



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, 2004

NAIC GROUP CODE 0144

NAIC COMPANY CODE 13943

EMPLOYER'S ID NO. 04-1328790

FITCHBURG MUTUAL INSURANCE COMPANY

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
History	3
General	3
Growth of Company	3
Management	4
Annual Meeting of Policyholders	4
Board of Directors	4
Finance Committee	5
Audit Committee	5
Corporate Governance Committee	6
Officers	6
Conflict of Interest Procedures	6
Corporate Records	7
Affiliated Companies	7
Organizational Chart	7
Transactions and Agreements with Affiliates	8
Fidelity Bond and Other Insurance	8
Pension, Insurance Plans and Employee Welfare	8
Statutory Deposits	9
Insurance Products and Related Practices	9
Territory and Plan of Operation	9
Treatment of Policyholders	10
Dividends to Policyholders	10
Reinsurance	10
Pooling Agreement	10
Assumed Reinsurance	11
Ceded Reinsurance	11
Subsequent Events	12
Accounts and Records	12
Financial Statements	12
Statement of Assets, Liabilities, Surplus and Other Funds	13
Statement of Income	15
Reconciliation of Capital and Surplus	16
Notes to Financial Statements	17
Comments and Recommendations	20
Conclusion	21



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 HEALY
LIEUTENANT GOVERNOR

JANICE S. TATARKA
DIRECTOR, CONSUMER AFFAIRS
AND BUSINESS REGULATION

JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

April 18, 2006

The Honorable Alfred W. Gross
Chairman, Financial Condition (E) Committee, NAIC
Commissioner of Insurance
The Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

Honorable Julianne M. Bowler
Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
One South Station
Boston, MA 02110-2208

Honorable Commissioners:

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

FITCHBURG MUTUAL INSURANCE COMPANY

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

SCOPE OF EXAMINATION

The Fitchburg Mutual Insurance Company ("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 ("Division"). The current association plan examination was also conducted by the Division and covers the 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 Norfolk and Dedham Group were also examined and separate reports have been issued:

Norfolk and Dedham Mutual Fire Insurance Company
Dorchester Mutual 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 examination standards of the Division and Massachusetts General Laws.

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 ("PwC"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2002 through 2004. KPMG LLP ("KPMG"), an independent certified public accounting firm expressed unqualified opinions on the Company's financial statements for the calendar years 2000 and 2001. A review and use of the certified public accountants' work papers was made to the extent deemed appropriate and effective. KPMG was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2004. An evaluation of the adequacy and effectiveness of controls over information technology systems was done to determine the level of reliance to be placed on summary information generated by the systems.

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

The examination included a review to verify the current status of any exception conditions commented upon in the previous Report of Examination as of December 31, 1999. It was determined that the Company has satisfactorily addressed all outstanding items.

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 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.

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 70% of the consolidated result and retro cedes 17% back to Fitchburg and 13% back to Dorchester. The pooling percentages were 63%, 24% and 13% in 2003. In order to implement the pooling agreement, the total loss reserves, loss adjustment expense reserves and unearned premium reserves of the three pooled companies as of January 1, 2003 were also pooled and then redistributed in the 2003 proportions.

Growth of Company

The growth of the Company for the years 2000 through 2004 is shown in the following schedule which was prepared from information in the Company's Annual Statements including any changes as a result of the examination.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus</u>
2004	\$61,457,377	\$16,021,139	\$22,882,911
2003	67,442,081	20,806,941	17,758,907
2002	81,375,382	44,158,035	16,062,354
2001	87,830,842	54,604,053	23,848,377
2000	85,525,539	47,889,487	26,723,810

Fitchburg Mutual Insurance Company

Management

Annual Meeting of Policyholders

In accordance with the bylaws, the annual meeting of the Company is to be held on the second Wednesday of March of each year. Ten members, represented either in person or by a proxy duly dated, executed, returned, 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 bylaws of the Company provide that the directors may exercise all powers of the Company except as otherwise provided by law or the bylaws of the Company. The board of directors shall consist of not less than seven or more than twelve directors, and shall be fixed at the annual meeting or a special meeting called for that purpose. The board is divided into three classes of not more than four directors each. The term of office for one class only 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, 2004, the board was comprised of twelve directors, which is in compliance with the Company bylaws.

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

<u>Director</u>	<u>Business Affiliation</u>
Francis T. Hegarty, Jr.	President and Chief Executive Officer of the Company
Leon M. Cangiano, Jr.	President, Inland Underwriters Insurance Agency
James F. Gerrity, III	President, Gerrity Company, Inc.
Kristen F. Giarrusso	Partner, Brown Brothers Harriman & Company
Joseph A. Giovino	President, Giocon, Inc.
Ronald E. Hurd	Retired
Ronald J. LeBlanc	Senior Vice President of the Company
Glenn E. Niinimaki	Agent, D. Francis Murphy Insurance Agency
Gregory L. Petrini	CEO, Petrini Corporation
Michael T. Rivard	Consultant, Fitchburg State College
Michael J. Shea	Executive Vice President and Chief Financial Officer, MacGray, Inc.
Stokely P. Towles	Partner, Brown Brothers Harriman & Company

The bylaws do not specify the number of meetings to be held during a year. However, the minutes of the Board of Directors indicate that meetings were held on a regular basis. Five directors constitute a quorum and the minutes indicate that a quorum was obtained at all meetings of the Board of directors during the examination period.

The Board of Directors appointed a Finance Committee, an Audit Committee and a Corporate Governance Committee in accordance with the bylaws. The purpose and membership of each committee at December 31, 2004 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 of the funds of the Company. In addition to the powers specifically set forth in the bylaws, the Finance Committee shall have such further powers and perform such other duties as the Board of Directors may from time to time prescribe. 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, 2004, are as follows:

Francis T. Hegarty, Jr.
Joseph A. Giovino
Ronald J. LeBlanc

Kristen F. Giarrusso
Stokley P. Towles

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, 2004 are as follows:

Kristen F. Giarrusso
Ronald H. Hurd
Glenn E. Niinimaki

Gregory L. Petrini
Michael T. Rivard
Michael J. Shea

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 membership 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, 2004 are as follows:

Francis T Hegarty, Jr.
Leon M Cangiano, Jr.
James F. Gerrity, III

Gregory L. Petrini
Stokley P. Towles

Officers

The bylaws of the Company provide that the officers of the Company shall be a President, 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, 2004 are as follows:

Francis T. Hegarty, Jr.

President, Chief Executive Officer and
Director

Daniel P. Gillis

Secretary

Ronald A. DeLorenzo

Treasurer and Chief Financial Officer

Ronald J. LeBlanc

Senior Vice President

Gerard T. McDermott

Senior Vice President

Conflict of Interest Procedures

In support of its answer to Question 14 of Part 1 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 and director completes a conflict of interest statement disclosing any material conflicts of interests. The completed statements were reviewed and no discrepancies were noted to contradict the Company's response to the General Interrogatory regarding conflicts of interests reported in the Company's 2004 Annual Statement. However, specific concerns were noted regarding the Company's conflict of interest procedure. The findings regarding the noted concerns are documented in the Comments and Recommendations section of this report.

Fitchburg Mutual Insurance Company

Corporate Records

Articles of Incorporation and Bylaws

The bylaws and Articles of Incorporation and amendments thereto were read. The bylaws of all members of the Norfolk and Dedham Group (Company, Dorchester and Norfolk) were amended in 2002 solely to make them consistent with one another.

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. Our exam disclosed that the Company's Board of Directors and various committees do engage in executive sessions in order to conduct business activities; yet, no minutes are maintained to document the activities and related decisions of these meetings. Our recommendations regarding this issue are documented in the Comments and Recommendations section of this report.

AFFILIATED COMPANIES

Per Form B, as filed with the Division, Company is a member of a holding company system and is subject to the registration requirements of MGL c. 175, s. 206C and Regulation 211 CMR 7.00.

Organization Chart



Fitchburg Mutual Insurance Company

Transactions and Agreements with Subsidiary and Affiliates

Pooling Agreement

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.)

Newbury Corporation

Management Agreement

The Company has a 97% 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.

Tax Sharing Agreement

The Company participates in a tax allocation agreement with its eligible subsidiaries. The allocation method is based upon the respective tax liability of each member computed as if a separate return were filed, in accordance with the Internal Revenue code.

FIDELITY BOND AND OTHER INSURANCE

As a member of the Norfolk and Dedham Group, the Company maintains fidelity coverage with an authorized Massachusetts insurer, under a Financial Institutions Bond, designed for insurance companies, consistent with Massachusetts General Laws Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum. Other coverage provided under the bond includes loss of property coverage, loss due to forgery and counterfeit currency and computer systems fraud. The Company has further protected its interest 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 OTHER INSURANCE PLANS

All Company personnel are actually named employees of the subsidiary company, Newbury. 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 annually the maximum amount that can be deducted for federal income tax purposes.

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

The statutory deposit of the Company as of December 31, 2004 is as follows:

Location	Description of Deposit	Par Value	Statement Value	Market Value
Massachusetts	U. S. Treasury Notes 5.875% due 2005	\$200,000	\$199,556	205,320
	Mass Port Authority Revenue Bond due 2008	10,000	10,013	10,625
	SSGA US Government Money Market	110,000	110,000	110,000
Total all Locations		\$320,000	\$319,569	\$325,945

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company at December 31, 2004 was licensed to write various property and casualty lines of business in Massachusetts, Connecticut, Maine, New Hampshire, Vermont, New Jersey and Rhode Island. The Company ceased writing business 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 later in 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, 2004 through June 30, 2005. 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 RSM McGladery, 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. 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 June 30, 2005 will be issued and become available as a public document.

Dividends to Policyholders

Although the Company is a mutual insurer, it issued only non-participating policies during the examination period. Therefore, no dividends were paid to policyholders during the examination period and the Company has not recorded a liability for dividends payable.

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, 2004, the participants in the pool and their respective pooling percentages are as follows:

NAIC Company Code	Company	Percentage
23965	Norfolk and Dedham Mutual Fire Insurance Company	70%
13943	Fitchburg Mutual Insurance Company	17%
13706	Dorchester Mutual Insurance Company	13%

Assumed Reinsurance

In addition to its participation in the inter-company pool whereby it assumes 17% of the pool total, the Company participates in the Selected Insurance Risk Plan, a Massachusetts voluntary pool.

Ceded Reinsurance

As noted previously, the Company may reinsure risks prior to pooling, and as a member of the Norfolk and 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
<u>Property</u>	
Excess per Risk	50% of \$500,000 excess of \$1,000,000
Multiple Line Facultative Binding Pro Rata	\$1,000,000 excess \$1,500,000 – Homeowner, \$1,000,000 excess \$500,000 – Dwelling Fire& Coml.
Facultative	\$6,300,000 excess \$2,000,000
Equipment Breakdown	100% reinsured
<u>Casualty</u>	
Casualty Excess –All lines	\$8,000,000 excess of \$2,000,000
Casualty Excess – Workers Comp only	\$5,000,000 excess of \$10,000,000
Personal & Commercial Umbrella	\$3,000,000 excess of \$2,000,000
<u>Property and Casualty</u>	
Property Extra Contractual Obligations	\$900,000 excess of \$100,000 retention
Non-CAT loss, one occurrence multiple policies	Excess of \$1,000,000 up to value of experience account
Multiple losses over \$1,000,000	Excess of \$2,000,000 up to value of experience account
Aggregate Excess of Loss	\$7,000,000 excess of 85% of Loss and LAE
<u>Catastrophe</u>	<u>MAIN PROGRAM</u>
Catastrophe Layer 2	32% of \$4,000,000 excess of \$6,000,000
Catastrophe Layer 3	95% of \$10,000,000 excess of \$10,000,000
Catastrophe Layer 4	95% of \$50,000,000 excess of \$20,000,000
Catastrophe Layer 5	86% of \$55,000,000 excess of \$70,000,000
Catastrophe Layer 6	80% of \$25,000,000 excess of \$125,000,000
	<u>BARNSTABLE COUNTY</u>
Catastrophe Layer 2	100% of \$1,000,000 excess of \$1,000,000
Catastrophe Layer 3	100% of \$4,500,000 excess of \$2,000,000
Catastrophe Layer 4	100% of \$16,000,000 excess of \$6,500,000

SUBSEQUENT EVENTS

Effective January 1, 2005, the Company non-renewed and later in 2005 commuted a reinsurance contract that was underwritten by Uni-Ter International Insurance Company, located in Bermuda. Upon receipt of the funds, the pre-tax impact of the commutation resulted in an increase to surplus of \$5,735,751 (Norfolk), \$1,065,211 (Dorchester) and \$1,392,968 (Company), representing the treaty's experience account. The Company could not previously recognize the funds as an admitted asset as the reinsurer was unauthorized in Massachusetts.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and through transaction testing and 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 information technology ("IT") 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 deficiencies 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 and the NAIC 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.

Statement of Assets, Liabilities, Surplus and other Funds
As of December 31, 2004

Assets	Per Company	Examination Changes	Per Examination	Notes
Bonds	\$ 37,899,603	\$ 0	\$ 37,899,603	
Common stocks	14,057,189		14,057,189	
Cash and short-term investments	3,286,588		3,286,588	
Other invested assets	152,653		152,653	
Subtotals, cash and invested assets	55,396,033	0	55,396,033	
Investment income due and accrued	289,593		289,593	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	191,398		191,398	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,010,295		3,010,295	
Reinsurance: amounts recoverable from insurers	688,667		688,667	
Net deferred tax asset	1,115,794		1,115,794	
Electronic data processing equipment	10,261		10,261	
Equities and deposits in pools and associations	755,333		755,333	
Aggregate write-ins for other than invested assets	3		3	
Total Assets	<u>\$ 61,457,377</u>	<u>\$ 0</u>	<u>\$ 61,457,377</u>	

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

	Per Company	Examination Changes	Per Examination	Notes
Liabilities and Policyholders' Surplus				
Losses	\$ 16,083,570	\$ 0	\$ 16,083,570	(1)
Reinsurance payable on paid loss and loss adjustment expenses	1,013,373		1,013,373	
Loss adjustment expenses	4,323,382		4,323,382	(1)
Commissions payable, contingent commissions, and other similar charges	573,036		573,036	
Other expenses (excluding taxes, licenses and fees)	2,140,181		2,140,181	
Taxes, licenses and fees (excluding federal and foreign income taxes)	58,841		58,841	
Current federal and foreign income taxes	44,234		44,234	
Unearned premiums	10,908,161		10,908,161	
Advance premiums	372,106		372,106	
Ceded reinsurance premiums payable	53,020		53,020	
Amounts withheld or retained by company for account of others	45,824		45,824	
Provision for reinsurance	4,813		4,813	
Drafts outstanding	74		74	
Payable to parent, subsidiaries and affiliates	2,124,777		2,124,777	
Aggregate write-ins for liabilities	829,074		829,074	
Total Liabilities	38,574,466	0	38,574,466	
Unassigned funds (surplus)	22,882,911		22,882,911	
Surplus as regards policyholders	22,882,911	0	22,882,911	
Total liabilities and policyholders' surplus	\$ 61,457,377	\$ 0	\$ 61,457,377	

Statement of Income
For the Year Ended December 31, 2004

	Per Company	Examination Changes	Per Examination	Notes
Premiums earned	\$ 20,046,471	\$ 0	\$ 20,046,471	
Deductions:				
Losses incurred	5,892,564		5,892,564	
Loss expenses incurred	4,025,225		4,025,225	
Other underwriting expenses incurred	7,026,899		7,026,899	
Aggregate write-ins for underwriting deductions	4,207		4,207	
Total underwriting deductions	16,948,895	-	16,948,895	
Net underwriting gain	3,097,576	-	3,097,576	
Net investment income earned	2,302,162		2,302,162	
Net realized capital gains	1,670,697		1,670,697	
Net investment gain	3,972,859	-	3,972,859	
Net gain (loss) from agents' or premium balances charged off	(262,916)		(262,916)	
Finance and service charges not included in premiums	178,763		178,763	
Aggregate write-ins for miscellaneous income	(1,934,059)		(1,934,059)	
Total other income	(2,018,212)	-	(2,018,212)	
Income before federal income taxes	5,052,223		5,052,223	
Federal income taxes incurred	45,234		45,234	
Net income	\$ 5,006,989	\$ 0	\$ 5,006,989	

Reconciliation of Capital and Surplus
For the Five Year Period Ended December 31, 2004

	2004	2003	2002	2001	2000
Surplus as regards policyholders, December 31 previous year	\$17,758,907	\$16,062,357	\$23,848,377	\$26,723,810	\$35,863,298
Net income (loss)	5,006,989	(7,655)	(7,095,661)	(6,195,923)	389,591
Change in net unrealized capital gains or (losses)	(66,695)	3,394,818	(1,063,305)	2,770,738	(9,656,352)
Change in net deferred income tax	(1,455,674)	2,431,660	321,880	(744,539)	
Change in non-admitted assets	1,539,221	(4,035,727)	62,066	36,972	127,273
Change for provision for reinsurance	96,496	(90,308)	(11,000)		
Cumulative effect of changes in accounting principles				1,257,319	
Change in excess of statutory reserves over statement reserves					
Aggregate write-ins for gains and (losses) in surplus	3,667	3,762			
Net change in surplus	5,124,004	1,696,550	(7,786,020)	(2,875,433)	(9,139,488)
Surplus as regards policyholders, December 31 current year	\$22,882,911	\$17,758,907	\$16,062,357	\$23,848,377	\$26,723,810

NOTES TO FINANCIAL STATEMENTS

NOTE 1:

<u>Losses</u>	<u>\$ 16,083,570</u>
<u>Loss Adjustment Expenses</u>	<u>\$ 4,323,382</u>

The Company's Board of Directors appointed as its actuary a principal consultant with the firm of PricewaterhouseCoopers LLP to render a Statement of Actuarial Opinion as of December 31, 2004, on the Company's loss and loss adjustment expense reserves. Among the items in the Statement of Actuarial Opinion, the appointed actuary specifically listed the following amounts:

<u>Actuarial Reserve Items for the Company as of December 31, 2004</u>		
	Net	Direct and Assumed
Reserve for Unpaid Losses	\$ 16,083,570	\$ 26,236,000
Reserve for Unpaid Loss Adjustment Expenses	4,323,382	7,100,000
Aggregate Total	\$ 20,406,952	\$ 33,336,000

After reviewing the above reserves and other items, the Company's appointed actuary concluded that, in her opinion, the amounts identified above:

- A. Meet the requirements of the insurance laws of Massachusetts,
- B. Were computed in accordance with generally accepted actuarial standards and principles,
- C. Make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

In conjunction with the statutory examination of the Norfolk & Dedham Group being conducted by the Commonwealth of Massachusetts Division of Insurance, KPMG LLP ("KPMG") was engaged to review the analyses performed by the companies' appointed actuary and to perform an independent analysis of the loss and loss adjustment expense reserves carried by each company in the Group; and to render an actuarial opinion on the reasonableness of the reserves carried by each company in the Group as of December 31, 2004.

KPMG reviewed the Statements of Actuarial Opinion as of December 31, 2004 prepared by the companies' appointed actuary. In addition, KPMG reviewed the Actuarial Report, dated March 2, 2005, and work papers supporting the Statements of Actuarial Opinion, evaluated the methodologies and assumptions used by the appointed actuary in the evaluation of the loss and loss adjustment expense reserves of the companies as of December 31, 2004 for reasonableness. Independent KPMG projections of loss and loss adjustment expense reserves as of December 31, 2004 were then developed. Where possible, KPMG used data compilations of loss and loss adjustment expenses consistent with those used by PwC, as documented in its Actuarial Report. KPMG prepared and analyzed comparisons of their independent estimates to those derived by the Group's appointed actuary as well as to reserves recorded by the companies as of December 31, 2004. Loss and loss adjustment expense reserves for the Group were then allocated to each member company by KPMG, in accordance with the intercompany pooling agreement.

Fitchburg Mutual Insurance Company

The Norfolk & Dedham Group loss and loss adjustment expense reserves as of December 31, 2004 are stated net of salvage and subrogation recoverables and gross of expected interest income associated with the time value of money.

As of December 31, 2004, the Group recorded statutory-basis loss and loss adjustment expense reserves, net of reinsurance recoverables, of \$83.5 million. Based on KPMG's independent review, KPMG estimates the Group's net loss and loss adjustment expense liabilities as of December 31, 2004 at \$80.7 million. KPMG estimates a range of reasonable net loss and loss adjustment expense reserves which spans from a low of \$67.9 million to a high of \$89.6 million. The companies' carried net loss and loss adjustment expense reserves as of December 31, 2004 are approximately \$2.7 million, or 3.4%, above KPMG's indicated reserves. In KPMG's opinion, net loss and loss adjustment expense reserves carried by the Group as of December 31, 2004 make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Group.

The Group's recorded direct and assumed loss and loss adjustment expense reserves as of December 31, 2004 totaled \$139.8 million. Based on KPMG's independent review, KPMG estimates the Group's direct and assumed loss and loss adjustment expense liabilities as of December 31, 2004 at \$129.6 million. KPMG estimates a range of reasonable gross loss and loss adjustment expense reserves which spans from a low of \$98.9 to a high of \$153.0 million as of December 31, 2004. The companies' carried direct and assumed loss and loss adjustment expense reserves as of December 31, 2004 are approximately \$10.2 million, or 7.8%, above KPMG's indicated reserve. In KPMG's opinion, direct and assumed loss and loss adjustment expense reserves carried by the Group as of December 31, 2004 make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Group.

In the course of KPMG's analyses, KPMG used several accepted loss reserving methods and procedures to derive their reserve estimates and to construct their ranges. KPMG gave consideration to the relative strengths and weaknesses of each of the methods in deriving their selected point estimate within the range. It should be noted that the range of reasonable reserve estimates does not reflect all possible outcomes; rather, it is a range that has been constructed using alternative methodologies and assumptions that KPMG believe to be reasonable.

The following tables summarize KPMG's reserve ranges, the KPMG selected point estimate reserve, and the Norfolk & Dedham Group carried loss and loss adjustment expense reserves as of December 31, 2004 for each reserve category.

<u>Net Loss and Loss Adjustment Expense Reserves</u>				
<i>(000 omitted)</i>				
<u>Reserve Category</u>	<u>Low End of Range</u>	<u>KPMG Selection</u>	<u>High End of Range</u>	<u>Companies' Carried</u>
Net Loss Reserves	\$ 48,850	\$ 58,716	\$ 65,504	\$ 64,333
Net D&CCE Reserves *	8,652	9,598	10,246	5,303
Net A&OE Reserves #	<u>10,369</u>	<u>12,434</u>	<u>13,809</u>	<u>13,859</u>
Total Net Reserves	<u>\$ 67,871</u>	<u>\$ 80,748</u>	<u>\$ 89,559</u>	<u>\$ 83,495</u>

Fitchburg Mutual Insurance Company

Gross Loss and Loss Adjustment Expense Reserves

(<i>000 omitted</i>) Reserve Category	Low End of Range	KPMG Selection	High End of Range	Companies' Carried
Gross Loss Reserves	\$ 168,755	\$ 92,908	\$ 111,176	\$ 109,710
Gross D&CCE Reserves *	16,216	18,619	20,563	9,343
Gross A&OE Reserves #	14,007	18,114	21,301	20,744
Total Gross Reserves	<u>\$ 98,978</u>	<u>\$ 129,641</u>	<u>\$ 153,040</u>	<u>\$ 139,797</u>

* D&CCE Reserves = Defense and Cost Containment Expense Reserves

A&OE Reserves = Adjusting and Other Expense Reserves

Based on the intercompany pooling agreements, the Group's aggregate reserve position generally reflects the position of each member company within the Group. The change in the pooling percentages from year to year and modest differences in the estimated reserve margin by accident year result in modest percentage differences in the estimated reserve position by company to the overall group margin.

Based on KPMG's independent review, KPMG estimates that the reserve position, by company, is as follows:

Net of Reinsurance (In Millions)

Company	Low End of Range	KPMG Selection	High End of Range	Company Carried
Norfolk & Dedham	\$ 41.8	\$49.8	\$55.6	\$51.2
Dorchester	9.5	11.2	12.4	11.9
Fitchburg	16.6	19.7	21.5	20.4

Gross of Reinsurance (In Millions)

Company	Low End of Range	KPMG Selection	High End of Range	Company Carried
Norfolk & Dedham	\$57.1	\$77.5	\$92.0	\$84.0
Dorchester	15.7	20.2	24.0	22.4
Fitchburg	26.1	32.0	37.1	33.3

In KPMG's opinion, net and gross loss and loss adjustment expenses carried by each company as of December 31, 2004 make reasonable provision for the unpaid loss and loss adjustment expense obligations of each Company.

COMMENTS AND RECOMMENDATIONS

1. The Board of Directors has adopted a conflict of interest policy that requires each officer and director to annually complete a conflict of interest statement disclosing any material conflicts of interest. However, the policy neither articulates the Company's position nor provides for guidance and compliance procedures regarding conflicts of interest. In addition, the current procedure limits its scope of compliance since key employees of Newbury are not required to complete the form. We recommend that the Company's conflict of interest procedure be documented as an administrative procedure to provide for specific guidance regarding the Company's policy and extended to include key employees employed by Newbury.
2. Our review of the Board of Directors and various committee meetings revealed that there have been executive sessions held by the Board and/or various committees; yet, there are no documented minutes of such activities. Failure to maintain minutes of executive sessions provides no audit trail of responsibility and accountability. We recommend that the Company require all executive sessions to be documented by maintaining minutes of each meeting.

CONCLUSION

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.

The assistance rendered by the following Division examiners who participated in this examination hereby is acknowledged:

Brian Knowlton
Steven Tsimtsos

Insurance Examiner II
Insurance Examiner II

John Turchi, CFE, CPCU
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance

Ralph J. Ciaramella, Jr.
Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance

For Information Purposes Only