THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE

FITCHBURG MUTUAL INSURANCE COMPANY

Dedham, Massachusetts

As of December 31, 2009

NAIC GROUP CODE 0144

NAIC COMPANY CODE 13943

EMPLOYER'S ID NO. 04-1328790

FITCHBURG MUTUAL INSURANCE COMPANY

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JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

May 25, 2011

The Honorable Joseph R. Torti, III, Chairman
Financial Condition (E) Committee, NAIC
Deputy Director and Superintendent of
Insurance and Banking
Division of Insurance
Department of Business Regulation
State of Rhode Island
1511 Pontiac Avenue, Bldg #69-2
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The Honorable Mila Kofman, Secretary
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The Honorable Joseph G. Murphy
Commissioner of Insurance
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Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner Murphy and Superintendents Torti and Kofman:

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

FITCHBURG MUTUAL INSURANCE COMPANY

at its home office located at 222 Ames Street, Dedham, MA, 02026-1850. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Fitchburg Mutual Insurance Company (hereinafter referred to as "Company" or "Fitchburg") 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 ("Division"). The current association plan examination was also conducted by the Division and covers the 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 Norfolk and Dedham Group were also examined and separate Reports of Examination have been issued:

Norfolk and Dedham Mutual Fire Insurance Company
Dorchester Mutual Insurance Company

The examination was conducted in accordance with standards established by the Financial Condition (E) Committee of the NAIC as well as with the requirements of the NAIC Financial Condition Examiners' Handbook, the examination standards of the Division and consistent with Massachusetts General Laws ("M.G.L."). The principal focus of the examination was 2009 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

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 bonds and other insurance, 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 was audited annually by PricewaterhouseCooper LLP for the years 2005 and 2006 and by UHY LLP for the years 2007 through 2009. In April 2010, Marcum LLP acquired the New England branches of UHY LLP. All firms are independent certified public accounting firms. The firms 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' work papers was made to the extent deemed appropriate and effective. An independent certified public accounting and actuarial 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, 2009. An evaluation of the adequacy and effectiveness of the Information Technology Systems' controls was done to determine the level of reliance to be placed on summary information generated by the data processing systems.

Status of Prior Examination Findings

It appears that the company has complied with the recommendations of the prior exam.

HISTORY

General

The Company was incorporated on March 1, 1847 under the laws of the Commonwealth of Massachusetts and commenced business on September 1, 1847. Since that time, only minor changes have been made to its by-laws and articles of incorporation, all of which were approved and voted upon by the board of directors. Additionally, there have not been any name changes or mergers, since the last examination.

The Company is authorized to write property and casualty lines of business in seven states. Effective June 14, 2001, the Company became affiliated with The Norfolk & Dedham Group comprised of the Norfolk & Dedham Mutual Fire Insurance Company ("Norfolk"), West Newbury Mutual Fire Insurance Company ("West Newbury"), Dorchester Mutual Insurance Company ("Dorchester"), and Groveland Mutual Insurance Company ("Groveland"). On August 1, 2001, Norfolk sold 100 shares of Newbury Corporation, a subsidiary, to Fitchburg.

Effective January 1, 2003, the Company entered into an inter-company pooling arrangement with Dorchester and Norfolk. Under the current agreement, Fitchburg and Dorchester cede 100% of net written premiums (after other third party cessions), losses, loss adjustment expenses and underwriting expenses to the Norfolk, which retains 68% of the consolidated result and retro cedes 19% back to Fitchburg and 13% back to Dorchester.

Effective December 23, 2003 the West Newbury Mutual Fire Insurance Company merged into the Dorchester Mutual Insurance Company. Effective November 29, 2004 the Groveland Mutual Insurance Company was dissolved.

In March 2009 the Company acquired an additional 2,247 shares of Newbury Corporation from the board of directors. This brings the ownership of Newbury in line with the pooling percentages. As of January 1, 2010 the companies formed an alliance with Rockingham Mutual Insurance Company ("Rockingham") and Rockingham Casualty Company ("Rockingham Casualty"), Virginia domiciled companies. As part of the alliance Rockingham entered into an inter-company pooling agreement, management services agreement and a Class "A" shareholders agreement. Effective December 31, 2010 the alliance was terminated and all agreements were amended to terminate them.

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	Net Premiums Written	Surplus
2009	$78,488,638	$25,359,960	$41,6[illegible]78
2008	68,346,878	27,782,133	3[illegible]65,268
2007	70,453,160	22,999,765	36,929,600
2006	65,824,219	21,603,360	34,080,370
2005	62,591,252	20,216,232	30,354,130

Management

Annual Meeting

In accordance with the by-laws, the annual meeting of the Company is held on the second Wednesday in March. Ten members represented either in person or by a proxy duly dated, executed, returned, and recorded in accordance with the general laws of Massachusetts, shall constitute a quorum for the transaction of business at any meeting of the members. The minutes indicate that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

The by-laws of the Company provide that the directors may exercise all powers of the Company except as otherwise provided by law or the by-laws of the Company. The board of directors shall consist of not less than seven directors, and shall be fixed at the annual meeting or a special meeting called for that purpose. The board is divided into no more than four classes of directors. The term of office for one class will expire in each year. Directors shall be elected at the annual meeting of the members and shall serve for three years or until their successors are elected and qualified.

At December 31, 2009, the board was comprised of ten directors, which is in compliance with the Company's by-laws.

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

Director	Business Affiliation
Francis T. Hegarty, Jr.	President and Chief Executive Officer of the Company
Joseph A. Giovino	President, Giocon
Horace R. Higgins III	Benefit Consultant, Strategic Employee Benefit Services
Ronald E. Hurd *	Retired
Edward J. Machado	Member Manager, Machado Consulting, LLC
Glenn E. Niinimaki	Director of Marketing, D. Francis Murphy Insurance Agency
Gregory L. Petrini	CEO, Petrini Corporation
Michael T. Rivard	Retired
Carolyn F. Sedwick	Retired
Michael J. Shea	Executive Vice President and Chief Financial Officer, MacGray, Inc.

*Ronald E. Hurd died in May 2010.

The by-laws do not specify the number of meetings of directors to be held during the year. The minutes of the board of directors indicate that meetings were held on a regular basis. A majority of but not less than five directors constitutes a quorum and the minutes indicate that a quorum was obtained at all meetings of the board during the examination period.

The board of directors appointed a Finance Committee, an Audit Committee, and a Corporate Governance Committee in accordance with the by-laws. The purpose and membership of each committee at December 31, 2009 are as follows:

Finance Committee

The Finance Committee is comprised of not less than three or more than five members of the board of directors. Subject to the direction of the board of directors, it provides general supervision over the investment funds of the Company. The Finance Committee shall report to each regular meeting of the board of directors all transactions authorized by them since the last regular meeting. Directors serving on this Committee at December 31, 2009, are as follows:

Joseph A. Giovino	Edward J. Machado.
Francis T. Hegarty, Jr	Carolyn F. Sedwick

Audit Committee

The Audit Committee is comprised of at least three members with at least one of whom shall be experienced in the field of auditing and/or accounting. No member shall be an officer or employee of the Company, nor have any business directly or indirectly with the Company that could influence a decision or interfere with the independent judgment used in fulfilling his/her responsibilities. The responsibility of the Audit Committee is to monitor the integrity of the Company's financial reporting process and related internal controls for all accounting, insurance, investment and legal functions. Directors serving on the Committee at December 31, 2009 are as follows:

Horace R. Higgins, III	Michael T. Rivard
Ronald E. Hurd	Michael J. Shea
Glenn E. Niinimaki	

Corporate Governance Committee

The Corporate Governance Committee is comprised of at least four members with no member having direct or indirect business with the Company that could influence his/her decisions or independence while exercising judgment in fulfilling their responsibilities. The committee's responsibilities include assuring that the board of directors is appropriately constituted and capable of fulfilling its fiduciary responsibilities to policyholders while providing review and oversight on all corporate governance matters. Directors serving on this Committee at December 31, 2009 are as follows:

Joseph A. Giovino	Edward J. Machado
Francis T. Hegarty, Jr.	Gregory L. Petrini

Officers

The by-laws of the Company provide that the officers of the Company shall be a President; a Secretary, Treasurer, and such other subordinate officers as the directors may elect or appoint. The President shall be the Chief Executive Officer of the Company and will preside at all meetings of the members and of the board of directors in the absence of an elected Chairperson.

The elected officers and their respective titles at December 31, 2009 follow:

Name	Title
Francis T. Hegarty, Jr.	President, Chief Executive Officer and Director
Gerard T. McDermott	Executive Vice President and Treasurer
William N. Menefee	Executive Vice President
David N. Cote	Secretary

<u>Conflict of Interest Procedures</u>

The Company has adopted a policy statement pertaining to conflicts 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 conflicts or is likely to conflict with his or her official duties.

Annually, each officer, and director completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and one discrepancy was noted. A family member of President has had an ownership interest in an insurance agency since 2007 that does business with the Company. This was disclosed in 2009 only. It should have been disclosed in all years in which the related party relationship exists. This is included in the Comments and Recommendations section of the report.

<u>Corporate Records</u>

Articles of Organization and By-laws

The by-laws and Articles of Organization and amendments thereto were read. During the exam period, there was one amendment to the by-laws. The amendment included three items: the board is to be composed of not less than seven directors, any director may be a director of any other company affiliated with or a member of the same insurance company group as the Company and the board shall be divided into no more than four classes.

Disaster Recovery and Business Continuity

The Company does provide 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

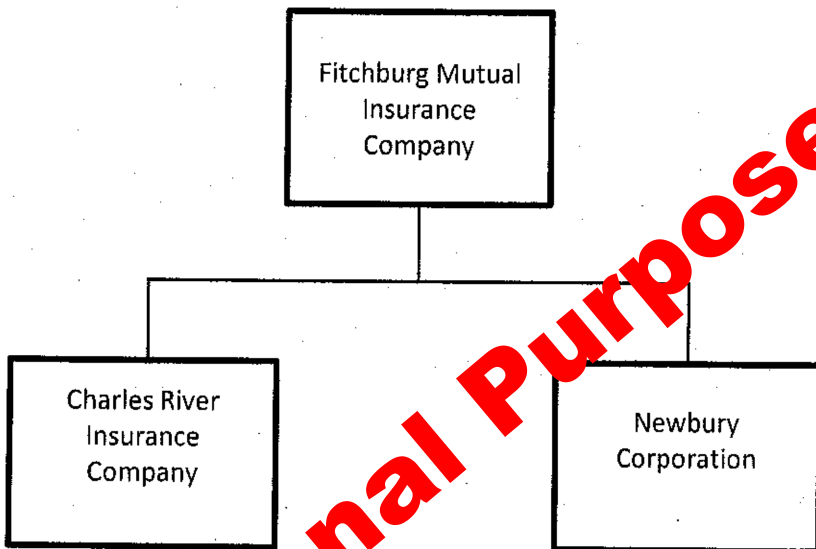
The minutes of the board of directors and committee meetings for the period under statutory examination were read. The minutes indicated that all meetings were held in accordance with the Company's by-laws and the laws of the Commonwealth of Massachusetts. Activities of the committees were ratified at each meeting of the board of directors.

The minutes of the April 25, 2006 board meeting note that a copy of the Report of Examination as of December 31, 2004 was provided to the directors and that the directors executed an affidavit acknowledging receipt of the report.

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 M.G.L. c.175, s.206C of the Massachusetts General Laws and Regulation 211 CMR 7.00.

<u>Organization Chart</u>



<u>Transactions and Agreements with Subsidiaries and Affiliates</u>

<u>Pooling Agreement</u>

The majority of all inter-company transactions is governed by the inter-company reinsurance pooling agreement covering all underwriting and claim operations of the Company. The respective participation ratios are based on each individual company's direct written premium contribution into the pool and levels of surplus. (The pooling agreement is detailed further in the reinsurance section of this report.)

Management Agreement with Newbury Corporation

The Company has a 19% interest in Newbury. Newbury provides managerial, technical and clerical services to the Company and charges the Company a fee based on a percentage of net premiums written.

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 purchasing 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 OTHER INSURANCE PLANS

All Company personnel are actually named employees of Newbury Corporation. As employees of Newbury, employees are offered various insurance plans, including life, AD&D, long term disability, health and dental. These plans are offered to all full time employees.

Newbury has a non-contributory, defined benefit pension plan covering substantially all its employees. Pension benefits are based on years of service and the employee's highest compensation for five consecutive years during the last ten years of employment. The company's funding and accounting policies are to contribute the minimum amount required.

Newbury also offers a 401(k) incentive plan (Profit Incentive and Employees' Savings Plan) for which substantially all employees are eligible after six months of service.

The directors of the Company participate in a restricted stock incentive plan with shares of Newbury being awarded based on the increase in surplus of the Company.

STATUTORY DEPOSITS

Location	Description of Deposit	Par Value	Statement Value	Market Value
Connecticut	Federal Home Loan Bank 4.875% due 11/18/11	$50,000	$ 50,089	$ 53,406
Massachusetts	Citibank IIS Money Market Dep A/C #15	–	200,000	200,000
Total all Locations		$50,000	$ 250,089	$ 253,406

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write various property and casualty lines of business in Massachusetts, Connecticut, Maine, New Hampshire, New Jersey, Rhode Island and Vermont. The Company ceased writing premium in Connecticut and Vermont in 2003. The Company's principal lines of business are homeowners multiple peril and commercial multiple peril. All direct premiums, net of third party reinsurance, are ceded to the inter-company reinsurance pool, and a percentage of the total post-pooled business is assumed by the Company. (This pooling arrangement is explained in further detail in the reinsurance section of this report.)

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 Rudmose & Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and 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, 2009 through December 31, 2009 will be issued and become available as a public document.

REINSURANCE

Pooling Agreement

The Company participates in an inter-company reinsurance pooling agreement with Norfolk and Dorchester. Under the terms of the agreement, 100% of the Company's net premiums, losses and underwriting expenses are pooled. The Company may cede business on an excess of loss, quota share or facultative basis prior to pooling.

As of December 31, 2009 the pooling percentages are Norfolk & Dedham 68%, Fitchburg 19% and Dorchester 13%.

Assumed Reinsurance

In addition to its participation in the inter-company pool whereby it assumes 19% of the pool total, the Company participates in the Workers Compensation Underwriting Association, Selected Insurance Risk ("SIR") and Associated Inland Marine. SIR stopped writing new and renewal business July 1, 2009. The Company will continue to assume business from SIR until runoff is completed.

Ceded Reinsurance

As noted previously, the Company may reinsure risks prior to pooling, and as a member of the Norfolk & Dedham Group, the Company participates as a named insured in the reinsurance program managed and administered by the Company. Each treaty/contract reviewed contained an insolvency clause in accordance with MGL c. 175 s. 20A.

The following table illustrates the Company's ceded reinsurance program:

Business Covered	Limit and Retention
Property	
Equipment Breakdown	100% reinsured
Multiple Line Facultative Binding	Personal Lines Properly xs $2.0 million Special acceptance up to $7.0 million
Excess Treaty	$2.0 million xs $2.0 million
Commercial Facultative	Commercial Lines Property $11.0 million xs $4.0 million Special acceptance xs $15.0 million
Casualty	
Employment Practices Liability	100% reinsured
Umbrella Quota Share Auto Facultative	Commercial & Personal $3.0 million xs $2.0 million Commercial only 100% of $3.5 million xs $5.0 million
Excess of Loss Treaty Clash	$10 million xs $5.0 million with $5.0 million MAOL
Excess of Loss Treaty Workers Compensation Only	$2.5 million xs $2.5 million $5.0 million xs $5.0 million $10.0 million xs $10.0 million
Property and Casualty	
Aggregate Excess of Loss	$5.0 million xs 85% net earned premium
Clash Treaty	$4.0 million xs $5.0 million
Catastrophe	
Layer 1	20.25% of $10 million xs $10 million
Layer 2	41.83% of $30 million xs $20 million
Layer 3	41.83% of $50 million xs $50 million
Layer 4	68.61% of $125 million xs $100 million
Layer 5	46.66% of $25 million xs $225 million
3 yr @ 7/07 $90 million xs $10 million	14.75% of $90 million xs $10 million
2 yr @ 7/09 $90 million xs $10 million	4.25% of $90 million xs $10 million
3 yr @ 7/09 $90 million xs $10 million	5.75% of $90 million xs $10 million
2 yr @ 7/08 $80 million xs $20 million	13.17% of $80 million xs $20 million
3 yr @7/08 $80 million xs $20 million	15.25% of $80 million xs $20 million
2 yr @7/09 $125 million xs $100 million	19.8% of $125 million xs $100 million
3 yr @ 7/09 $125 million xs $100 million	6.6% of $125 million xs $100 million
2 yr @ 7/09 $25 million xs $225 million	26.67% of $25 million xs $225 million
3 yr @ 7/09 $25 million xs $225 million	16.67% of $25 million xs $225 million

SUBSEQUENT EVENTS

As of January 1, 2010, the companies entered into an alliance with Rockingham Mutual Insurance Company and Rockingham Casualty Company, Virginia domiciled companies. Rockingham entered into an inter-company pooling agreement, a management services agreement and a Class "A" shareholders agreement. Under the inter-company pooling agreement premiums, losses and expenses are ceded 100% to the pool; the pool members than assume back a specified percentage of the pool. The percentages are Norfolk 53%, Rockingham 20%, Fitchburg 16% and Dorchester 11%. The agreement is prospective; losses and loss adjustment expenses prior to 2010 are not included in the pool.

Newbury did provide managerial services to Rockingham. All employees of Rockingham became employees of Newbury effective January 1, 2010. Rockingham did acquire shares of Newbury under the Class "A" shareholders agreement. Three directors of Rockingham became directors of Norfolk, two Rockingham directors became directors of Dorchester and three Rockingham directors became directors of Fitchburg. In turn, two directors of the Norfolk and Dedham Group of companies became directors of Rockingham.

Effective December 31, 2010, the alliance was terminated. The inter-company pooling agreement, management services agreement and Class "A" shareholders agreement were amended to terminate the agreements. The Rockingham directors resigned from the boards of Norfolk, Dorchester and Fitchburg. The Norfolk, Dorchester and Fitchburg directors resigned from the board of Rockingham.

ACCOUNTS AND RECORDS

The internal control 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 differences were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the Information Technology environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the Information Technology 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 were audited for the years 2005 to 2006 by PricewaterhouseCoopers and for the years 2007 through 2009 by UHY LLP, independent certified public accountants, in accordance with 211 CMR 23.00. In April 2010, Marcum LLP acquired the New England branches of UHY LLP.

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

Underwriting and Investment Exhibit Statement of Income for the Year Ended December 31, 2009

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

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

Assets	Per Company	Examination Changes	Per Statutory Examination	Notes
Bonds	$ 46,789,408	$ 0	$ 46,789,408	
Common stocks	20,795,620		20,795,620	
Cash and short term investments	1,253,741		1,253,741	
Other Invested Assets	155,859		155,859	
Subtotal cash and invested assets	68,994,628	0	68,994,628	
Investment income due and accrued	449,627		449,627	
Premiums and considerations:				
Deferred premiums	4,423,384		4,423,384	
Reinsurance:				
Amounts recoverable from reinsurers	1,046,228		1,046,228	
Net deferred tax asset	1,042,051		1,042,051	
Aggregate write-ins for other than invested assets	2,532,720		2,532,720	
TOTAL ASSETS	$ 78,488,638	$ 0	$ 78,488,638	

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

Liabilities	Per Company	Examination Changes	Per Statutory Examination	Notes
Losses	$ 10,832,364	$ 0	$ 10,832,364	
Reinsurance payable on paid loss and loss adjustment expenses	1,168,316		1,168,316	
Loss adjustment expenses	3,922,689		3,922,689	1
Commissions Payable	931,119		931,119	
Other expenses	109,880		109,880	
Taxes, licenses and fees	331,380		331,380	
Current federal and foreign income tax	1,866,058		1,866,058	
Unearned premiums	14,203,868		14,203,868	
Advance premiums	389,573		389,573	
Ceded reins premims payable	44,186		44,186	
Amounts withheld for account of others	185,215		185,215	
Drafts outstanding	34,433		34,433	
Payable to parent, subsidiaries and affiliates	1,622,802		1,622,802	
Aggregate write-ins for liabilities	1,242,477		1,242,477	
Total liabilities	36,884,360	0	36,884,360	
Unassigned funds	41,604,278		41,604,278	
Total surplus	41,604,278		41,604,278	
TOTAL LIABILITIES AND SURPLUS	$ 78,488,638	$ 0	$ 78,488,638	

Fitchburg Mutual Insurance Company

Underwriting and Investment Exhibit Statement of Income the Year Ended December 31, 2009

	Per Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	$ 25,489,196	$ 0	$ 25,489,196	
Deductions				
Losses incurred	9,729,929		9,729,929	
Loss adjustment expenses incurred	2,884,127		2,884,127	
Other underwriting expenses incurred	11,655,887		11,655,887	
Aggregate write-ins for underwriting deductions	482		482	
Total underwriting deductions	24,270,425		24,270,425	
Net underwriting gain	1,218,771	0	1,218,771	
Net investment income earned	2,201,859		2,201,859	
Net realized capital gains (losses)	3,120,437		3,120,437	
Net investment gain (loss)	5,322,296	0	5,322,296	
Net gain or (loss) from agents' or premium balances charged off	(163,010)		(163,010)	
Finance and service changes not included in premium	146,052		146,052	
Aggregate write-ins for miscellaneous income	80,360		80,360	
Total other income	63,402	0	63,402	
Net income before dividends to policyholders	6,604,469		6,604,469	
Dividends to policyholders	-		-	
Net income before federal taxes	6,604,469	0	6,604,469	
Federal and foreign taxes incurred	949,334		949,334	
Net Income	$ 5,655,135	$ 0	$ 5,655,135	

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	$ 33,665,268	$ 36,929,600	$ 34,080,370	$ 30,354,13[illegible]	$ 22,882,911
Net income	5,655,135	2,648,536	2,105,971	2,0[illegible]788	5,834,222
Change in net unrealized capital gains or (losses)	1,824,519	(5,016,648)	648,803	[illegible],583,127	(378,146)
Change in net deferred income tax	(107,833)	(269,744)	117,39[illegible]	(438,343)	(1,444,556)
Change in nonadmitted assets	567,189	(626,476)	(2,9[illegible]7)	497,668	2,065,918
Change in provision for reinsurance				4,000	813
Aggregate write-ins for gains and losses in surplus					1,392,968
Net change in capital and surplus for the year	7,939,010	(3,[illegible]4,332)	2,849,230	3,726,240	7,471,219
Capital and Surplus, December 31, current year	$ 41,604,278	$ 33,665,268	$ 36,929,600	$ 34,080,370	$ 30,354,130

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Loss and Loss Adjustment Expense Reserves

The Division retained the services of KPMG LLP to provide an actuarial evaluation of the Loss and Loss Adjustment Expense reserves recorded by the company. The table below shows the findings resulting from their actuarial evaluation of the Group on both a net of reinsurance and gross of reinsurance basis.

Loss & Loss Adjustment Expense Reserves as of December 31, 2009

Reserve Category	KPMG Indicated Low	KPMG Indicated Selected	KPMG Indicated High	Carried
Net of Reinsurance				
Losses	46,701,000	52,441,000	59,625,000	57,012,448
Defense & Cost Containment	10,319,000	10,779,000	11,358,000	4,307,735
Adjusting & Other	8,118,000	10,359,000	12,435,000	16,338,000
Total Loss & Expense	65,138,000	73,599,000	83,418,000	77,658,183
Gross of Reinsurance				
Losses	54,179,000	60,368,000	68,065,000	103,739,000
Defense & Cost Containment	12,557,000	13,044,000	13,685,000	8,059,000
Adjusting & Other	8,018,000	10,359,000	12,435,000	27,894,000
Total Loss & Expense	74,754,000	83,771,000	94,185,000	139,692,000

The reserves carried by the Group exceed the high end of the range as determined by KPMG LLP by $45,507,000 on a gross basis. On a net basis the reserves are in the range as determined by KPMG LLP.

The table below shows the findings resulting from their actuarial evaluation of the reserves by individual company on both a net of reinsurance and gross of reinsurance basis.

Loss & Loss Adjustment Expense Reserves as of December 31, 2009

	KPMG Indicated			
Reserve Category	Low	Selected	High	Carried
Net of Reinsurance				
Norfolk & Dedham	44,226,000	50,047,000	56,724,000	52,807,568
Dorchester	8,455,000	9,568,000	10,844,000	10,095,562
Fitchburg	12,357,000	13,984,000	15,849,000	14,755,053
Total	65,038,000	73,599,000	83,418,000	77,658,183
Gross of Reinsurance				
Norfolk & Dedham	50,833,000	56,964,000	64,046,000	82,813,000
Dorchester	9,718,000	10,890,000	12,244,000	18,311,000
Fitchburg	14,203,000	15,917,000	17,895,000	38,568,000
Total	74,754,000	83,771,000	94,185,000	139,692,000

The reserves carried by each company in the group exceed the high end of the range as determined by KPMG LLP by $18,767,000 for Norfolk, $6,067,000 for Dorchester and $20,673,000 for Fitchburg on a gross basis. On a net basis the reserves are in the range as determined by KPMG LLP.

In KPMG's opinion, the loss and loss adjustment expense reserves carried by the Group as of December 21, 2009 make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Group. In KPMG's opinion, direct and assumed loss and loss adjustment expense reserves carried by the Group as of December 31, 2009 do not make reasonable provision for the unpaid loss and loss adjustment expense obligations of the Group.

COMMENTS AND RECOMMENDATIONS

A family member of the President has had an ownership interest in an insurance agency that does business with the Company since 2005. This was only disclosed in the conflict of interest statement for 2009. It should be disclosed in the conflict of interest statements in all years in which the related party relationship exists.

It is recommended that conflicts of interest be disclosed in the conflict of interest statements for all years in which a conflict exists.

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Acknowledgement 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.

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