



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
BAY STATE INSURANCE COMPANY

Andover, Massachusetts

As of December 31, 2009

NAIC GROUP CODE 0022

NAIC COMPANY CODE 19763

EMPLOYERS ID NO. 04-2200004

For Informational Purposes Only

BAY STATE INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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DIVISION OF INSURANCE

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June 3, 2011

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311 W. Washington Street
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Honorable Commissioners and Superintendents,

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 27A, an examination has been made of the financial condition and affairs of the

BAY STATE INSURANCE COMPANY
Andover, MA

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

SCOPE OF EXAMINATION

The Bay State Insurance Company (hereinafter referred to as "the Company") was last examined as of December 31, 2004 under the association plan of the National Association of Insurance Commissioners (NAIC) by the Massachusetts Division of Insurance (the "Division"). The current association plan examination was conducted by the Division and covers the five year period from January 1, 2005 through December 31, 2009, 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 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 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 concept of materiality and risk and examination efforts were directed accordingly.

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 2005 through 2009. A review and use of the Certified Public Accountants' workpapers were made to the extent deemed appropriate and effective. An independent actuarial consulting firm, Merlinos & Associates, Inc. was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2009. Additionally, the Division reviewed the adequacy and effectiveness of the IT systems controls to determine the level of reliance to be placed on summary information generated by the data processing systems.

Bay State Insurance Company

For a summary of findings contained within this report, refer to the "Notes to Financial Statements" section.

HISTORY

General

The Company, a stock company, was incorporated on May 31, 1955 under the laws of the Commonwealth of Massachusetts and commenced business on July 1, 1955.

Capital Stock

As of December 31, 2009, 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 Insurance Company, and/or directors and certain officers of the Company.

Dividends to Stockholders

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

Growth of the Company

The growth of the Company for the years 2005 through 2009 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>Liabilities</u>	<u>Surplus</u>	<u>Direct Premiums Written</u>	<u>Net Premiums Written</u>
2009	\$308,904,115	\$111,793,647	\$197,160,772	\$ 23,038,055	\$ 64,960,831
2008	292,915,371	113,756,068	180,180,304	22,957,657	65,448,915
2007	278,605,259	105,670,330	182,934,929	22,406,668	68,319,689
2006	269,362,295	102,908,321	166,453,975	21,285,566	70,021,888
2005	252,259,227	105,619,511	146,639,717	19,041,072	68,815,372

Bay State Insurance Company

Management

Annual Meeting

In accordance with the bylaws, the Annual Meeting of the Stockholders is held on the second Monday in May of each year. One-third in interest of the Capital Stock issued and outstanding and entitled to vote shall constitute a quorum. 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 except as otherwise provided by the Articles of Incorporation or by a valid shareholder agreement. The Board of Directors shall consist of not fewer than five or more than fifteen directors with the number determined at each annual meeting by resolution of the stockholders. Each director holds office for a term of four 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.

At December 31, 2009 the Board was comprised of eleven Directors, which is in compliance with the Company's bylaws.

Directors duly elected and serving at December 31, 2009, with addresses and business affiliations, follow:

<u>Year Term Expires</u>	<u>Director</u>	<u>Business Affiliation</u>
2011	John Appleton Prides Crossing, MA	Retired, Senior Vice President Fidelity Investments
2013	Charles A. Austin, III Boston, MA	Senior Vice President Anchor Capital Advisors Inc.
2011	Benjamin C. Bixby Kingston, NH	President and Director Bixby International Corporation
2012	Malcolm W. Brawn Ipswich, MA	Executive Vice President and Secretary The Andover Companies
2012	David F. Dietz Boston, MA	Partner Goodwin, Procter & Hoar LLP
2011	Alan R. Kober Franklin, MA	Vice President The Andover Companies
2010	Robert P. McDonald Needham, MA	Chairman and Treasurer Erland Construction Inc.

Bay State Insurance Company

2012	William E. Nichols North Andover, MA	President, CEO and Treasurer The Andover Companies
2013	Edward F. Stokham Andover, MA	Vice President The Andover Companies
2010	Donald F. Vose Boxford, MA	Vice President The Andover Companies
2011	C. Edward Wallis Nashua, NH	Vice President and Assistant Treasurer The Andover Companies

The bylaws do not specify the number of meetings to be held during a year. The minutes of the Board of Directors 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 of Directors held during the examination period.

Investment Committee

The Board of Directors appointed an Investment committee in accordance with the bylaws. The membership of the committee at December 31, 2009 follows.

John Appleton
Benjamin C. Bixby
William E. Nichols

Audit Committee

In 2010, to comply with the Model Audit Rule, the Company instituted a formal Audit Committee including an Audit Committee Charter that is followed. The Committee has five independent members including a Certified Public Accountant that are not part of Company management.

Officers

The bylaws of the Company provide that the officers of the Company shall be a President, 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, 2009 follow:

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<u>Name</u>	<u>Title</u>
William E. Nichols	President, Chief Executive Officer and Treasurer
Malcolm W. Brawn	Executive Vice President and Secretary
Alan R. Kober	Vice President
Edward F. Stokham	Vice President
Donald F. Vose	Vice President
C. Edward Wallis	Vice President and Assistant Treasurer

Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflict of interest in accordance with Question 16 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 is in or is likely to conflict with his/her official duties.

Annually, each officer, director and responsible employee completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed for the years under examination and no discrepancies were noted in the responses.

Corporate Records

Articles of Incorporation and Bylaws

The bylaws and Articles of Incorporation and amendments thereto were read. There were no changes to the bylaws or Articles of Incorporation since the prior examination.

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. c.175 ss.180M-180Q.

Board of Directors Minutes

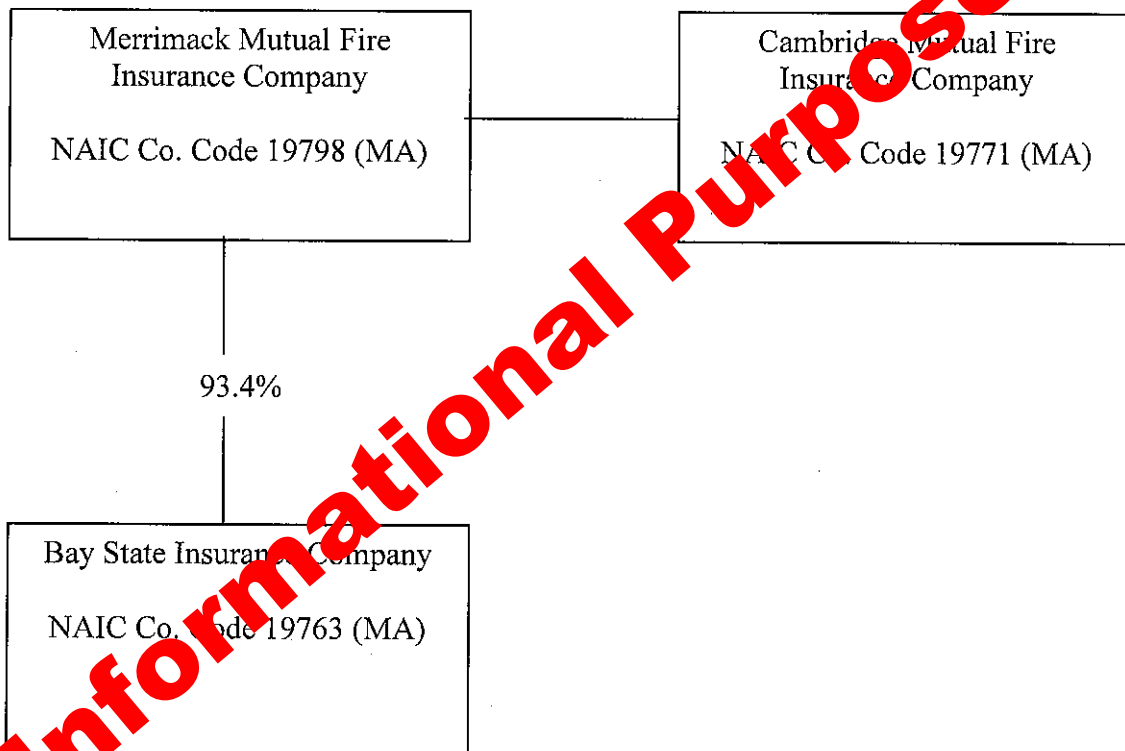
The minutes of the Board of Directors and Committee meetings for the period under statutory examination were read and indicated that all meetings were held in accordance with the Company bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at each meeting of the Board of Directors.

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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 Chapter 175, Section 206C of the Massachusetts General Laws. The "ultimate controlling person" of the Company is Merrimack Mutual Fire Insurance Company ("Merrimack"), a mutual insurer incorporated in Massachusetts. The Company shares common management with Merrimack and with Cambridge Mutual Fire Insurance Company ("Cambridge").

2009 ORGANIZATIONAL CHART



Bay State Insurance Company

Transactions and Agreements with Subsidiaries and Affiliates

Management and Reinsurance Agreement

The Company participates in a Management and Reinsurance Agreement with its affiliates, Merrimack and Cambridge. Under this agreement all net insurance shall be pooled and distributed in the following proportions: Merrimack 50%, Cambridge 35% and Bay State 15%. Merrimack provides all employees, management and administration services for Cambridge and Bay State. Cambridge and Bay State reimburse Merrimack 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 Insurance Company. There is a written tax sharing agreement whereby an allocation is made primarily on a separate return basis. Intercompany tax balances are settled when due.

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 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, 2009.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offers various insurance plans, including family health insurance, individual long-term disability insurance and personal life insurance to all full time employees.

Merrimack's employees participate in a noncontributory defined benefit pension plan. Employees become members of the Plan on the first day of the month following their initial date of employment and participants are 100% vested in their accrued benefits after completing five or more years of service. The Plan's Net Periodic Pension Cost is determined by an independent consulting actuary who also prepares all of the required disclosures and projections in accordance with SSAP 89.

Merrimack offers a Savings and Profit Sharing Plan under section 401(k) of the Internal Revenue Code. The plan covers all eligible employees of the Company once they have completed twelve consecutive months of employment and at least 1,000 hours of service. The Company contributes 3% of a participant's base compensation plus 10% of the Company's average consolidated net operating income for the last three years up to a maximum of 7.5% of the aggregate base salaries of eligible participants less 3% of total compensation of eligible participants. Participants in the Plan may contribute 1% - 20% of their basic compensation

Bay State Insurance Company

through payroll deduction and each participant's own contribution and the 3% basic compensation contributed by the Company are fully vested at all times.

Merrimack provides retiree medical benefits to employees who retire from the Company after attaining certain age and service requirements. The Company utilizes the services of an independent consulting actuary to calculate the Net Periodic Postretirement Benefit Cost and all required Annual Statement disclosures in accordance with SSAP 14. The Company funds the accumulated postretirement benefit obligations as benefits become due.

STATUTORY DEPOSITS

The statutory deposits of the Company as of December 31, 2009 are as follows:

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Massachusetts	US Treasury Bond 5.50% due 2028	\$ 300,000	\$ 322,553	\$ 334,313
Massachusetts	US Treasury Bond 5.25% due 2028	150,000	157,198	162,539
Massachusetts	US Treasury Bond 7.63% due 2022	100,000	106,948	133,391
Massachusetts	US Treasury Bond 8.00% due 2021	20,000	719,302	953,203
Massachusetts	US Treasury Bond 7.50% due 2016	300,000	300,323	378,070

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write business in eight states. During the examination period the Company voluntarily surrendered their licenses in Georgia, Maryland, Ohio and Tennessee. All of the Company's direct business is written in New Jersey and New York.

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

Treatment of Policyholders – Market Conduct

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, 2009 through December 31, 2009. The market conduct examination was called pursuant to authority in Massachusetts General Laws Chapter (M.G.L. c.) 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and

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control of, the market conduct examination staff of the Division. Representatives from the firm of INS Regulatory Insurance Services, Inc. were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Conduct Examiner's Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The basic business areas that are being reviewed under this market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating; Claims, in addition to an assessment of the Company's internal control environment.

REINSURANCE

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

Ceded Reinsurance

On behalf of Cambridge and Bay State, Merrimack has entered into various reinsurance agreements to protect their exposure. Below is a brief summary of the treaties.

<u>Treaty</u>	<u>Line of Business</u>	<u>Retention</u>	<u>Limit</u>
Property Facultative Automatic	Personal and Commercial Lines	\$100,000	\$2,500,000
Semi-Automatic Surplus Share	Commercial Lines Property	Policy Limits	\$8,000,000
Equipment Breakdown Coverage	Businessowners	\$0	\$10,000,000

The Company has additional coverage with Excess Property Catastrophe reinsurance with the retention and limits as follows:

	<u>Retention</u>	<u>Per Occurrence Limit</u>	<u>Percent Placed</u>	<u>Percent Retained</u>
First Layer	\$50,000,000	\$50,000,000	50	50
Second Layer	\$100,000,000	\$75,000,000	70	30
Third Layer	\$175,000,000	\$100,000,000	85	15
Fourth Layer	\$275,000,000	\$325,000,000	100	0

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Each treaty reviewed contained an insolvency clause in accordance with M.G.L. c.175 s.20A.

Assumed Reinsurance

Merrimack assumes business from six quota share agreements with the participation percentage varying by treaty. Coverage is primarily property catastrophe quota share on excess of loss coverage. In 2009, the Company did not renew its contract with Hardy due to the inability to come to an agreement on a provisional occurrence cap.

On July 1, 2008 the Company and its affiliated companies, Merrimack and Cambridge, collectively known as The Andover 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 50% of the business to Andover for the 2008 underwriting year. The percentage increases each year, with Andover assuming 30% of the business in 2014 or such other percentage up to 50% as the parties may agree upon in future years.

POOLS

The Company participates in two voluntary pools, the Selected Insurance Risk Plan ("SIR") and Associated Inland Marine ("AIM"). SIR and AIM were established as a means for insurers to underwrite larger policies and spread the risk among the members. SIR is used for commercial policies and AIM for inland marine personal line policies. Membership in both is composed of New England Mutual Companies. The SIR Pool was terminated effective June 30, 2009 and is currently in runoff.

Additionally, Bay State participates in various state-mandated pools. These include the Illinois Minimum Solvency Program and state FAIR plans.

ACCOUNTS AND RECORDS

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

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

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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 uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2009 Annual Statement. No material exceptions were noted.

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

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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, 2009:

Statement of Assets, Liabilities, Surplus and Other Funds as of, December 31, 2009

Statement of Income for the Year Ended December 31, 2009

Statement of Capital and Surplus for the Year Ended December 31, 2009

Reconciliation of Capital and Surplus, for the five year period ended December 31, 2009

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Bay State Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2009

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 213,276,997		\$ 213,276,997
Common stocks	45,099,808		45,099,808
Cash and short-term investments	15,716,316		15,716,316
Subtotals, cash and invested assets	274,093,121		274,093,121
Investment income due and accrued	3,046,726		3,046,726
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	24,005,239		24,005,239
Deferred premiums, agents' balances and installments booked but deferred and not yet due	6,040,386		6,040,386
Amounts recoverable from reinsurers	952,295		952,295
Funds held by reinsured companies	11,300		11,300
Current federal income tax recoverable	650,000		650,000
Guaranty funds receivable or on deposit	108,000		108,000
Electronic data processing equipment	47,351		47,351
Total Assets	<u>\$ 308,954,419</u>	<u>\$ 0</u>	<u>\$ 308,954,419</u>

Bay State Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2009

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 40,082,854		\$ 40,082,854	(1)
Reinsurance payable on paid loss and LAE	14,254,935		14,254,935	
Loss adjustment expenses	8,898,600		8,898,600	(2)
Commissions payable	2,855,400		2,855,400	
Other expenses	6,443,100		6,443,100	
Taxes, licenses and fees	261,000		261,000	
Net deferred tax liability	1,443,610		1,443,610	
Unearned premiums	30,156,169		30,156,169	
Advance premiums	1,041,000		1,041,000	
Ceded reinsurance premiums payable	1,946,870		1,946,870	
Amounts withheld	1,836		1,836	
Drafts outstanding	1,059,805		1,059,805	
Payable to parent, subsidiaries and affiliates	2,883,469		2,883,469	
Aggregate write-ins for liabilities	465,000		465,000	
Total Liabilities	<u>111,793,647</u>		<u>111,793,647</u>	
Common capital stock	3,500,000		3,500,000	
Unassigned funds (surplus)	<u>193,660,772</u>		<u>193,660,772</u>	
Surplus as regards policyholders	<u>197,160,772</u>		<u>197,160,772</u>	
Total Liabilities, Capital and Surplus	<u>\$ 308,954,419</u>	<u>\$ 0</u>	<u>\$ 308,954,419</u>	

Bay State Insurance Company
Statement of Income
For the Year Ended December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 66,161,227		\$ 66,161,227
Deductions:			
Losses incurred	26,880,698		26,880,698
Loss expenses incurred	5,832,939		5,832,939
Other underwriting expenses incurred	24,754,295		24,754,295
Total underwriting deductions	57,467,932		57,467,932
Net underwriting gain (loss)	8,693,295		8,693,295
Net investment income earned	12,364,963		12,364,963
Net realized capital gains	22,006		22,006
Net investment gain	12,386,969		12,386,969
Net gain (loss) from agents' balances or premium balances charged off	(13,848)		(13,848)
Finance and service charges not included in premiums	163,512		163,512
Aggregate write-ins for miscellaneous income	(91,829)		(91,829)
Total other income	57,835		57,835
Net income before dividends to policyholders and before federal and foreign income taxes	21,138,099		21,138,099
Federal and foreign income taxes incurred	5,728,565		5,728,565
Net Income	\$ 15,409,534	\$ 0	\$ 15,409,534

Bay State Insurance Company
Capital and Surplus
For the Year Ended December 31, 2009

	<u>As Reported by the Company</u>	<u>Examination Changes</u>	<u>Per Statutory Examination</u>
Surplus as regards policyholders, December 31, 2008	\$ 180,180,304		\$ 180,180,304
Net income	15,409,534		15,409,534
Change in net unrealized capital gains or (losses)	3,845,109		3,845,109
Change in net deferred tax	(476,127)		(476,127)
Change in nonadmitted assets	(2,803,048)		(2,803,048)
Change in minimum pension liability	<u>1,005,000</u>		<u>1,005,000</u>
Change in surplus as regards policyholders for the year	<u>16,980,468</u>		<u>16,980,468</u>
Surplus as regards policyholders, December 31, 2009	<u>\$ 197,160,772</u>	<u>\$ 0</u>	<u>\$ 197,160,772</u>

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Reconciliation of Capital and Surplus
For the Five Year Period Ended December 31, 2009

	2009	2008	2007	2006	2005
Capital and surplus, December 31, prior year	\$180,180,304	\$182,934,930	\$166,453,975	\$146,639,717	\$146,639,717
Net income	15,409,534	10,718,446	12,351,619	15,798,020	4,732,260
Change in net unrealized capital gains or (losses)	3,845,109	(12,257,993)	3,847,548	3,855,345	1,471,107
Change in net deferred income tax	(476,127)	711,269	120,697	2,849	699,198
Change in nonadmitted assets	(2,803,048)	(615,647)	(18,909)	5,940	(2,915)
Change in minimum pension liability	1,005,000	(1,310,700)	180,000	572,100	(835,500)
Net change in capital and surplus for the year	16,980,468	(2,754,626)	1,430,955	19,814,258	6,064,150
Capital and surplus, December 31, current year	<u>\$197,160,772</u>	<u>\$180,180,304</u>	<u>\$182,934,930</u>	<u>\$166,453,975</u>	<u>\$146,639,717</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: Losses and Loss Adjustment Expenses

The Division requested that Merlinos & Associates, Inc. review the reasonableness of the Loss and Loss Adjustment Expense Reserves (the "Reserves") of the Company as of December 31, 2009. 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.

Merlinos's actuarial review utilized year-end paid and incurred loss data developed through December 31, 2009. The tables below summarize a comparison of Merlinos's range of reasonable gross and net estimates for the Reserves to the Company's carried gross and net Reserves as of December 31, 2009.

**COMPARISON OF INDICATED DIRECT & ASSUMED RESERVES
TO CARRIED DIRECT & ASSUMED RESERVES as of 12/31/09**

	Low Point of Range	Selected Estimate	High Point of Range
Merlinos Total Direct & Assumed Loss and LAE Reserves	\$43,650,000	\$48,900,000	\$53,850,000
Total Company Carried Direct & Assumed Loss and LAE Reserves	49,520,000	49,520,000	49,520,000
Difference	5,570,000	620,000	(4,330,000)

**COMPARISON OF INDICATED NET RESERVES
TO CARRIED RESERVES as of 12/31/09**

	Low Point of Range	Selected Estimate	High Point of Range
Merlinos Total Net Loss & Loss Adjustment Expense Reserves	\$43,650,000	\$48,450,000	\$53,250,000
Total Company Carried Net Loss & LAE Reserves	48,981,000	48,981,000	48,981,000
Difference	5,331,000	531,000	(4,269,000)

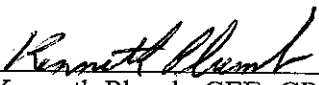
The Company's total net carried reserves are above Merlinos' selected estimate and below their high point. Therefore the Division concludes the Company's reserves are a reasonable estimate of their ultimate liability.


ACKNOWLEDGEMENT

Acknowledgment 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:

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