



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

DIVISION OF INSURANCE

***REPORT OF EXAMINATION OF THE*
CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY**

Andover, Massachusetts

As of December 31, 2004

NAIC GROUP CODE 0022

NAIC COMPANY CODE 19771

EMPLOYERS ID NO. 04-1144990

CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Status of Prior Examination Findings	3
History	3
General	3
Guaranty Fund	3
Growth of Company	3
Management	3
Board of Directors	4
Committees	5
Officers	5
Conflict of Interest	6
Corporate Records	6
Disaster Recovery and Business Continuity	6
Affiliated Companies	7
Transactions and Agreements with Subsidiaries and Affiliates	8
Fidelity Bond and Other Insurance	8
Pension, Stock Ownership and Insurance Plans	8
Statutory Deposits	9
Territory and Plan of Operation	9
Treatment of Policyholders – Market Conduct	9
Dividends to Policyholders	10
Reinsurance	10
Ceded Reinsurance	10
Assumed Reinsurance	11
Pools	11
Accounts and Records	11
Financial Statements	12
Statement of Assets	13
Statement of Assets, Liabilities, Surplus and Other Funds	14
Summary of Operations	15
Capital and Surplus	16
Reconciliation of Capital and Surplus	17
Notes to Financial Statements	18
Acknowledgement	19



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

One South Station • Boston, MA 02110-2208
(617) 521-7794 • FAX (617) 521-7771
TTY/TDD (617) 521-7490
<http://www.state.ma.us/doi>

MITT ROMNEY
GOVERNOR

KERRY HEALEY
LIEUTENANT GOVERNOR

BETH LINDSTROM
DIRECTOR, CONSUMER AFFAIRS
AND BUSINESS REGULATION

JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

November 14, 2005

Honorable Alfred Gross, Chairman
Financial Condition (E) Committee, NAIC
Commissioner of Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, Virginia 23218

Honorable Julianne M. Bowler
Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
One South Station
Boston, MA 02110-2208

Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
Office of the Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Honorable Walter Bell
Secretary, Southeastern Zone, NAIC
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Honorable Commissioners,

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

CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY
Andover, MA

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

SCOPE OF EXAMINATION

The Cambridge Mutual Fire Insurance Company (hereinafter referred to as “the Company”) was last examined as of December 31, 1999 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, 2000 through December 31, 2004, 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
Bay State 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.

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, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2000 through 2004. A review and use of the Certified Public Accountants’ workpapers were made to the extent deemed appropriate and effective. An independent actuarial and accounting consulting firm, KPMG LLP, was retained by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2004. Additionally, the Division reviewed the adequacy and effectiveness of the EDP systems controls to determine the level of reliance to be placed on the information generated by the data processing systems.

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

Cambridge Mutual Fire Insurance Company

Status of Prior Examination Findings

The previous Report of Examination dated May 29, 2001 did not contain any Comments or Recommendations.

HISTORY

General

The Company, a mutual company, was incorporated on March 14, 1833 under the laws of the Commonwealth of Massachusetts and commenced business on January 1, 1834. The Company is authorized to issue non-assessable policies insuring personal and commercial property and liability risks.

Guaranty Fund

To satisfy the requirements of Massachusetts General Laws c. 175 s. 93C, the Company maintains a guaranty fund in the amount of \$500,000.

Growth of the Company

The growth of the Company for the years 2000 through 2004 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>
2004	\$ 429,205,113	\$ 214,356,773	\$ 214,848,340	\$ 108,717,876	\$ 148,337,333
2003	373,698,621	174,033,056	199,665,566	98,255,619	133,448,155
2002	335,744,304	149,431,471	186,312,834	82,540,308	109,367,183
2001	308,300,012	127,707,488	180,592,525	72,676,541	88,020,620
2000	283,199,733	114,518,352	168,681,381	71,318,651	79,765,768

Management

Annual Meeting

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.

Cambridge Mutual Fire Insurance Company

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. The Board of Directors shall consist of not fewer than seven or more than ten directors with the number determined at each annual meeting. Each director holds office for a term of four years. Upon expiration or resignation, his/her successor is elected at the next Annual Meeting.

At December 31, 2004, the Board was comprised of eight directors, which is in compliance with the Company bylaws.

Directors duly elected and serving at December 31, 2004, with addresses and business affiliations, follow:

<u>Year Term Expires</u>	<u>Director</u>	<u>Business Affiliation</u>
2007	John Appleton Boston, MA	Retired, Senior Vice President Fidelity Investments
2005	Charles A. Austin, III Boston, MA	Principal Appleton Partners Inc.
2005	Benjamin C. Bixby Kingston, NH	President and Director Bixby International Corporation
2006	Malcolm W. Brawn Ipswich, MA	Executive Vice President and Secretary The Andover Companies
2008	David F. Dietz Andover, MA	Partner Goodwin, Procter & Hoar LLP
2007	Robert P. McDonald Needham, MA	Chairman and Treasurer Erland Construction Inc.
2008	William E. Nichols North Andover, MA	President, CEO and Treasurer The Andover Companies
2006	Donald F. Vose Boxford, MA	Vice President 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, five directors constitute a quorum. The minutes indicated that a quorum was obtained at all meetings of the Board of Directors held during the examination period.

Cambridge Mutual Fire Insurance Company

The Board of Directors appointed an Investment committee in accordance with the bylaws. The membership of the committee at December 31, 2004 follows.

John Appleton
Benjamin C. Bixby
William E. Nichols

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, 2004 follow:

<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 10 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, and no discrepancies were noted in the responses to the General Interrogatories regarding conflict of interest as reflected in the Company's 2004 Annual Statement.

Cambridge Mutual Fire Insurance Company

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

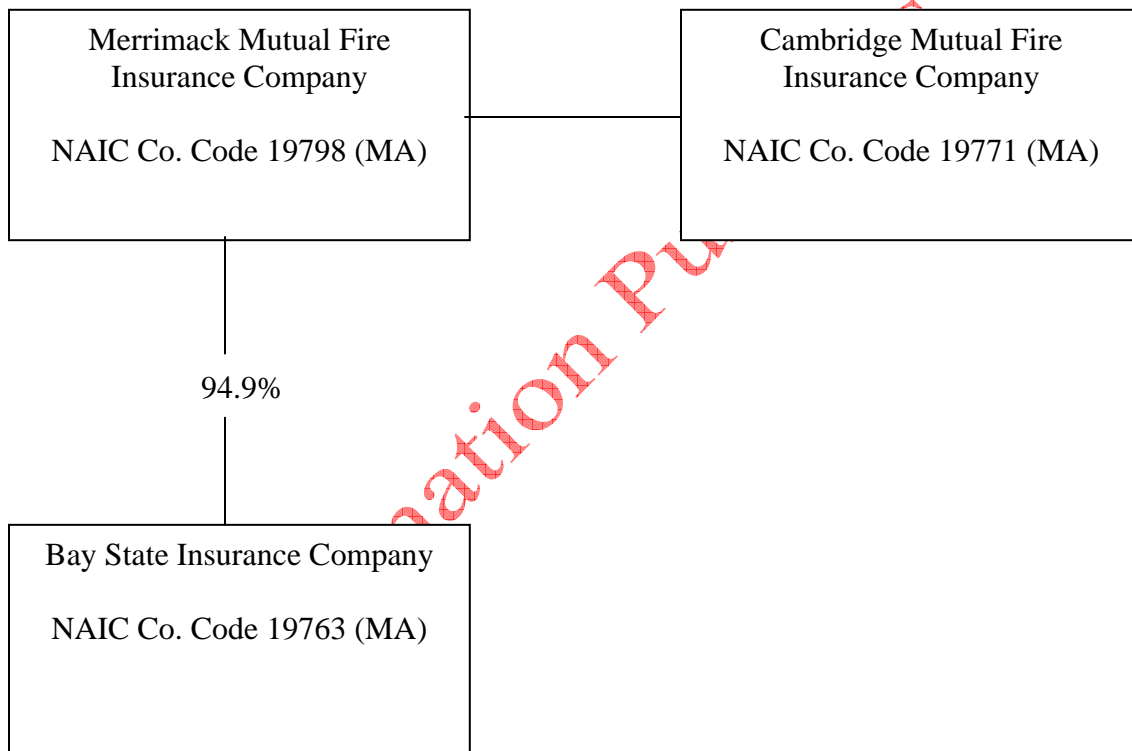
The minutes of the Board of Directors and Committee meetings for the period under statutory examination were read and indicated that all meetings were held in accordance with the Company bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at each meeting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

For Information Purposes Only

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 Company shares common management with Merrimack Mutual Fire Insurance Company (“Merrimack”), an affiliated mutual insurer, and with Bay State Insurance Company (“Bay State”), an insurer substantially owned by Merrimack.

2004 Organizational Chart



Cambridge Mutual Fire 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 Bay State. 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 management and administration services for Cambridge and Bay State. Cambridge and Bay State will reimburse Merrimack for the expenses incurred in providing these services based on the percentages set forth above.

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, 2004.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

All Company employees are actually named employees of Merrimack. As employees of Merrimack, employees are offered various insurance plans including group and family life and health coverages and long-term disability and personal accident insurance.

Merrimack offers a Savings and Investment Plan under section 401(k) of the Internal Revenue Code. The plan, which is a defined contribution plan, covers all participating employees of the Company beginning with the month following the date of employment.

Merrimack's employees participate in a defined benefit pension plan. The pension fund is reviewed annually by an independent consulting actuary. At December 31, 2004, 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.

Merrimack provides health insurance benefits for retired employees. The Company utilizes the services of an independent consulting actuary to calculate the projected year end balance sheet liability. The projected amount of post-retirement benefit obligation for retirees and eligible or vested employees is included on page 3, lines 3 and 5 of the Annual Statement. The Company intends to fund the accumulated post-retirement benefit obligation as benefits become due.

Cambridge Mutual Fire Insurance Company

STATUTORY DEPOSITS

The statutory deposits of the Company as of December 31, 2004 are as follows:

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>
Georgia	U.S. Treasury Bonds 9.375 % due 2006	\$50,000	\$50,523
Total All Policyholders		1,500,000	1,615,688
Total Deposits		<u>\$1,550,000</u>	<u>\$1,666,210</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write business in thirteen states. In 2004 all of the Company's direct business was written in the New England states, New York and Illinois.

The Company's principal line of business is homeowners' coverage provided to personal risks 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, 2004 through December 31, 2004. 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 is being 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 Eide Bailly, LLP 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. Once this market conduct examination is completed a Report on the Comprehensive Market Conduct Examination of the Company for the period January 1, 2004 through December 31, 2004 will be issued and become available as a public document.

Cambridge Mutual Fire Insurance Company

Dividends to Policyholders

The Company issues only non-participating policies. No policyholder dividends were declared or paid during the examination period.

REINSURANCE

The Company and its affiliates operate under a pooling agreement as described in the “Affiliated Companies” section of this report. Assumed and ceded reinsurance with unaffiliated companies is also subject to the intercompany pooling agreement.

Ceded Reinsurance

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

XS of Loss		<u>Retention</u>	<u>Limit</u>
	Personal and Commercial Umbrella	\$2,000,000	\$3,000,000
Property Facultative Automatic	Homeowners	\$100,000	\$1,000,000
	EDP Equipment	\$0	\$10,000,000
	Equipment Breakdown	\$0	\$25,000,000

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

	<u>Limit and Retention</u>	<u>Percent Placed</u>	<u>Percent Retained</u>
First Layer	\$50,000,000 excess of \$50,000,000	90	10
Second Layer	\$75,000,000 excess of \$100,000,000	81.27	18.73
Third Layer	\$75,000,000 excess of \$175,000,000	95	5
Fourth Layer	\$300,000,000 excess of \$250,000,000	87.65	12.35

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

Cambridge Mutual Fire Insurance Company

Assumed Reinsurance

Merrimack assumes business from four quota share agreements with the participation percentage varying by treaty. Coverage is limited to property business only. During 2004, one treaty was commuted. There are several treaties terminated in previous years that may still have a financial statement impact.

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.

Additionally, Cambridge participates in various state-mandated pools. These include the Illinois Mine Subsidence Program and state FAIR plans.

ACCOUNTS AND RECORDS

The internal controls structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent Certified Public Accountants. No material 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 to evaluate the adequacy of the IT 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 2004 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.

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, 2004:

Statement of Assets, Liabilities, Surplus and Other Funds as of, December 31, 2004

Statement of Income for the Year Ended December 31, 2004

Reconciliation of Capital and Surplus, for the five year period ended December 31, 2004

For Information Purposes Only

Cambridge Mutual Fire Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2004

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination
Bonds	\$ 354,334,572	\$ 0	\$ 354,334,572
Common stocks	12,618,311		12,618,311
Cash and short-term investments	6,278,758		6,278,758
Subtotals, cash and invested assets	373,231,641		373,231,641
Investment income due and accrued	4,938,009		4,938,009
Agents' balances and uncollected premiums:			
Premiums and agents' balances in course of collection	23,846,815		23,846,815
Premiums, agents' balances and installments booked but deferred and not yet due	14,591,137		14,591,137
Amounts recoverable from reinsurers	5,102,603		5,102,603
Funds held by reinsured companies	41,963		41,963
Net deferred tax asset	7,394,037		7,394,037
Electronic data processing equipment	58,908		58,908
Total Assets	\$ 429,205,113	\$ 0	\$ 429,205,113

Cambridge Mutual Fire Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2004

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 80,834,486	\$ 0	\$ 80,834,486	(1)
Reinsurance payable on paid loss and LAE	6,724,213		6,724,213	
Loss adjustment expenses	14,627,550		14,627,550	(1)
Commissions payable	5,340,300		5,340,300	
Other expenses	9,303,350		9,303,350	
Taxes, licenses and fees	714,700		714,700	
Borrowed money	4,211,900		4,211,900	
Unearned premiums	73,505,518		73,505,518	
Advance premiums	2,604,700		2,604,700	
Ceded reinsurance premiums payable	11,549,859		11,549,859	
Funds held by company under reinsurance treaties	17,210		17,210	
Drafts outstanding	3,284,497		3,284,497	
Payable to parent; subsidiaries and affiliates	1,461,389		1,461,389	
Aggregate write-ins for liabilities	177,100		177,100	
Total Liabilities	<u>214,356,773</u>		<u>214,356,773</u>	
Guaranty fund	500,000		500,000	
Unassigned funds (surplus)	<u>214,348,340</u>		<u>214,348,340</u>	
Surplus as regards policyholders	<u>214,848,340</u>		<u>214,848,340</u>	
Total Liabilities, Capital and Surplus	<u>\$ 429,205,113</u>	<u>\$ 0</u>	<u>\$ 429,205,113</u>	

Cambridge Mutual Fire Insurance Company
Summary of Operations
For the Year Ended December 31, 2004

	As Reported by The Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 141,770,888	\$ 0	\$ 141,770,888
Deductions:			
Losses incurred	71,096,747		71,096,747
Loss expenses incurred	11,395,553		11,395,553
Other underwriting expenses incurred	55,935,385		55,935,385
Total underwriting deductions	138,427,685		138,427,685
Net underwriting gain (loss)	3,343,203		3,343,203
Net investment income earned	19,403,387		19,403,387
Net realized capital gains	1,084,592		1,084,592
Net investment gain	20,487,979		20,487,979
Net gain (loss) from agents' balances or premium balances charged off	(2,794)		(2,794)
Finance and service charges not included in premiums	484,273		484,273
Aggregate write-ins for miscellaneous income	(78,400)		(78,400)
Total other income	403,079		403,079
Net income before dividends to policyholders and before federal and foreign income taxes	24,234,261		24,234,261
Federal and foreign income taxes incurred	9,500,110		9,500,110
Net Income	\$ 14,734,151	\$ 0	\$ 14,734,151

Cambridge Mutual Fire Insurance Company
Capital and Surplus
For the Year Ended December 31, 2004

	As Reported by the Company	Examination Changes	Per Statutory Examination
Surplus as regards policyholders, December 31, 2003	\$ 199,665,566	\$ 0	\$ 199,665,566
Net income	14,734,151		14,734,151
Change in net unrealized capital gains or (losses)	(111,918)		(111,918)
Change in net deferred tax	818,239		818,239
Change in nonadmitted assets	(362,696)		(362,696)
Change in minimum pension liability	105,000		105,000
Change in surplus as regards policyholders for the year	15,182,775		15,182,775
Surplus as regards policyholders, December 31, 2004	\$ 214,848,340	\$ 0	\$ 214,848,340

Cambridge Mutual Fire Insurance Company
Reconciliation of Capital and Surplus
For the Five Year Period Ended December 31, 2004

	2004	2003	2002	2001	2000
Capital and surplus, December 31, prior year	\$ 199,665,566	\$ 186,312,834	\$ 180,592,525	\$ 168,681,381	\$ 154,696,252
Net income	14,734,151	11,233,351	10,494,117	6,216,796	11,172,672
Change in net unrealized capital gains or (losses)	(111,918)	833,632	(3,584,843)	1,504,765	3,265,357
Change in net deferred income tax	818,239	1,725,755	1,016,606	575,087	
Change in nonadmitted assets	(362,696)	(157,906)	(2,205,571)	(40,250)	(8,400)
Change in excess of statutory reserves over statement reserves					(444,500)
Cumulative effect of changes in accounting principles				3,654,746	
Aggregate write-ins for gains and (losses) in surplus	105,000	(282,100)			
Net change in capital and surplus for the year	15,182,775	13,352,732	5,720,309	11,911,144	13,985,129
Capital and surplus, December 31, current year	<u>\$ 214,848,340</u>	<u>\$ 199,665,566</u>	<u>\$ 186,312,834</u>	<u>\$ 180,592,525</u>	<u>\$ 168,681,381</u>

NOTES TO THE FINANCIAL STATEMENTS**NOTE 1: Losses and Loss Adjustment Expenses**

The Division requested that KPMG review the reasonableness of the Loss and Loss Adjustment Expense Reserves (the "Reserves") of the Company as of December 31, 2004. 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.

KPMG's actuarial review utilized year-end paid and incurred loss data developed through December 31, 2004. The tables below summarize a comparison of KPMG's range of reasonable gross and net estimates for the Reserves to the Company's carried gross and net Reserves as of December 31, 2004.

**COMPARISON OF INDICATED GROSS RESERVES
TO CARRIED GROSS RESERVES as of 12/31/04**

	Low Point of Range	Selected Estimate	High Point of Range
KPMG Total Gross Loss & Loss Adjustment Expense Reserves	\$86,707,950	\$93,560,950	\$102,512,900
Total Company Carried Gross Loss & LAE Reserves	96,072,550	96,072,550	96,072,550
Difference	9,364,600	2,511,600	(6,440,350)

**COMPARISON OF INDICATED NET RESERVES
TO CARRIED RESERVES as of 12/31/04**

	Low Point of Range	Selected Estimate	High Point of Range
KPMG Total Net Loss & Loss Adjustment Expense Reserves	\$83,574,400	\$91,304,850	\$99,186,500
Total Company Carried Net Loss & LAE Reserves	95,463,550	95,463,550	95,463,550
Difference	11,889,150	4,158,700	(3,722,950)

The Company's total net carried reserves are above KPMG's 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:

Ravinder Chana, Examiner III
Linda Dow, Examiner II

Kenneth Plumb, CFE, CPA
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance

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

For Information Purposes Only