



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, 2009

NAIC GROUP CODE 0022

NAIC COMPANY CODE 19771

EMPLOYERS ID NO. 04-1144990

For Informational Purposes Only

CAMBRIDGE MUTUAL FIRE INSURANCE COMPANY

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
History	3
General	3
Guaranty Fund	3
Growth of Company	3
Management	3
Annual Meetings	3
Board of Directors	3
Committees	4
Officers	5
Conflict of Interest	5
Corporate Records	6
Affiliated Companies	6
Organizational Chart	7
Transactions and Agreements with Subsidiaries and Affiliates	7
Fidelity Bond and Other Insurance	7
Pension, Stock Ownership and Insurance Plans	8
Statutory Deposits	8
Insurance Products and Related Practices	9
Territory and Plan of Operation	9
Treatment of Policyholders — Market Conduct	9
Dividends to Policyholders	9
Reinsurance	9
Ceded Reinsurance	9
Assumed Reinsurance	10
Pools	11
Accounts and Records	11
Financial Statements	12
Statement of Assets, Liabilities, Surplus and Other Funds	13
Statement of Income	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

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June 3, 2011

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Honorable Commissioners and Superintendents,

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, 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
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*. 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 plan, 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 the information generated by the data processing systems.

Cambridge Mutual Fire Insurance Company

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

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.

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 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.

Year	Admitted Assets	Liabilities	Surplus	Direct Premiums Written	Net Premiums Written
2009	\$ 578,227,176	\$ 263,633,777	\$ 314,593,439	\$ 108,049,939	\$ 151,575,272
2008	559,931,537	274,567,540	285,363,890	114,174,098	152,714,135
2007	521,002,054	240,942,983	280,959,072	121,405,735	159,412,607
2006	502,668,895	222,225,567	260,443,328	115,248,325	163,384,406
2005	472,750,621	250,397,222	222,353,399	113,492,724	160,569,202

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.

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

Cambridge Mutual Fire Insurance Company

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, 2009, the Board was comprised of eight 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.
2013	Benjamin C. Bixby Kingston, NH	President and Director Bixby International Corporation
2010	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	Robert P. McDonald Needham, MA	Chairman and Treasurer Erland Construction Inc.
2012	William E. Nichols North Andover, MA	President, CEO and Treasurer The Andover Companies
2010	Donald F. Vose Scotford, 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.

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

Cambridge Mutual Fire Insurance Company

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, 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, 2009 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 Procedure

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.

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

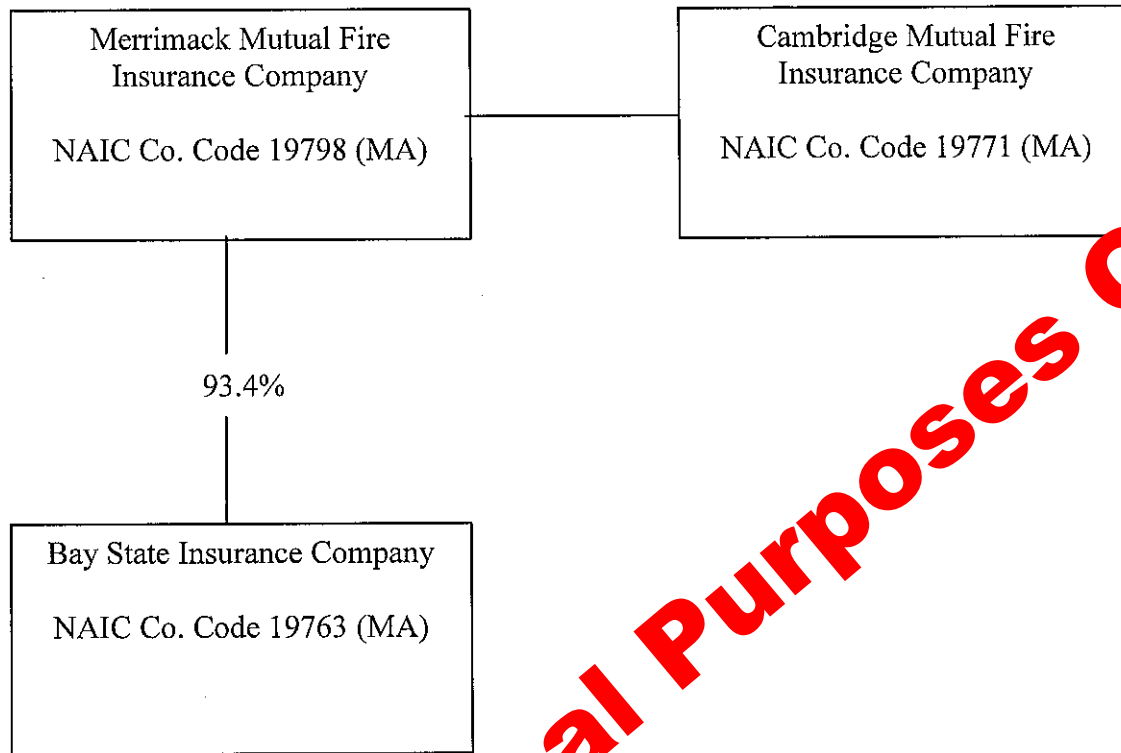
The minutes of the Board of Directors and Committee meetings for the prior year under statutory examination were read and indicated that all meetings were held in accordance with the Company bylaws and the laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at each meeting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

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.

Cambridge Mutual Fire Insurance Company

2009 ORGANIZATIONAL CHART



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.

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 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	\$ 324,583	\$ 334,313
Massachusetts	US Treasury Bond 7.63% due 2022	500,000	577,825	666,953
Massachusetts	US Treasury Bond 8.00% due 2021	600,000	613,837	817,032
Massachusetts	US Treasury Bond 7.50% due 2016	100,000	100,108	126,023

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write business in nine states. In 2009 all of the Company's direct business was written in the New England states, New Jersey, New York and Illinois. During the examination period the Company voluntarily surrendered their licenses in Georgia, Maryland, Ohio and Tennessee.

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 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.

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 into various reinsurance agreements to protect their exposure. Below is a brief summary of the treaties.

Cambridge Mutual Fire Insurance Company

<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	30	30
Third Layer	\$175,000,000	\$100,000,000	85	15
Fourth Layer	\$275,000,000	\$325,000,000	100	0

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 Bay State, 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 5.0% of the business to Andover for the 2008 underwriting year. The percentage increases each year, with Andover assuming 30% of

Cambridge Mutual Fire Insurance Company

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 run-off.

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, 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 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.

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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Cambridge Mutual 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	\$ 387,649,169		\$ 387,649,169
Common stocks	37,660,720		37,660,720
Cash and short-term investments	61,079,653		61,079,653
Subtotals, cash and invested assets	486,389,542		486,389,542
Investment income due and accrued	5,862,729		5,862,729
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	56,012,226		56,012,226
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,094,234		14,094,234
Amounts recoverable from reinsurers	6,968,448		6,968,448
Funds held by reinsured companies	26,367		26,367
Current federal income tax recoverable	1,450,000		1,450,000
Net deferred tax asset	7,061,143		7,061,143
Guaranty funds receivable or on deposit	252,000		252,000
Electronic data processing equipment	110,485		110,485
Total Assets	<u>\$ 578,227,176</u>	<u>\$ 0</u>	<u>\$ 578,227,176</u>

Cambridge Mutual 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	\$ 93,526,661		\$ 93,526,661	(1)
Reinsurance payable on paid loss and LAE	33,261,515		33,261,515	
Loss adjustment expenses	20,763,400		20,763,400	
Commissions payable	6,662,600		6,662,600	
Other expenses	15,033,900		15,033,900	
Taxes, licenses and fees	609,000		609,000	
Unearned premiums	70,364,393		70,364,393	
Advance premiums	2,429,000		2,429,000	
Ceded reinsurance premiums payable	10,976,762		10,976,762	
Amounts withheld	14,211		14,211	
Drafts outstanding	3,220,767		3,220,767	
Payable to parent; subsidiaries and affiliates	5,686,528		5,686,528	
Aggregate write-ins for liabilities	1,085,000		1,085,000	
Total Liabilities	<u>263,633,736</u>		<u>263,633,736</u>	
Guaranty fund	500,000		500,000	
Unassigned funds (surplus)	314,093,440		314,093,440	
Surplus as regards policyholders	<u>314,593,440</u>		<u>314,593,440</u>	
Total Liabilities, Capital and Surplus	<u>\$ 578,227,176</u>	<u>\$ 0</u>	<u>\$ 578,227,176</u>	

Cambridge Mutual Insurance Company
Statement of Income
For the Year Ended December 31, 2009

	As Reported by the Company	Examination Changes	Per Statutory Examination
Premiums earned	\$ 154,376,196		\$ 154,376,196
Deductions:			
Losses incurred	62,721,630		62,721,630
Loss expenses incurred	13,610,194		13,610,194
Other underwriting expenses incurred	57,760,021		57,760,021
Total underwriting deductions	134,091,845		134,091,845
Net underwriting gain (loss)	20,284,351		20,284,351
Net investment income earned	22,395,647		22,395,647
Net realized capital gains	(915,527)		(915,527)
Net investment gain	21,480,120		21,480,120
Net gain (loss) from agents' balances or premium balances charged off	(32,312)		(32,312)
Finance and service charges not included in premiums	381,527		381,527
Aggregate write-ins for miscellaneous income	(214,267)		(214,267)
Total other income	134,949		134,948
Net income before dividends to policyholders and before federal and foreign income taxes	41,899,420		41,899,419
Federal and foreign income taxes incurred	11,217,589		11,217,589
Net income	\$ 30,681,831	\$ 0	\$ 30,681,831

Cambridge Mutual 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	\$ 285,363,891		\$ 285,363,891
Net income	30,681,831		30,681,831
Change in net unrealized capital gains or (losses)	2,394,371		2,394,371
Change in net deferred tax	(980,750)		(980,750)
Change in nonadmitted assets	(5,210,903)		(5,210,903)
Change in minimum pension liability	<u>2,345,000</u>		<u>2,345,000</u>
Change in surplus as regards policyholders for the year	<u>29,229,549</u>		<u>29,229,549</u>
Surplus as regards policyholders, December 31, 2009	<u>\$ 314,593,440</u>	<u>\$ 0</u>	<u>\$ 314,593,440</u>

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Cambridge Mutual Insurance Company
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	\$285,363,891	\$280,959,072	\$260,443,328	\$222,353,400	\$214,848,341
Net income	30,681,831	17,023,746	24,554,650	33,737,539	7,007,587
Change in net unrealized capital gains or (losses)	2,394,371	(5,471,878)	(2,744,819)	2,079,341	1,139,438
Change in net deferred income tax	(980,750)	2,796,540	243,487	(29,405)	1,784,376
Change in nonadmitted assets	(5,210,903)	(6,885,289)	(1,957,574)	1,554	(476,842)
Change in minimum pension liability	2,345,000	(3,058,300)	420,000	1,334,900	(1,949,500)
Net change in capital and surplus for the year	29,229,549	4,404,818	20,516,744	38,089,928	7,505,059
Capital and surplus, December 31, current year	<u>\$314,593,440</u>	<u>\$285,363,891</u>	<u>\$280,959,072</u>	<u>\$260,443,328</u>	<u>\$222,353,400</u>

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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	\$102,550,000	\$114,100,000	\$125,650,000
Total Company Carried Direct & Assumed Loss and LAE Reserves	115,548,000	115,548,000	115,548,000
Difference	12,998,000	1,448,000	(10,102,000)

**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	\$101,850,000	\$113,050,000	\$124,250,000
Total Company Carried Net Loss & LAE Reserves	114,290,000	114,290,000	114,290,000
Difference	12,440,000	1,240,000	(9,960,000)

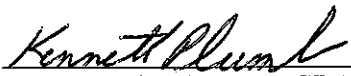
The Company's total net carried reserves are above Merlinos' selected estimate and below their high point. Therefore the Division concludes the Company's reserves are a reasonable estimate of their ultimate liability.

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:

Carla Mallqui, Examiner II



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



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