insurance Agency Treasurer, Dickey Insurance Agency
Paul R. Silva	Vice President & Treasurer, Bepson, Young & Downs Insurance Agency
Peter Walther	Retired President, Frank Swan & Crocker Insurance Agency
Gerard P. Williams	Self Employed CPA

All of the Directors simultaneously held similar positions on the Board of Directors of BCMIC.

The Bylaws specify that the Directors shall meet at least four times a year and that a regular meeting of the Board shall be held immediately following the annual meeting of the Company for the election of officers for the ensuing year. A majority of the Board of Directors, but not less than seven, shall constitute a quorum. The minutes indicated that a quorum was obtained for all meetings of the Board of Directors held during the examination period.

The Bylaws specify that the Board of Directors may elect an Investment Committee and Executive Committee. The Bylaws also specify that the Board may appoint such other committees from time-to-time and confer upon them such powers as it may determine. At December 31, 2010, the Board had appointed an Audit Committee, Executive Committee, Investment Committee, Agency Marketing Committee, Employee Benefits Committee, and Nominating Committee. John L. DeMello, President and Chief Executive Officer, serves ex officio (with a vote) on all committees except the Audit Committee. The purpose and membership of each committee at December 31, 2010, was as follows:

Audit Committee

The Charter of the Audit Committee indicates that the Committee shall consist of three or more Directors each of whom shall be independent of management of the Company and otherwise have no business directly or indirectly with the Company that could influence their judgment or

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interfere with the exercise of independent judgment in carrying out the responsibilities of a Director. The Audit Committee is appointed by the Board of Directors of the Company to assist the Board in fulfilling its oversight responsibilities. To achieve such responsibilities, the Charter enumerates several specific primary duties and responsibilities of the Audit Committee. The Audit Committee must maintain minutes of its meetings and report to the Board of Directors on a quarterly basis or more often as considered necessary on significant results of its activities.

Directors serving on this Committee at December 31, 2010, were as follows:

Henry C. Farnham	Gary M. DellaPosta, Chair
Ronald E. Reed	Peter G. Walther
Charles H. Ritch	
Gerard P. Williams	

Investment Committee

The Investment Committee was appointed by the Board of Directors and is charged with the duties of investing or loaning funds of the Company. Directors serving on this Committee at December 31, 2010, were as follows:

Henry C. Farnham	Gary M. DellaPosta
Ronald E. Reed	Gerard P. Williams

Other Committees

The Executive Committee, Nominating Committee, Agency Marketing Committee and Employee Benefits Committee were established by the Board of Directors. Directors serving on these Committees at December 31, 2010, were as follows:

Executive Committee	Nominating Committee
Jane M. Remy, Chairman	Noel Almeida
Noel Almeida	Jane M. Remy

Agency Marketing Committee	Employee Benefits Committee
Noel Almeida, Chairman	Robert G. Dowling III
Jane M. Remy	Peter G. Walther
Robert G. Dowling III	Gary DellaPosta
Paul R. Silva	

Officers

The Bylaws of the Company provide that the officers of the Company shall be a President, a Vice President, a Treasurer and a Secretary and other officers as deemed necessary. Pursuant to the Bylaws, the officers of the Company are elected by the Board of Directors at the first meeting of the Board held after the annual meeting. Vacancies among the officers shall be filled by the Board of Directors.

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The elected and appointed officers and their respective titles at December 31, 2010, were the following:

Name	Title
John L. DeMello	President and Chief Executive Officer
Christine M. Murphy	Chief Financial Officer & Treasurer
Richard W. Ward	Vice President & Secretary
Howard W. Perkins	Assistant Vice President & Assistant Treasurer
Colleen C. Ormsby	Assistant Vice President & Assistant Secretary

All of the Company's Officers listed above simultaneously held similar positions at BCMIC.

Conflict of Interest Procedure

The Company has a policy statement pertaining to conflict of interest. In support of its answer to Question 17 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 which is in or is likely to conflict with his/her official duties. Annually, each officer and director signs a form attesting that there are no material conflicts of interests. The completed forms for the examination period were reviewed and no discrepancies were noted to contradict the Company's response to the General Interrogatory regarding conflicts of interests reported in the 2010 Annual Statement.

Corporate Records

Articles of Incorporation and Bylaws

The Bylaws of the Company were read and were found to contain specific provision for the succession of Directors and Officers in event of an emergency.

Disaster Recovery and Business Continuity

The Company provides for continuity of management and operations in the event of a catastrophe or national emergency in accordance with MGL c. 175, ss. 180M through 180Q.

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 minutes of the Board of Directors meeting did not record that the prior Report of Examination was reviewed and accepted by the Board but the Company filed affidavits with the Division that its Directors received and reviewed the prior Report of Examination.

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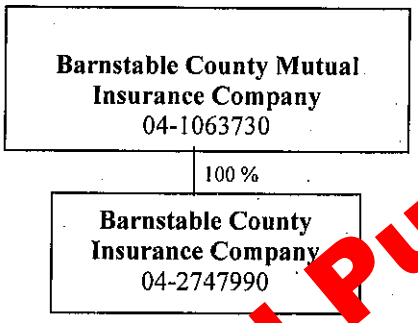
Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

There were no mergers, acquisitions, dissolutions or purchases and sales through reinsurance during the period of examination.

AFFILIATED COMPANIES

Per Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of MGL c. 175, s. 206C and Regulation 211 CMR 7.00.

Organization Chart



Transactions and Agreements with Subsidiaries and Affiliates

Cost Sharing Agreement

The Company has in place a cost sharing agreement with its parent, BCMIC. The agreement codifies the methods of apportioning joint expenses based on generally accepted accounting principles. Expenses identifiable to a specific company are charged directly to that company, and are not subject to the Cost Sharing Agreement.

Tax Sharing Agreement

The Company participates in a tax sharing agreement with BCMIC. The Companies file and pay federal income taxes on a consolidated basis in accordance with IRS Section 1552(a)(1). This Section requires that the Group consolidated tax liability be apportioned among the members of the Group in accordance with the ratio of each member's taxable income to the Group's taxable income.

FIDELITY BONDS AND OTHER INSURANCE

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

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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, 2010.

PENSION AND INSURANCE PLANS

The Company provides various insurance plans, including group and family life, dental and health coverage, to all full time employees.

The Company sponsors a qualified defined benefit pension plan covering substantially all of its employees. The benefit payable at normal retirement age is based on years of service with the Company and the employee's average annual compensation. The Company's funding policy is to contribute to the plan annually the maximum tax deductible contribution allowed by the IRS.

The pension fund is reviewed annually by PricewaterhouseCoopers LLP and independent consulting actuary. At December 31, 2010, the pension fund was fully funded. All pension fund financial information is disclosed in the Notes to the Financial Statements appearing in the Company's Annual Statement.

The Company also sponsors a 401(k) retirement plan, which it matches employee deferrals on a discretionary basis.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting Practices

The Company offers personal property and liability coverage utilizing policy forms, riders, and endorsements that are subject to the approval of the individual state insurance departments. At December 31, 2010, the Company's maximum retention limit, net of reinsurance, was $350,000 per risk.

Territory and Plan of Operation

The Company currently is licensed to write business in Massachusetts only, with the concentration of its business on Martha's Vineyard and Nantucket Islands. All business is written through independent agents. A competitive commission program is provided to agents with a contingent commission provision based upon profitability.

The Company's principal lines of business are homeowners, fire, allied lines and other liability, provided primarily to personal risks through its appointed agents.

The Company uses independent adjusters in the settlement of the majority of its property claims. All casualty claims and the final approval of property emanate from the home office.

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Treatment of Policyholders

Claim Settlement Practices

Procedures performed in conjunction with the claims test work indicated that the Company investigates and settles claims on a timely and equitable basis.

Dividends to Policyholders

The Company did not declare or pay any dividends to its policyholders in the period of examination.

REINSURANCE

Assumed Reinsurance

Involuntary Pools

The Company participates in the F.A.I.R. Plan, a mandatory pool of property insurance underwriting association in Massachusetts.

Ceded Reinsurance

Voluntary Pools

The Company participates in the Associated Inland Marine pool. The AIM pool designed to write inland marine risks on a quota share basis among pool participants consisting of several mutual insurance companies in New England.

Other Coverages

The Company participated in a variety of treaties ceding reinsurance that limited, to some extent, its direct exposure. The Company has entered into certain excess of loss and catastrophe treaties. Under the excess of loss treaty, the Company's retention for property and casualty losses is $350,000. With Guy Carpenter and Company, the Company purchased catastrophe excess of loss protection under which the Company retains the first $4,000,000 of losses and a varying percentage of losses, as specified in several layers, up to a limit of $221,000,000. If any reinsurers are unable to fulfill their obligations under the reinsurance arrangements, primary liability to policyholders and claimants for incurred losses would remain the obligation of the Company.

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SUBSEQUENT EVENTS

As an event subsequent to the date of examination, the following was noted:

Effective January 1, 2012, the Company increased its property catastrophe reinsurance coverage up to $232,500,000 in excess of a $7,500,000. The reinsurance coverage was increased to reflect the changes to the hurricane models.

ACCOUNTS AND RECORDS

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

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

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

In accordance with 211 C.M.R. 23.00, the books and records of the Company are audited annually by a firm of independent certified public accountants. Throughout the examination period, the Company was audited by PwC.

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FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of December 31, 2010:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2010

Statement of Income for the Year Ended December 31, 2010

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2010

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Barnstable County Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2010

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Bonds	$ 9,938,318	$ 0	$ 9,938,318	
Preferred stocks			-	
Common stocks	7,074,667		7,074,667	
Cash and short-term investments	1,601,101		1,601,101	
Other invested assets	28,626		28,626	
Receivables for securities	-		-	
Subtotals, cash and invested assets	18,642,712	-	18,642,712	
Investment income due and accrued	139,046		139,046	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	73,138		73,138	
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	248,763		248,763	
Aggregate write-ins for other than invested assets:				
Equities and deposits in pools and associations	239,022		239,022	
MA Premium Tax Recoverable	775		775	
Total Assets	$ 19,343,456	$ 0	$ 19,343,456	

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Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2010

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	$ 278,550	$ 0	$ 278,550	(1)
Loss adjustment expenses	76,168		76,168	(1)
Commissions payable, contingent commissions, and other similar charges	145,722		145,722	
Other expenses	10,278		10,278	
Taxes, licenses, and fees	13,985		13,985	
Current federal and foreign income taxes	69,842		69,842	
Net deferred tax liability	587,309		587,309	
Unearned premiums	1,529,097		1,529,097	
Advance premiums	29,356		29,356	
Ceded reinsurance premiums payable	87,399		87,399	
Payable to parent, sudsidiaries and affiliates	33,924		33,924	
Payable for securities	-			
Total Liabilities	2,861,630		2,861,630	
Common capital stock	950,000		950,000	
Gross paid in and contributed surplus	1,200,000		1,200,000	
Unassigned funds (surplus)	14,331,824		14,331,824	
Surplus as regards policyholders	16,481,824		16,481,824	
Total Liabilities, Capital, and Surplus	$ 19,343,454	$ 0	$ 19,343,454	

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Barnstable County Insurance Company

Statement of Income
For The Year Ended December 31, 2010

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	$ 1,921,187	$ 0	$ 1,921,187	
Deductions:				
Losses incurred	179,061		179,061	
Loss expenses incurred	143,046		143,046	
Other underwriting expenses incurred	952,692		952,692	
Total underwriting deductions	1,274,799	-	1,274,799	
Net underwriting gain	646,388	-	646,388	
Net investment income earned	371,673		371,673	
Net realized capital gains	134,730		134,730	
Net investment gain	506,403	-	506,403	
Net gain (loss) from agents' or premium balances charged off	56		56	
Finance and service charges not included in premiums	-		-	
Aggregate write-ins for miscellaneous income:				
Bank Service Fees	(1,087)		(1,087)	
Total other income	(1,031)	-	(1,031)	
Net income before dividends to policyholders and before federal and foreign income taxes	1,151,760	-	1,151,760	
Dividends to policyholders	-		-	
Net income after dividends to policyholders but before federal and foreign income taxes	1,151,760	-	1,151,760	
Federal and foreign income taxes incurred	263,084		263,084	
Net Income	$ 888,676	$ 0	$ 888,676	

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Barnstable County Insurance Company

Reconciliation of Capital and Surplus
For Each Year in the Five Year Period Ended December 31, 2010

	2010*	2009	2008	2007	2006
Surplus as regards policyholders as of December 31, prior year	$ 15,098,112	$ 13,598,634	$ 14,408,030	$ 13,443,928	$ 12,447,021
Net income	888,676	914,934	(136,348)	798,714	[illegible]
Change in net unrealized capital gains or (losses)	504,475	597,796	(655,199)	159,970	326,100
Change in net deferred income tax	(8,769)	(13,609)	(18,735)	5,[illegible]	34,668
Change in non-admitted assets	(670)	357	886	([illegible])	(149)
Cumulative effect of changes in accounting principles	-	-	-	-	-
Capital changes:					
Pain in					-
Net change in surplus as regards policyholders for the year	1,383,712	1,499,478	(809,396)	964,102	996,907
Surplus as regards policyholders as of December 31, current year	$ 16,481,824	$ 15,098,112	$ 13,598,634	$ 14,408,030	$ 13,443,928

* Per Examination

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NOTES TO FINANCIAL STATEMENT

NOTE 1:

As part of the examination, the Division engaged the consulting actuarial services of KPMG LLP. The consulting actuaries for the Division performed an independent analysis of the loss and loss adjustment expense reserves (both net and gross of reinsurance) carried by the Company and rendered an actuarial opinion on the reasonableness of the reserves as of December 31, 2010.

The following tables (net and gross of reinsurance) summarize KPMG's reserve ranges, the KPMG selected point estimate reserve, and the Company's carried loss and loss adjustment expense reserves as of December 31, 2010 for each reserve category.

Net Loss and Loss Adjustment Expense Reserves

Reserve Category	Low End Of Range	KPMG Selection	High End of Range	Company Carried
Net Loss and Defense & Containment Expense Reserves	$193,000	$236,000	$283,000	$278,718
Net Adjusting & Other Expense Reserves	68,000	103,000	131,000	76,000
Total Net Loss and Loss Adjustment Expense Reserves	$261,000	$339,000	$414,000	$354,718

Gross Loss and Loss Adjustment Expense Reserves

Reserve Category	Low End of Range	KPMG Selection	High End of Range	Company Carried
Gross Loss and Defense & Containment Expense Reserves	$193,000	$ 252,000	$ 569,000	$ 278,718
Gross Adjusting & Other Expense Reserves	68,000	103,000	131,000	76,000
Total Gross Loss and Loss Adjustment Expense Reserves	$ 261,000	$ 355,000	$ 430,000	$ 354,718

In KPMG's opinion, both the net loss and loss adjustment expense reserve and the gross loss and loss adjustment reserve carried by the Company as of December 31, 2010, make reasonable provision for all unpaid loss and loss adjustment expense obligations.

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CONCLUSION

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 examiners who participated in this examination hereby is acknowledged:

John A. Turchi, CFE, CPCU
Deputy Commissioner
Commonwealth of Massachusetts

Linh La, CFE
Examiner-in-Charge
Commonwealth of Massachusetts

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