THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF

BAY STATE INSURANCE COMPANY

Andover, Massachusetts

As of December 31, 2024

NAIC GROUP CODE 0022

NAIC COMPANY CODE 19763

EMPLOYERS ID NO. 04-2200004

BAY STATE INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE
One Federal Street, Suite 700 • Boston, MA 02110
(617) 521-7794 • (877) 563-4467 • www.mass.gov/doi

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COMMISSIONER

May 5, 2026

Honorable Michael T. Caljouw
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
One Federal Street, Suite 700
Boston, MA 02110

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 the

BAY STATE INSURANCE COMPANY

at its home office located at 95 Old River Road, Andover, MA, 01810-1078. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Bay State Insurance Company ("Company") was last examined as of December 31, 2019, by the Massachusetts Division of Insurance ("Division"). The current examination was conducted by the Division and covers the five-year period from January 1, 2020, through December 31, 2024, 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 Andover Insurance Group ("Group", "Companies", or "Andover Companies") were also examined and separate reports have been issued:

Merrimack Mutual Fire Insurance Company
Cambridge Mutual Fire Insurance Company

The 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by PricewaterhouseCoopers, LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2020 through 2024. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective.

Representatives from the firm of Lewis & Ellis, LLC ("Lewis & Ellis") were retained by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division's examination staff. The assistance included a review of accounting records, information systems, investment and actuarially determined loss and loss adjustment expense reserves.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings during the previous examination and there are no significant findings related to the current examination.

COMPANY HISTORY

General

The Company is a stock company and was incorporated on May 31, 1955, under the laws of the Commonwealth of Massachusetts and commenced business on July 1, 1955. The Merrimack Mutual Fire Insurance Company is the lead company of the Andover Group. The Company is under the same management as are the Merrimack Mutual Fire Insurance Company ("Merrimack Mutual Fire") and the Cambridge Mutual Fire Insurance Company ("Cambridge Mutual Fire").

Capital Stock

As of December 31, 2024, the authorized and outstanding capital stock of the Company consisted of 100,000 shares of common stock with a par value of $35 per share, all of which was owned by Merrimack Mutual Fire, and/or directors and certain officers of the Company.

MANAGEMENT AND CONTROL

Annual Meeting of Members

In accordance with the bylaws, the Annual Meeting of the Company is held on the second Monday in May of each year. Eight members constitute a quorum for the transaction of business at any annual or special meeting. The minutes indicated 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 ("the Board") except as otherwise provided by the Articles of Incorporation or by a valid shareholder agreement. The Board shall consist of not fewer than five (5) or more than fifteen (15) directors with the number determined at each annual meeting by resolution of the stockholders. Each director holds office for a term of four (4) years, and each director shall be a stockholder of the Company. Upon expiration or resignation, his/her successor is elected at the next Annual Meeting.

The bylaws do not specify the number of meetings to be held during a year. The minutes of the Board meetings indicated that meetings were held four times per year during the examination period. At any meeting of the Board a majority of directors in office (minimum of four), shall constitute a quorum. The minutes indicated that a quorum was obtained at all meetings of the Board held during the examination period.

At December 31, 2024, the Board of Directors was comprised of fifteen (15) directors which is in compliance with the Company's bylaws. The director's names and business affiliation were as follows:

Director	Business Affiliation
John Appleton	Retired, Senior Vice President Fidelity Investments
Malcolm Brawn	Retired Chairman & CEO The Andover Companies
David F. Dietz	Retired Partner Goodwin Procter
Charles DiGrande	President & CEO The Andover Companies
Thomas J. Hollister	Retired Chief Financial Officer Harvard University
Paul J Jacques	Vice President CVS Health/Omnicare
Amy A. Latimer	Executive Vice President & COO Delaware North Companies
Paul Nadeau	Executive Vice President The Andover Companies

Karyn E. Polito	Principal Polito Development Corporation
David A. Splaine	President Spinnaker and Associates
Stephen Randall	Senior Vice President The Andover Companies
Amy DiPerna	Vice President & Treasurer The Andover Companies
Kevin Ouellette	Vice President & Secretary The Andover Companies
Justin Libbey	Vice President The Andover Companies
Kevin McNamara	Vice President The Andover Companies

<u>Committees of Board of Directors</u>

The bylaws specify that the Board appoint an Investment Committee and allow such other committees as they deem advisable.

Investment Committee

The Board of Directors appointed an Investment Committee in accordance with the bylaws. The Committee has enacted an Investment Policy to guide the Company's investments in accordance with Massachusetts General Laws with prudent quality and diversification of the investments. The directors serving on this Committee at December 31, 2024, were as follows: John Appleton, Chairman, Malcom Brawn, Charles DiGrande, Amy DiPerna, and Thomas Hollister.

Audit Committee

The Audit Committee consists of seven independent Board members and this Committee also jointly serves for Merrimack Mutual Fire and Cambridge Mutual Fire. The Committee serves as an independent and objective party to monitor the Companies' financial reporting processes and internal controls. Directors serving on this Committee at December 31, 2024, were as follows: Thomas Hollister, Chairman, John Appleton, David Dietz, Paul Jacques, David Splaine, Amy Latimer, and Karyn Polito.

Other Committees

In addition to the committees named above, the Andover Companies boards have a Compensation Committee, Corporate Governance Committee, and Administrative Committees for the Retirement Plan and the 401k Plan.

Officers

The Bylaws of the Company provide that the Officers of the Company shall be a President, a Treasurer, 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.

The elected Officers and their respective titles at December 31, 2024, follows:

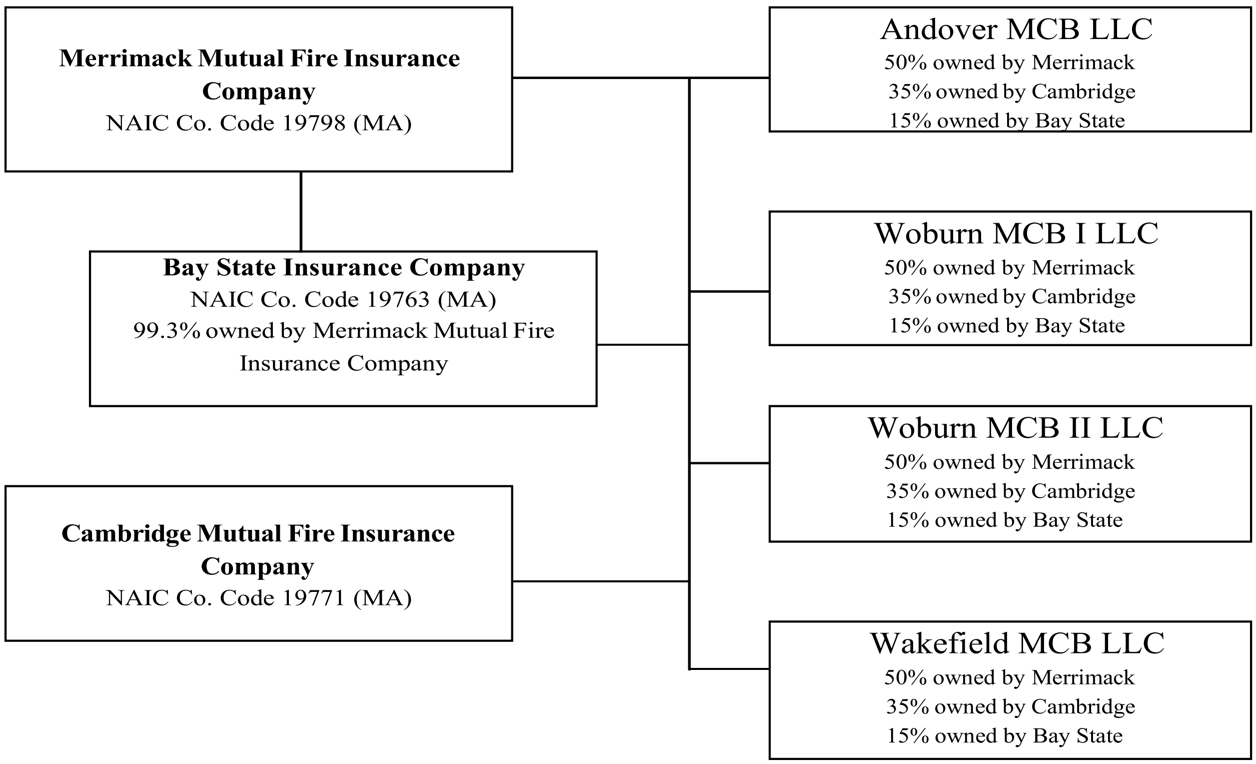
Name	Position
Charles J. DiGrande	President and Chief Executive Officer
Paul R. Nadeau	Executive Vice President
Stephen E. Randall	Senior Vice President
Kevin J. Ouellette	Vice President, Secretary & General Counsel
Amy L. DiPerna	Vice President and Treasurer
Justin H. Libbey	Vice President
Kevin A. McNamara	Vice President

Holding Company

As stated in the Insurance Holding Company System 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 Chapter 175, Section 206C and 211 CMR 7.00 of the Massachusetts General Laws. The Company shares common management with Merrimack Mutual Fire and Cambridge Mutual Fire.

Organization Chart

At December 31, 2024, the Company is a member of the following organizational structure:



Transactions and Agreements with Subsidiaries and Affiliates

The Company has the following key intercompany agreements in place with their affiliates, Merrimack Mutual Fire and Cambridge Mutual Fire:

Management and Reinsurance Agreement

The Company participates in a Management and Reinsurance Agreement with its affiliates, Merrimack Mutual Fire and Cambridge Mutual Fire. Under this agreement all net insurance shall be pooled and distributed in the following proportions: Merrimack 50%, Cambridge 35% and Bay State 15%. Merrimack Mutual Fire provides all employees, management and administration services for Cambridge Mutual Fire and the Company. The Company and Cambridge Mutual Fire will reimburse Merrimack Mutual Fire for the expenses incurred in providing these services based on the percentage set forth above.

Tax Sharing Agreement

The Company participates in a consolidated Federal Income Tax return with Merrimack Mutual Fire. There is a written tax sharing agreement whereby the allocation is made primarily on a separate return basis. Intercompany tax balances are settled when due.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in nine states: all of the New England states, New Jersey, New York and Illinois.

The Company specializes in providing homeowners, commercial multiple peril and fire coverages through its appointed independent agents.

Treatment of Policyholders

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 members and claimants. During the claims test work, it was noted that the Company investigates and settles claims on a timely and fair basis.

Dividends to Stockholders

No stockholder dividends were declared or paid during the examination period.

REINSURANCE

The Company and its affiliates operate under a pooling agreement as described in the "Management and Reinsurance Agreement" section of this report. Assumed and ceded reinsurance with unaffiliated companies is also subject to the inter-company pooling agreement.

Assumed Reinsurance

Merrimack Mutual Fire assumes business from eight quota share agreements with the participation percentage varying by treaty. Coverage is primarily property catastrophe quota share on excess of loss coverage.

Effective July 1, 2008, the Companies, entered into an agreement with Quincy Mutual Fire Insurance Company and its affiliated insurance companies known as the Quincy Mutual Group ("Quincy"). The agreement is named the Andover Quincy Underwriting Alliance ("AQUA"), pursuant to which Quincy auto policies will be marketed and written through independent agents of Andover. The AQUA agreement applies only to Massachusetts private passenger automobile insurance business.

Concurrent with the AQUA agreement, the Andover Companies and Quincy entered into a quota share reinsurance contract applicable to the business subject to the AQUA agreement. Under the terms of the quota share contract, Quincy ceded 12.5% of the business to Andover for the 2024 underwriting year.

Pooling

The Company participates in various state-mandated pools and various FAIR plans. A reorganization of the Massachusetts FAIR Plan took place effective April 1, 2024, whereby the FAIR Plan transitioned from a shared-risk partnership to a stand-alone, risk-bearing entity.

Ceded Reinsurance

Joint reinsurance arrangements are maintained for all the Companies. The reinsurance programs include ground up catastrophe coverage of $1.425B, which includes a $225M retention and approximately 20% company participation thereafter. The Group purchases personal umbrella, dwelling fire liability and commercial excess of loss protection of $3M excess $2M with semi-automatic facultative reinsurance. In addition, the Group maintains surplus share facultative pro-rata treaties for both personal and commercial lines. Quota share treaties are used to enable the Group to offer certain coverages. Coverage is placed by brokers and split among many participating reinsurers. Quota share coverage is also maintained for property risks as is facultative reinsurance, when needed.

Each treaty reviewed contained an insolvency clause in accordance with Massachusetts General Law, Chapter 175 Section 20A.

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, 2024. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2024

Statement of Income as of December 31, 2024

Reconciliation of Capital and Surplus for the Five-Year Period Ended December 31, 2024

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2024

Assets	As Reported by the Company
Bonds	$ 106,107,403
Common stocks	762,189,265
Cash and short-term investments	91,621,172
Other invested assets	14,107,635
Subtotals, cash and invested assets	974,025,476
Investment income due and accrued	1,480,551
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	29,460,641
Deferred premiums, agents' balances and installments booked but deferred and not yet due	19,770,458
Reinsurance:	
Amounts recoverable from reinsurers	4,020,735
Funds held by or deposited with reinsured companies	390,228
Guaranty funds receivable or on deposit	34,584
Electronic data processing equipment and software	6,589
Receivables from parent, subsidiaries and affiliates	4,760,907
Aggregate write-ins for other-than-invested assets	5,361,352
Total Assets	$ 1,039,311,521

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2024

Liabilities	As Reported by the Company
Losses	$ 74,617,974
Reinsurance payable on paid loss and LAE	5,392,515
Loss adjustment expenses	9,649,653
Commissions payable	9,436,313
Other expenses	25,202,414
Taxes, licenses and fees	759,786
Current federal and foreign income taxes	1,145,827
Net deferred tax liability	84,424,220
Unearned premiums	77,288,496
Advance premiums	2,138,182
Ceded reinsurance premiums payable	15,328,722
Amounts withheld or retained by company for account of others	5,382
Provision for reinsurance	4,497
Drafts outstanding	4,521,699
Aggregate write-ins for liabilities	707,850
Total Liabilities	310,623,530
Common capital stock	$ 3,500,000
Unassigned fund (surplus)	725,187,990
Surplus as regards to policyholders	728,687,990
Total Liabilities, Capital and Surplus	$ 1,039,311,520

Statement of Income
For the Year Ended December 31, 2024

	As Reported by the Company
Premiums earned	$ 138,483,555
Deductions:	
Losses incurred	59,914,035
Loss adjustment expenses incurred	9,269,396
Other underwriting expenses incurred	61,754,283
Total underwriting deductions	130,937,714
Net underwriting gain (loss)	7,545,841
Net investment income earned	23,621,718
Net realized capital gains; less capital gains tax of $660,592	49,739,626
Net investment gain	73,361,344
Net gain (loss) from agents' balances or premium balances charged off	(27,280)
Finance and service charges not included in premiums	144,425
Aggregate write-ins for miscellaneous income	462,114
Total other income	579,259
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	81,486,444
Dividends to policyholders	0
Net income, after dividends to policyholders, after capital gains taxes and before all other federal and foreign income taxes	81,486,444
Federal and foreign income taxes incurred	6,345,504
Net Income	$ 75,140,940

Reconciliation of Capital and Surplus
For the Five Year Period Ended December 31, 2024

	2024	2023	2022	2021	2020
Capital and surplus, December 31, prior year	$600,023,921	$525,499,676	$ 546,184,441	$432,173,828	$404,169,078
Net income	75,140,939	9,788,263	6,507,641	4,972,709	6,177,194
Change in net unrealized capital gains or (losses)	53,852,498	65,449,007	(33,558,155)	101,456,700	26,818,563
Change in net deferred income tax	1,638,016	816,631	(1,171,260)	(1,114,111)	977,605
Change in nonadmitted assets	(12,784,032)	(1,165,756)	(4,433,891)	(28,685)	(630,712)
Change for provision of reinsurance	(4,497)	-	-	-	-
Aggregate write-ins for gains and losses in surplus	10,821,150	(363,900)	11,970,900	8,724,000	(5,337,900)
Net change in capital and surplus for the year	128,664,074	74,524,245	(20,684,765)	114,010,613	28,004,750
Capital and surplus, December 31, current year	$728,687,995	$600,023,921	$ 525,499,676	$546,184,441	$432,173,828

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There have been no changes made to the financial statements as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, no issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

The Division requested that Lewis & Ellis, LLC review the reasonableness of the Loss and Loss Adjustment Expense Reserves (the "Reserves") of the Company as of December 31, 2024. The review was conducted in a manner consistent with the Code of Professional Conduct and Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

Lewis & Ellis' actuarial review utilized year-end paid and incurred loss data developed through December 31, 2024. The table below summarizes a comparison of Lewis & Ellis' reasonable net estimates for the Reserves to the Company's carried net Reserves as of December 31, 2024.

COMPARISON OF INDICATED NET RESERVES
TO CARRIED RESERVES as of 12/31/24

	Low Point of Range	Estimate	High Point of Range
Lewis & Ellis Total Net Loss & Loss Adjustment Expense Reserves	$81,781,000	$87,904,000	$94,027,000
Total Company Carried Net Loss & LAE Reserves	$84,268,000	$84,268,000	$84,268,000
Difference	($2,487,000)	$3,633,000	$9,759,000

The Company's total net carried reserves are within L&E's reasonable range of estimates.

SUBSEQUENT EVENTS

On January 31, 2025, the Andover Companies collectively invested in the common stock of Mereo Holdings Limited, a newly formed insurance and reinsurance entity domiciled in Bermuda, resulting in the Andover Companies collectively holding approximately 45% of the outstanding common stock of Mereo Holdings Limited and approximately 30% of the outstanding equity (common and preferred) of Mereo Holdings Limited. Given the collective ownership interest and the presumption of control, this entity is now considered an affiliate under statutory accounting guidance.

In 2025, Merrimack Mutual Fire and Cambridge Mutual Fire submitted a plan to reorganize each mutual insurance company as a domestic stock insurance company, for the acquisition of those issuance companies by intermediate holding companies owned by mutual holding companies including the transfer of membership interests, and to subsequently merge the resulting entities into The Andover Companies, Inc., a newly-formed Massachusetts mutual holding company. The Plan of Reorganization became effective on January 1, 2026, converting the Merrimack Mutual Fire and Cambridge Mutual Fire into stock insurance companies that are now direct, wholly-owned subsidiaries of the newly formed intermediate holding company, Merrimack Insurance Intermediate Holding Company, and indirect, wholly-owned subsidiaries of the newly formed mutual holding company, The Andover Companies, Inc.

SUMMARY OF RECOMMENDATIONS

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.

SIGNATURE PAGE

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

The assistance rendered by representatives from Lewis & Ellis, who participated in this examination is hereby acknowledged.

Maria Gannon

Maria Gannon, CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance