



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION

OF THE
HINGHAM MUTUAL FIRE INSURANCE COMPANY
HINGHAM, MASSACHUSETTS

As of DECEMBER 31, 2004

N.A.I.C. GROUP CODE 1229

N.A.I.C. COMPANY CODE 14192

EMPLOYER ID NUMBER 04-1442510

HINGHAM MUTUAL FIRE INSURANCE COMPANY

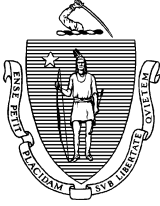
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For Information Purposes Only



COMMONWEALTH OF MASSACHUSETTS

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JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

June 9, 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
Post Office Box 1157
Richmond, Virginia 23218

The 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, Massachusetts 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

HINGHAM MUTUAL FIRE INSURANCE COMPANY

at its home office located at 230 Beal Street, Hingham, Massachusetts 02043. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Hingham Mutual Fire 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 also was conducted by the Division and it 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 in the course of this examination.

This examination was conducted at the same time and in conjunction with the statutory financial condition examination made by the Division on the Company's wholly owned affiliate, Danbury Insurance Company ("DIC") of Hingham, Massachusetts, which redomesticated to Massachusetts from Connecticut on December 15, 2000. The examination also was conducted for the same period as a financial condition examination made by the Maine Bureau of Insurance on the Company's partially owned subsidiary, Casco Indemnity Company ("Casco") of Saco, Maine.

The examination was conducted in accordance with standards established by the Financial Condition (E) Committee of the NAIC Financial Condition Examiners Handbook, with the examination standards of the Division, and with the General Laws of Massachusetts. The principal focus of the examination was 2004 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, 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 2000 through 2004. A review and use of PwC's workpapers were made to the extent deemed appropriate and effective.

The Division retained the consulting actuarial services of KPMG LLP ("KPMG"), an independent certified public accounting firm, 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 electronic data processing systems was done to determine the level of reliance to be placed on summary information generated by the data processing systems.

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

Status of Findings from the Prior Examination

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

HISTORY

General

The Company was incorporated under the laws of the Commonwealth of Massachusetts on March 1, 1826, and commenced business on September 1, 1826. As a licensed property and casualty insurer, the Company writes personal and commercial insurance through a network of independent agents.

In 1985, the Company was one of the several mutual insurance companies, domiciled in New England, that formed N. E. Corporation ("NEC"), a Maine corporation and sole parent company and sponsor of Casco. NEC and Casco were formed to provide those mutual companies an outlet for motor vehicle coverages to balance their property-oriented books of business. The Company was among these original owners of NEC but, over time, the number of owners of NEC has decreased; at December 31, 2004, NEC was owned by Phenix Mutual Fire Insurance Company (New Hampshire), the Company, and DIC. Consequently, the Company's relative percentage of ownership of NEC has increased during the period of examination (from approximately 26.0% in 2000, to 30.5% in 2002, to 41.4% in 2003) as other partial owners relinquished their interests in accordance with certain restrictions as to transfer or sale of their shares of stock in NEC.

On August 11, 1994, the Company purchased 80% of the stock of Danbury Holding Company ("DHC"), the sole parent company of DIC. By May 1, 1998, the Company acquired all of the remaining shares of DHC. The Company later entered into a reinsurance pooling agreement with DIC, its downstream affiliate, whereby DIC cedes to the Company the business arising out of its insurance operations on and after January 1, 1999; the Company then retains 95% and DIC assumes 5% of the pooled business of both insurers.

The Company currently is licensed to conduct business in the following six states: Massachusetts, Rhode Island, New Hampshire, Maine, Connecticut, and Vermont.

Growth of the Company

The growth of the Company for the years 2000 through 2004 is shown in the following schedule which was prepared from information in the Company's annual statements:

HINGHAM MUTUAL FIRE INSURANCE COMPANY

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2004	\$ 113,867,822	\$ 65,653,680	\$ 48,214,142
2003	108,507,484	63,292,464	45,215,020
2002	101,615,211	58,287,478	43,327,733
2001	106,031,074	52,119,054	53,912,020
2000	101,742,363	38,011,752	63,730,611

Management

Annual Meeting

In accordance with the By-Laws, the Annual Meeting of the Company shall be held at the home office in Hingham, Massachusetts, on the third Thursday in February of each year. Eleven Members of the Company present in person or represented by proxy shall constitute a quorum. The minutes indicate that a quorum was obtained at each annual meeting held in the examination period.

Board of Directors

According to the By-Laws, the Board of Directors shall consist of not fewer than seven or not more than nine Directors. The Directors are divided into three classes of not more than three Directors each. The term of office of the Directors of one class only expires each year, and successors are chosen by ballot at the annual meeting of members of the Company for a term of three years or until successors are elected and qualified. At December 31, 2004, the Board was composed of nine Directors, which is in compliance with the Company's By-Laws.

Directors duly elected and serving at December 31, 2004, with addresses and business affiliations, are as follows:

<u>Director</u>	<u>Business Affiliation</u>	<u>Residence</u>
Brian Ralph Wilkin, Chairman of the Board	President and Chief Executive Officer, Hingham Mutual Fire Insurance Company	Cohasset, Massachusetts
John Burrow Arnold	President and Treasurer, H. H. Arnold & Company	Norwell, Massachusetts
Bruce Taylor Cameron	Senior Vice President, RBC Dain Rauscher, Inc.	Cohasset, Massachusetts
Alexander Thacher Catto	Executive Vice President, Retired, Hingham Mutual Fire Ins. Co.	Sandwich, Massachusetts
George Albert Cole, Jr.	President, Retired, George A. Cole Insurance Agency, Inc.	Hingham, Massachusetts
Charles Webster Dean	Director of Business Development, Boston Forms, LLC	Cohasset, Massachusetts

HINGHAM MUTUAL FIRE INSURANCE COMPANY

(continued from preceding page)

<u>Director</u>	<u>Business Affiliation</u>	<u>Residence</u>
Margaret Albertie Lynch	Attorney, Retired, Transportation Division of the Department of Telecommunications and Energy	Cohasset, Massachusetts
Philip Harper Ryder	President, Retired, Mutual Fire Insur- ance Association of New England	Eastham, Massachusetts
William Sumner Thayer	Architect	Hingham, Massachusetts

All of the Directors listed above held these positions consistently since the prior examination and they simultaneously held similar positions on the Board of Directors for DIC. Director Brian R. Wilkin and George A. Cole, III, also served on the Board of Directors for Casco.

Subsequent to the date of examination, Mr. George A. Cole, Jr., died in 2005 and Mr. George A. Cole, III, the Company's Senior Vice President and Treasurer, succeeded his father on the Board. Effective December 1, 2005, Mr. John B. Arnold resigned as a member of the Board of Directors and on March 1, 2006, Mr. Brian A. Williams, President of Williams Coal and Oil of Braintree, Massachusetts, was elected a member of the Board of Directors.

The By-Laws specify that the Directors shall meet at least five times a year and that a regular meeting of the Board shall be held immediately following the annual meeting of the Company for the election of officers for the ensuing year. A majority of the Board of Directors, but not less than five, shall constitute a quorum. The minutes indicated that a quorum was obtained for all meetings of the Board of Directors held during the examination period.

The By-Laws specify that the Board of Directors may elect a Finance Committee; the Board did not elect one as the Board itself is active in directing and reviewing investment activities. The By-Laws also specify that the Board may appoint such other committee(s), composed of any designated number of its members, as it shall deem appropriate; in this latter regard, the Board appointed an Audit Committee and a Salary and Pension Committee. The purpose and membership of each committee at December 31, 2004, was as follows:

Audit Committee

The Audit Committee was established by the Board of Directors and charged with developing a Charter. Per such Charter, the Audit Committee shall consist of three or more Directors each of whom shall be independent of management of the Hingham Group and otherwise have no business directly or indirectly with the Hingham Group that could influence their judgment or interfere with the exercise of independent judgment in carrying out the responsibilities of a Director. Its members shall not be officers or employees of the Hingham Group and shall meet the definition of independent directors (as set forth under Sarbanes-Oxley Act); one member of the Audit Committee must have past employment experience in finance or accounting, requisite professional certification in accounting, or other comparable experience or background which results in the individual's financial sophistication. The function of the Audit Committee is to assist the Board of Directors in its role as representatives of the policyholders by overseeing

HINGHAM MUTUAL FIRE INSURANCE COMPANY

corporate accounting policies, reporting practices, and the quality and integrity of the financial reports of the Hingham Group, and by reviewing the financial information that is provided to policyholders, regulatory authorities, and others. To achieve such functions, the Charter enumerates several specific responsibilities of the Audit Committee and the Audit Committee must submit minutes of all its meetings and regularly report its activities to the Board of Directors. Directors serving on this Committee at December 31, 2004, were as follows:

Charles W. Dean, Chairman	
John B. Arnold	Alexander T. Catto
George A. Cole, Jr.	Margaret A. Lynch

Salary and Pension Committee

The Salary and Pension Committee was established by the Board of Directors. Directors serving on this Committee at December 31, 2004, were as follows:

Philip H. Ryder, Chairman	
Bruce T. Cameron	William S. Thayer

Officers

The By-Laws of the Company provide that the regular officers of the Company shall be a President, a Treasurer, and a Secretary, all of whom shall be residents of Massachusetts and shall be elected annually by the Board of Directors. The President shall be the chief executive officer and head of the Company and shall have the general control and management of its business and affairs subject to the Board of Directors; additionally, the President shall be a member of the Board of Directors. Further, the Board of Directors regularly has voted that the President with the Secretary or Treasurer be authorized to buy or sell securities between meetings of the Board with the provision that such purchases and sales be reported at the next Board meeting and recorded in the minutes of such meeting. The Board of Directors may also from time to time elect or appoint such other officers or agents as it may deem proper, and may fix the term of office, powers, and duties of such officers or agents. Officers and Directors shall hold office until their successors are elected or appointed and qualified; any officer or Director may at any time resign or be deposed by the body electing or appointing him, and any vacancy may be filled for the unexpired part of the term by a majority vote of the Directors or remaining Directors.

The elected and appointed officers and their respective titles at December 31, 2004, were the following:

	<u>Name</u>	<u>Title</u>
<i>d c</i>	Brian Ralph Wilkin	President
<i>p</i>	Bruce Michael Arnold, CIC	Senior Vice President and Secretary
<i>p c</i>	George Albert Cole, III	Senior Vice President and Treasurer
<i>n</i>	Robert Christopher Hunter	Vice President and Chief Information Officer
<i>p</i>	Cheryl Elizabeth Wigmore	Vice President

HINGHAM MUTUAL FIRE INSURANCE COMPANY

(continued from preceding page)

<u>Name</u>	<u>Title</u>
<i>p</i> Daniel Anthony Forlasto	Assistant Vice President
<i>p</i> John Francis Keaveney, CPCU, CIC	Assistant Vice President
Cheryl Mae Taylor	Assistant Vice President
<i>n</i> Maryellen Halibozek	Assistant Secretary
Barbara Anne White	Assistant Secretary
<i>n</i> Mark Thomas Wilkin	Assistant Secretary
Michael Stephen Wood	Assistant Secretary
<i>n</i> James Albert McCarthy	Assistant Treasurer
<i>n</i> Samuel Anthony Villani, II, CIC	Assistant Treasurer

d Also serves on the Board of DIC.

c Also serves on the Board of Casco.

n Newly elected to listed office since prior examination.

p Newly promoted to listed office since prior examination.

All of the Company's Officers listed above simultaneously held similar positions in DIC. On March 1, 2005, Mr. Bruce M. Arnold resigned the office of Secretary and Ms. Cheryl E. Wigmore was elected Vice President and Secretary.

Conflict of Interest Procedure

The Company has a policy statement pertaining to conflict of interest. In support of its answer to Question 14 of Part 1 Common Interrogatories of the annual statement, the Company has an established procedure for the reporting of any material interest or affiliation on the part of any officer or director or responsible employee which is in or is likely to conflict with his/her official duties; annually, each officer, director, or responsible employee signs a form attesting that there are no material conflicts of interests. The completed forms for the examination period 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.

Corporate Records

Articles of Incorporation and By-Laws

The By-Laws of the Company were read and were found to contain specific provision for the succession of Directors and Officers in event of an emergency.

Disaster Recovery and Business Continuity

The Company provides for continuity of management and operations in the event of a catastrophe or national emergency in accordance with MGL c. 175, ss. 180M through 180Q.

Board of Directors Minutes

The minutes of meetings of the Board of Directors and its Committees for the period under examination were read and they 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 meetings of the Board of Directors.

The minutes of the Board of Directors meeting did not record that the prior Report of Examination was reviewed and accepted by the Board but the Company filed affidavits with the Division that its Directors received and reviewed the prior Report of Examination.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

In the examination period, a few significant transactions involving the Company in acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance occurred, key of which are summarized as follows:

- ◆ On December 15, 2000, the Company's wholly owned, downstream subsidiary, DIC, redomesticated to the Commonwealth of Massachusetts from the State of Connecticut.
- ◆ During 2002, the Company acquired an additional 6,918 shares of common stock in NEC, thereby increasing its ownership share of NEC from 26.02% to 30.49%.
- ◆ In January 2003, the Company acquired a further 10,736 shares of NEC's common stock, thereby bringing its total holdings in NEC to 40,723 shares (representing ownership interests of approximately 41.40%) by December 31, 2004.
- ◆ In 2004, the Company expanded its home office building to almost double its previous size. Construction was completed and the Company occupied the new area in February 2005.

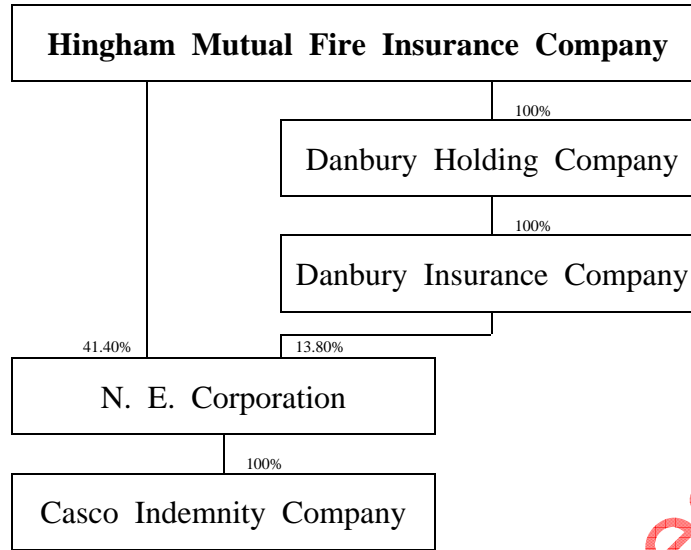
AFFILIATED COMPANIES

Per Form B as filed with the Division, the 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. The Company is the ultimate controlling party of the group consisting of five entities, including three insurance and two non-insurance companies.

Organization Chart

The corporate organization of entities held by the Company at December 31, 2004, is represented as follows:

HINGHAM MUTUAL FIRE INSURANCE COMPANY



Transactions and Agreements with Subsidiaries and Affiliates

Other than reinsurance agreements with Casco, the three predominant cost-sharing arrangements involving the Company are a management services arrangement, a tax sharing agreement, and an inter-company reinsurance pooling agreement. Each is described briefly in the following summary:

Management and Service Arrangement

The Company provides certain accounting, management, and other services to its subsidiary, DIC. Costs and expenses incurred by the Company relative thereto are allocated to DIC.

Inter-Company Reinsurance Pooling Agreement

The Company has an inter-company reinsurance pooling agreement with its subsidiary, DIC, whereby the Company assumes all of DIC's business and then retrocedes to DIC a portion of such amounts combined with balances arising from its own homeowners business; by the percentages listed in the agreement, the Company retains 95% and DIC assumes the remaining balance (5%) of such combined business.

Tax Sharing Agreement

Entered into as of January 1, 2001, the Company participates in a written tax allocation agreement with two of its subsidiaries, DHC and DIC. 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. The Company is responsible for making tax payments quarterly with a final inter-company payment or refund to be made in the fourth quarter for the prior year.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with MGL c. 175, s. 60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by other policies of insurance covering other insurable risks. Coverages were provided by insurers licensed in the Commonwealth of Massachusetts and were in force as of December 31, 2004.

PENSION AND INSURANCE PLANS

The Company pays the total costs for a defined contribution money purchase plan covering substantially all full-time officers and employees. Further, it sponsors a post-retirement health care plan covering health care premiums for employees who reach retirement age while working for the Company. It also offers to its employees plans providing long term disability benefits and accidental death and dismemberment insurance, dental and medical coverages, long-term care insurance, and other health and life insurance benefits.

STATUTORY DEPOSITS

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

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value</u>
Massachusetts	US Treasury Note 5.625% due 2006	\$ 500,000	\$ 498,793	\$ 515,470
Massachusetts	US Treasury Note 6.500% due 2005	500,000	503,102	507,305
Totals		<u>\$ 1,000,000</u>	<u>\$ 1,001,895</u>	<u>\$ 1,022,775</u>

INSURANCE PRODUCTS AND RELATED PRACTICES**Policy Forms and Underwriting Practices**

The Company offers personal and commercial property and liability coverages utilizing policy forms, riders, and endorsements that are subject to the approval of the individual state insurance departments. At December 31, 2004, the Company's maximum retention limit, net of reinsurance, was \$0.4 million per risk.

Territory and Plan of Operation

The Company currently is licensed to write business in the following six states: Massachusetts, Rhode Island, New Hampshire, Maine, Connecticut, and Vermont. All Certificates of Authority were current and in force.

Through its appointed independent agents, the Company's lines of business are homeowners provided to personal risks and some commercial multiple peril provided to commercial risks. Its predominant concentration of business (in excess of 75% of direct written premium) is homeowners coverage in Massachusetts.

Treatment of Policyholders

Claim Settlement Practices

Procedures performed in conjunction with the claims testwork indicated that the Company investigates and settles claims on a timely and equitable basis.

Dividends to Policyholders

The Company did not declare or pay any dividends to its policyholders in the period of examination.

REINSURANCE

In addition to participating in an inter-company reinsurance pooling arrangement, the Company has extensive programs with many reinsurers. The following briefly describes some of the major programs.

Inter-Company Reinsurance Pooling Agreement

Effective January 1, 1999, the Company began to participate in an inter-company reinsurance pooling agreement with its subsidiary, DIC, whereby DIC cedes to the Company the premiums, losses, loss adjustment expenses, and underwriting expenses of all of DIC's insurance risks underwritten or assumed on or after such effective date. The Company assumes these amounts and then retrocedes to DIC the specific, pre-agreed percentage (5%) of the total of such amounts and of similar amounts that arise from the Company's own insurance business. The agreement is prospective in nature. Assets equaling the net change in liabilities as a result of such pooling arrangement were transferred between the pool participants.

HINGHAM MUTUAL FIRE INSURANCE COMPANY

Aggregate balances for gross premiums associated with reinsurance transactions are compared in summary below for each company at the examination dates the agreement has been effective.

<u>GROSS PREMIUMS</u>	2 0 0 4		1 9 9 9	
	H.M.F.I.C.	D.I.C.	H.M.F.I.C.	D.I.C.
Direct Business	\$ 48,587,767	\$ 7,287,311	\$ 35,548,828	\$ 1,935,281
Reinsurance Assumed from:				
Affiliates	9,349,233	3,128,052	3,600,321	2,262,943
Non-Affiliates	4,629,777	39,148	1,265,192	-
Reinsurance Ceded to:				
Affiliates	2,558,815	7,641,521	1,721,314	1,910,759
Non-Affiliates	11,390,518	254,175	6,348,717	(24,375)
Net Premiums Written	\$ 48,617,444	\$ 2,558,815	\$ 32,344,310	\$ 2,311,840

Assumed Reinsurance

Involuntary Pools

The Company participates in three mandatory pools of property insurance underwriting associations in Massachusetts, Rhode Island, and Connecticut; these are the F.A.I.R. Plans of those states and the Company reported such business as reinsurance assumed from non-affiliates.

Affiliate

In addition to the pooling agreement with DIC, the Company entered into a quota share contract to assume business from Casco, its indirect subsidiary. Effective January 1, 2000, Casco ceded 25% of its motor vehicle business to its parent insurance companies. At December 31, 2004, the Company's proportionate share of such business was 41.40% of the 25% cession; however, effective January 1, 2005, the Company's share increased to 55.19% of the ceded 25% as DIC stopped participating in the agreement and transferred all of its liabilities to the Company.

Ceded Reinsurance

Voluntary Pools

The Company participates in the Associated Inland Marine and the Selected Insurance Risks pools. The former is a pool designed to write inland marine risks on a quota share basis among pool participants consisting of several mutual insurance companies in New England. The latter is a pool designed to write high quality, high value, commercial risks on a quota share basis also among several of New England's mutual insurance companies.

Other Coverages

The Company participated in a variety of treaties ceding reinsurance that limited, to some extent, its direct exposure. The Company has entered into certain excess of loss and catastrophe treaties. Under the excess of loss treaty, the Company's retention for property and casualty losses is \$400,000. With General Reinsurance Intermediaries, the Company purchased catastrophe excess of loss protection under which the Company retains the first \$3.0 million of losses and a varying percentage of losses, as specified in several layers, up to a limit of \$163.0 million. If any reinsurers are unable to fulfill their obligations under the reinsurance arrangements, primary liability to policyholders and claimants for incurred losses would remain the obligation of the Company.

SUBSEQUENT EVENTS

As an event subsequent to the date of examination, the following was noted:

- ♦ The Company made a public announcement of its plans to contain its risks regarding coastal exposure property coverages; starting in February 2006, as many other insurers have done, it began to withdraw from writing new and renewal business in the Cape Cod area of southeastern Massachusetts.

ACCOUNTS AND RECORDS

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

The NAIC provides a questionnaire covering the evaluation of controls in the information systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the information systems 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 annual statements. No material exceptions were noted.

In accordance with 211 C.M.R. 23.00, the books and records of the Company are audited annually by a firm of independent certified public accountants. Throughout the examination period, the Company was audited by PwC.

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 Each Year in the Five-Year Period Ended December 31, 2004

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HINGHAM MUTUAL FIRE INSURANCE COMPANY

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

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Bonds	\$ 32,515,993	\$ 0	\$ 32,515,993	
Preferred stocks	-		-	
Common stocks	59,048,801		59,048,801	
Mortgage loans on real estate: First liens	-		-	
Real estate: Properties occupied by the Company	5,346,652		5,346,652	
Cash and short-term investments	2,709,730		2,709,730	
Other invested assets	475,550		475,550	
Subtotals, cash and invested assets	100,096,726		100,096,726	
Investment income due and accrued	577,158		577,158	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	11,234,106		11,234,106	
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,391,737		1,391,737	
Reinsurance: Amounts recoverable from reinsurers	150,389		150,389	
Electronic data processing equipment	172,962		172,962	
Receivable from parent, subsidiaries, and affiliates	244,744		244,744	
Aggregate write-ins for other than invested assets:				
Specify it	-		-	
Equities in pools and associations	-		-	
Total Assets	<u>\$ 113,867,822</u>	<u>\$ 0</u>	<u>\$ 113,867,822</u>	

HINGHAM MUTUAL FIRE INSURANCE COMPANY

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

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 16,414,686	\$ 0	\$ 16,414,686	(1)
Reinsurance payable on paid loss and loss adjustment expenses	6,666,780		6,666,780	
Loss adjustment expenses	4,080,132		4,080,132	(1)
Commissions payable, contingent commissions, and other similar charges	1,211,677		1,211,677	
Other expenses	333,066		333,066	
Taxes, licenses, and fees	(113,159)		(113,159)	
Current federal and foreign income taxes	312,011		312,011	
Net deferred tax liability	6,284,738		6,284,738	
Unearned premiums	28,520,893		28,520,893	
Advance premiums	383,390		383,390	
Ceded reinsurance premiums payable	832,341		832,341	
Drafts outstanding	1,862		1,862	
Aggregate write-in for liabilities:				
Non-admitted asset -- F.A.I.R. Plan	10,962		10,962	
F.A.I.R. Plan expenses payable	714,301		714,301	
Total Liabilities	65,653,680		65,653,680	
Aggregate write-in for special surplus funds				
Unassigned funds (surplus)	48,214,142		48,214,142	
Surplus as regards policyholders	48,214,142		48,214,142	
Total Liabilities, Capital, and Surplus	\$ 113,867,822	\$ 0	\$ 113,867,822	

HINGHAM MUTUAL FIRE INSURANCE COMPANY

Statement of Income
For The Year Ended December 31, 2004

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	\$ 48,592,346	\$ 0	\$ 48,592,346	
Deductions:				
Losses incurred	24,915,488		24,915,488	
Loss expenses incurred	4,409,028		4,409,028	
Other underwriting expenses incurred	19,964,300		19,964,300	
Total underwriting deductions	49,288,816	-	49,288,816	
Net underwriting gain	(696,470)		(696,470)	
Net investment income earned	1,529,542		1,529,542	
Net realized capital gains	540,565		540,565	
Net investment gain	2,070,107	-	2,070,107	
Net gain (loss) from agents' or premium balances charged off	-		-	
Finance and service charges not included in premiums	365,273		365,273	
Aggregate write-ins for miscellaneous income:	-		-	
Total other income	365,273	-	365,273	
Net income before dividends to policyholders and before federal and foreign income taxes	1,738,910	-	1,738,910	
Dividends to policyholders	-		-	
Net income after dividends to policyholders but before federal and foreign income taxes	1,738,910	-	1,738,910	
Federal and foreign income taxes incurred	342,002		342,002	
Net Income	\$ 1,396,908	\$ 0	\$ 1,396,908	

HINGHAM MUTUAL FIRE INSURANCE COMPANY

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

	<u>2 0 0 4 *</u>	<u>2 0 0 3</u>	<u>2 0 0 2</u>	<u>2 0 0 1</u>	<u>2 0 0 0</u>
Surplus as regards policyholders					
as of December 31, prior year	\$ 45,215,020	\$ 43,327,733	\$ 53,912,020	\$ 63,730,611	\$ 62,215,324
Net income	1,396,908	(10,071)	(344,743)	105,087	201,701
Change in net unrealized					
capital gains or (losses)	2,443,376	2,594,109	(6,818,753)	(4,931,502)	730,687
Change in net deferred income tax	(716,990)	(772,143)	(3,394,665)	1,964,666	53,287
Change in non-admitted assets	(124,188)	49,599	10,645	(3,519)	-
Cumulative effect of changes					
in accounting principles	-	-	-	(6,953,323)	-
Aggregate write-ins for gains or (losses) in surplus:					
Change in amount of advance					
direct bill premiums collected	-	-	-	-	529,612
Change in non-admitted assets					
related to F.A.I.R. Plans	16	25,793	(36,771)	-	-
Net change in surplus as regards					
policyholders for the year	<u>2,999,122</u>	<u>1,887,287</u>	<u>(10,584,287)</u>	<u>(9,818,591)</u>	<u>1,515,287</u>
Surplus as regards policyholders					
as of December 31, current year	<u>\$ 48,214,142</u>	<u>\$ 45,215,020</u>	<u>\$ 43,327,733</u>	<u>\$ 53,912,020</u>	<u>\$ 63,730,611</u>

* Per Examination

NOTES TO FINANCIAL STATEMENT**NOTE 1:**

<u>Losses</u>	<u>\$ 16,414,686</u>
<u>Loss Adjustment Expenses</u>	<u>\$ 4,080,132</u>

As part of the examination, the Division engaged the consulting actuarial services of KPMG LLP. The consulting actuaries for the Division performed an independent analysis of the loss and loss adjustment expense reserves carried by the Company and by DIC and rendered an actuarial opinion on the reasonableness of the reserves carried by the Company and by DIC as of December 31, 2004.

In light of the inter-company pooling agreement, KPMG's actuaries conducted their review on a consolidated companies basis for the insurers comprising the Hingham Group (Hingham Mutual Fire Insurance Company and Danbury Insurance Company). KPMG noted that the Group's loss and loss adjustment expense reserves as of December 31, 2004, are stated gross of salvage and subrogation recoverables and gross of expected interest income associated with the time value of money.

KPMG reported that as of December 31, 2004, the Hingham Group recorded statutory-basis loss and loss adjustment expense reserves, gross of reinsurance recoverables, of \$27.4 million. Based on its own independent review, KPMG estimated the Group's gross loss and loss adjustment expense liabilities as of December 31, 2004, at \$26.3 million, with a range of reasonable gross loss and loss adjustment expense reserves which spans from a low of \$24.1 million to a high of \$28.4 million. In the opinion of KPMG, the gross loss and loss adjustment expense reserves carried by the Hingham Group as of December 31, 2004, make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Group.

KPMG reported that as of December 31, 2004, the Hingham Group recorded statutory-basis loss and loss adjustment expense reserves, net of reinsurance recoverables, of \$21.5 million. Based on its own independent review, KPMG estimated the Group's net loss and loss adjustment expense liabilities as of December 31, 2004, at \$20.4 million, with a range of reasonable net loss and loss adjustment expense reserves which spans from a low of \$19.0 million to a high of \$21.9 million. In the opinion of KPMG, the net loss and loss adjustment expense reserves carried by the Hingham Group as of December 31, 2004, make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Group.

KPMG noted that based on the inter-company pooling agreement, the aggregate reserve position of the Hingham Group generally reflects the position of each member insurer within the Group. Thus, in the opinion of KPMG, the net and gross loss and loss adjustment expense reserves carried by each insurer in the Hingham Group as of December 31, 2004, make reasonable provision for all unpaid loss and loss adjustment expense obligations of that respective Group member.

HINGHAM MUTUAL FIRE INSURANCE COMPANY

In specific regard to Hingham Mutual Fire Insurance Company, on a gross basis, the following table summarizes KPMG's reserve ranges, KPMG selected point estimate reserve, and the Company's carried loss and loss adjustment expense reserves as of December 31, 2004:

Gross Loss and Loss Adjustment Expense Reserves

(000 omitted) Reserve Category	Low End of Range	KPMG Selection	High End of Range	Company Carried
Gross Loss Reserves	\$ 18,298	\$ 19,875	\$ 21,432	\$ 21,102
Gross D&CCE Reserves *	3,076	3,383	3,699	2,074
Gross A&OE Reserves #	1,605	1,759	1,913	2,866
Total Gross Reserves	<u>\$ 22,979</u>	<u>\$ 25,017</u>	<u>\$ 27,044</u>	<u>\$ 26,042</u>

Similarly, on a net basis, the following table summarizes KPMG's reserve ranges, KPMG selected point estimate reserve, and the Company's carried loss and loss adjustment expense reserves as of December 31, 2004.

Net Loss and Loss Adjustment Expense Reserves

(000 omitted) Reserve Category	Low End of Range	KPMG Selection	High End of Range	Company Carried
Net Loss Reserves	\$ 14,419	\$ 15,367	\$ 16,563	\$ 16,417
Net D&CCE Reserves *	2,408	2,668	2,830	1,736
Net A&OE Reserves #	1,264	1,363	1,474	2,343
Total Net Reserves	<u>\$ 18,091</u>	<u>\$ 19,398</u>	<u>\$ 20,868</u>	<u>\$ 20,496</u>

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

A&OE Reserves = Adjusting and Other Expense Reserves

In the course of analyses, KPMG used several accepted loss reserving methods and procedures to derive reserve estimates and to construct ranges. KPMG gave consideration to the relative strengths and weaknesses of each of the methods in deriving the KPMG selected point estimate within the range. KPMG 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 believed to be reasonable. KPMG stated its analyses were performed using accepted loss and loss expense reserving methods in conformance with sound actuarial practices and principles and that KPMG introduced assumptions and judgments that it considered appropriate in the circumstances.

In its Report, KPMG detailed DIC's reserve position similarly to the above presentation for loss and loss adjustment expense liabilities as of December 31, 2004. Whereas KPMG demonstrated that the Company's reserve position was conservative and that participation in the inter-company reinsurance pooling agreement had distribution percentages of 95% for the Company and 5% for DIC, the summary of analyses for DIC is not contained in this Report of Examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

**Custodial
Agreement
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The Company did not provide signed safe-keeping agreements with all of the custodians it uses for its securities. It is recommended that the Company obtain copies of all safekeeping agreements it has with all custodial institutions it uses to hold its securities. Further, such agreements should contain provisions that satisfy the NAIC guidelines, especially in regard to indemnification for loss.

CONCLUSION

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

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

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