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, 2008

N.A.I.C. GROUP CODE 1229

N.A.I.C. COMPANY CODE 14192

EMPLOYER ID NUMBER 04-1442510

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JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

June 14, 2010

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 Joseph G. Murphy
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
1000 Washington Street
Boston, Massachusetts 02118 - 6200

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, 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 also was conducted by the Division and it covers the period from January 1, 2005, through December 31, 2008, 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 re-domesticated to Massachusetts from Connecticut on December 15, 2000.

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 2008 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 2005 through 2008. 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, 2008. 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, 2004. 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 the original owners of NEC but, over time, the number of owners of NEC decreased**;** at December 31, 2008, NEC was owned by Phenix Mutual Fire Insurance Company ("Phenix"), a New Hampshire domicile,), the Company, and DIC. The Company's relative percentage of ownership of NEC is 41.4%. DIC's share is 13.8% with Phenix having the remaining 44.8% share. 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. Effective January 1, 2008, the Company retains 82% and DIC assumes 18% of both insurers' pooled business.

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 2005 through 2008 is shown in the following schedule, which was prepared from information in the Company's annual statements:

Year	Admitted Assets	Liabilities	Surplus
2008	$ 102,527,517	$ 62,679,811	$ 39,847,706
2007	125,268,166	71,390,424	53,877,742
2006	122,107,577	69,606,323	52,501,254
2005	118,990,532	71,099,457	47,891,075

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, 2008, the Board was composed of eight Directors, which is in compliance with the Company's By-Laws.

Directors duly elected and serving at December 31, 2008, with addresses and business affiliations, are as follows:

Director	Business Affiliation	Residence
Brian Ralph Wilkin, Chairman of the Board	President and Chief Executive Officer, Hingham Mutual Fire Insurance Company	Cohasset, MA
Bruce Taylor Cameron	Senior Vice President, RBC Dain Rauscher, Inc.	Cohasset, MA
Melissa Jane Browne	Chief Operating Officer NAIOP	Cohasset, MA
George Albert Cole III	Senior Vice President, Hingham Mutual Fire Insurance Co.	Hingham, MA
Charles Webster Dean	Director of Business Development, Boston Forms, LLC	Littleton, MA

(continued from preceding page)

Director	Business Affiliation	Residence
Margaret Albertie Lynch	Attorney, Retired, Transportation Division of the Department of Telecommunications and Energy	Cohasset, MA
Philip Harper Ryder	President, Retired, Mutual Fire Insurance Association of New England	Eastham, MA
William Sumner Thayer	Architect	Duxbury, MA
Brian Anthony Williams	President, Williams Coal and Oil	Hingham, MA

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.

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, 2008, was as follows:

Audit Committee

The Audit Committee was established by the Board of Directors and shall consist of five 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. The function of the Audit Committee is to annually appoint the outside auditors and assist the Board of Directors in its role as representatives of the policyholders by overseeing 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, 2008, were as follows:

Charles W. Dean, Chairman

Melissa J. Browne	Brian A. Williams
Margaret A. Lynch	

Salary and Pension Committee

The Salary and Pension Committee was established by the Board of Directors and shall consist of three or more independent Directors. Directors serving on this Committee at December 31, 2008, 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. 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 remaining Directors.

The elected and appointed officers and their respective titles at December 31, 2008, were the following:

Name	Title
Brian Ralph Wilkin	President
Bruce Michael Arnold, CIC	Senior Vice President
George Albert Cole, III	Senior Vice President and Treasurer
Robert Christopher Hunter	Vice President and Chief Information Officer
Cheryl Elizabeth Wigmore	Vice President and Secretary
John Francis Keaveney, CPCU, CIC	Assistant Vice President
Cheryl Mae Taylor	Assistant Vice President
Maryellen Halibozek	Assistant Secretary
Barbara Anne White	Assistant Secretary
Mark Thomas Wilkin	Assistant Secretary
Michael Stephen Wood	Assistant Secretary
James Albert McCarthy	Assistant Treasurer
Samuel Anthony Villani, II, CIC	Assistant Treasurer

All of the Company's Officers listed above simultaneously held similar positions in DIC.

Conflict of Interest Procedure

The Company has a policy statement pertaining to conflict of interest. In support of its answer to Question 16 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 2008 Annual Statement.

Corporate Records

Articles of Incorporation and By-Laws

The By-Laws and Articles of Incorporation and amendments thereto were read. There were no changes to the By-Laws or Articles of Incorporation since the prior examinations.

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.

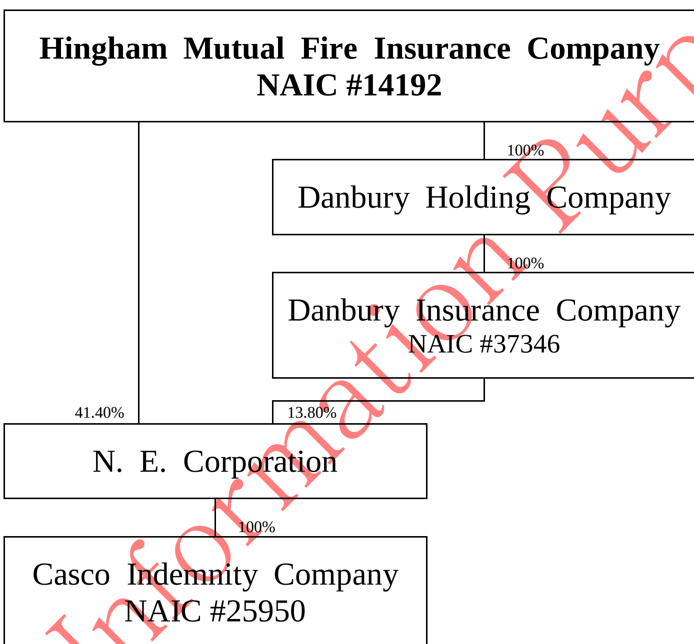
The minutes of the Board of Directors meeting did not record that the prior Report of Examination was reviewed and accepted by the Board, but the Company filed affidavits with the Division that its Directors received and reviewed the prior Report of Examination.

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, 2008, is represented as follows**:**



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 82% and DIC assumes the remaining balance (18%) 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, 2008.

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 and other health and life insurance benefits.

SPECIAL DEPOSITS

Special Deposits of the Company at December 31, 2008 are as follows:

State	Purpose of Deposit	Book Value	Fair Value
Massachusetts	Benefit of All Policyholders	$1,496,693	$1,664,180

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, 2008, the Company's maximum retention limit, net of reinsurance, was $750,000 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 coverage provided to commercial risks. Its predominant concentration of business is homeowners' coverage in Massachusetts.

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, 2008 through December 31, 2008. 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 Eide Bailly were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market

Regulation Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins.

The basic business areas that were reviewed under the 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. The Report on the Comprehensive Market Conduct Examination of the Company for the period January 1, 2008 through December 31, 2008 was issued on July 23, 2009 and is a public document.

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 (18%) 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.

Aggregate balances for gross premiums associated with reinsurance transactions are compared in summary below for each company as follows:

	2008	
GROSS PREMIUMS	H.M.F.I.C.	D.I.C.
Direct Business	$ 43,870,365	$ 7,371,038
Reinsurance Assumed from:		
Affiliates	9,506,874	12,439,540
Non-Affiliates	4,850,816	68,503
Reinsurance Ceded to:		
Affiliates	12,439,539	7,394,575
Non-Affiliates	10,720,184	44,966
Net Premiums Written	$ 35,067,332	$ 12,439,540

<u>Assumed Reinsurance</u>

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

Effective January 1, 1999, the Hingham Group ("the Companies") entered into a quota share contract with Casco, whereby Casco ceded 25% of its private passenger automobile liability, commercial auto liability and automobile physical damage business to the Companies and Phenix Mutual Fire Insurance Company ("Phenix"). The Companies share of the participation in the quota share is 55.2% with Phenix having the remaining 44.8% share. The Companies' assumption from Casco was 13.8% as of December 31, 2008 (25% of 55.2%).

<u>Ceded Reinsurance</u>

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 $750,000 at December 31, 2008. With General Reinsurance Intermediaries, the Company purchased catastrophe excess of loss protection under which the Company retains the first $4.0 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

The following events that occurred subsequent to the December 31, 2008 examination date are noted:

On October 1, 2009, Brian R. Wilkin retired as the CEO of the Company and was replaced by George A. Cole III. At its July, 2009 meeting, the Board of Directors voted to confirm Mr. Cole's appointment as Chief Executive Officer. Mr. Cole will continue to retain the title and responsibilities of Treasurer of the Company.

On December 23, 2009 AM Best announced a ratings downgrade for the Company from its previous rating of B+ (Good) to B (Fair) and an issuer credit rating from "bbb-" to a "bb". The ratings downgrade reflects the Company's decline in capitalization, trend of earnings variability, high exposure to equity market volatility, limited product offerings and geographic concentration of risks in New England. These negative rating factors are partly offset by the Group's long standing agency relationships and regional market presence.

To address this downgrade, the Company has taken measures to improve profitability and aggressively reduce expenses and has identified plans to increase premiums, reduce costs and improve its surplus and liquidity ratios. The Company has been involved in affiliation discussions with several insurance companies over the period subsequent to this examination.

On June 10, 2010, the Company entered in an affiliation agreement with NLC Insurance Companies ("NLC") of Norwich, CT. The affiliation consists of a management agreement and a reinsurance pooling agreement between the Company, Danbury Insurance Company and the NLC group that consists of New London County Mutual Insurance Company and the Thames Insurance Company. The agreement is subject to policyholder and regulatory approvals, with a final closing expected in the third quarter of 2010. The affiliation will expand the Company's capital base and provide additional resources to improve operations.

In anticipation of the approval of the Affiliation Agreement, the company partially liquidated certain equity investments from its investment portfolio beginning May 6, 2010 to reduce the Company's equity exposure and align the Company's portfolio with that of NLC.

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 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 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, 2008

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2008

Statement of Income for the Year Ended December 31, 2008

Reconciliation of Capital and Surplus for Each Year in the Four-Year Period Ended December 31, 2008

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2008

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Bonds	$ 27,839,935	$ 0	$ 27,839,935	
Preferred stocks	-		-	
Common stocks	39,965,545		39,965,545	
Mortgage loans on real estate: First liens	-		-	
Real estate: Properties occupied by the Company	5,749,219		5,749,219	
Cash and short-term investments	6,409,140		6,409,140	
Other invested assets	499,589		499,589	
Subtotals, cash and invested assets	80,463,428	-	80,463,428	
Investment income due and accrued	474,508		474,508	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	17,414,911		17,414,911	
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	2,179,542		2,179,542	
Reinsurance: Amounts recoverable from reinsurers	26,310		26,310	
Federeal Income Tax Recoverable	472,115		472,115	
Electronic data processing equipment	73,286		73,286	
Receivable from parent, subsidiaries, and affiliates	1,422,925		1,422,925	
Aggregate write-ins for other than invested assets:	492		492	
Total Assets	$ 102,527,517	$ 0	$ 102,527,517	

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2008

Liabilities	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Losses	$ 18,256,693	$ 0	$ 18,256,693	**(1)**
Reinsurance payable on paid loss				
and loss adjustment expenses	8,154,190		8,154,190	
Loss adjustment expenses	4,327,356		4,327,356	**(1)**
Commissions payable, contingent commissions,				
and other similar charges	933,579		933,579	
Other expenses	178,867		178,867	
Taxes, licenses, and fees	(37,200)		(37,200)	
Current federal and foreign income taxes				
Net deferred tax liability	1,780,118		1,780,118	
Unearned premiums	23,780,460		23,780,460	
Advance premium	482,788		482,788	
Ceded reinsurance premiums payable	3,724,418		3,724,418	
Drafts outstanding	6,460		6,460	
Payable to Parent, Subsidiaries and Affiliates	59,537		59,537	
Aggregate write-in for liabilities**:**				
Non-admitted asset -- F.A.I.R. Plan				
F.A.I.R. Plan expenses payable	1,032,545		1,032,545	
Total Liabilities	62,679,811		62,679,811	
Aggregate write-in for special surplus funds				
Unassigned funds (surplus)	39,847,706		39,847,706	
Surplus as regards policyholders	39,847,706		39,847,706	
Total Liabilities, Capital, and Surplus	$ 102,527,517	$ 0	$ 102,527,517	

Statement of Income
For The Year Ended December 31, 2008

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	$ 39,701,396	$ 0	$ 39,701,396	
Deductions:				
Losses incurred	24,823,469		24,823,469	
Loss adjustment expenses incurred	4,595,948		4,595,948	
Other underwriting expenses incurred	16,219,648		16,219,648	
Total underwriting deductions	45,639,065	-	45,639,065	
Net underwriting gain (loss)	(5,937,669)	-	(5,937,669)	
Net investment income earned	1,841,161		1,841,161	
Net realized capital gains (losses)	63,316		63,316	
Net investment gain (loss)	1,904,477	-	1,904,477	
Net gain (loss) from agents' or premium balances charged off	-		-	
Finance and service charges not included in premiums	379,030		379,030	
Aggregate write-ins for miscellaneous income:	-		-	
Total other income	379,030	-	379,030	
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes	(3,654,162)	-	(3,654,162)	
Dividends to policyholders	-		-	
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes	(3,654,162)	-	(3,654,162)	
Federal and foreign income taxes incurred	(452,195)		(452,195)	
Net Income	$ (3,201,967)	$ 0	$ (3,201,967)	

Reconciliation of Capital and Surplus
For Each Year in the Four Year Period Ended December 31, 2008

	2008	2007	2006	2005
Surplus as regards policyholders as of December 31, prior year	$ 53,877,742	$ 52,501,254	$ 47,891,075	$ 48,214,142
Net income	(3,201,967)	61,463	2,511,465	(744,930)
Change in net unrealized capital gains or (losses)	(16,947,312)	1,409,944	3,338,219	717,492
Change in net deferred income tax	6,134,866	(192,163)	(1,385,230)	(52,855)
Change in non-admitted assets	(46,246)	91,985	138,344	(210,473)
in accounting principles				
Aggregate write-ins for gains or (losses) in surplus	30,623	5,259	7,381	(32,301)
Net change in surplus as regards policyholders for the year	(14,030,036)	1,376,488	4,610,179	(323,067)
Surplus as regards policyholders as of December 31, current year	$ 39,847,706	$ 53,877,742	$ 52,501,254	$ 47,891,075

NOTES TO FINANCIAL STATEMENT

NOTE 1:

Losses	$ 18,256,693
Loss Adjustment Expenses	4,327,356

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, 2008.

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, 2008, 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, 2008, the Hingham Group recorded statutory-basis loss and loss adjustment expense reserves, gross of reinsurance recoverables, of $36.6 million. Based on its own independent review, KPMG estimated the Group's gross loss and loss adjustment expense liabilities as of December 31, 2008, at $30.7 million, with a range of reasonable gross loss and loss adjustment expense reserves which spans from a low of $28.0 million to a high of $34.6 million. In the opinion of KPMG, the gross loss and loss adjustment expense reserves carried by the Hingham Group as of December 31, 2008, make reasonable provision for all unpaid loss and loss adjustment expense obligations of the Group.

KPMG reported that as of December 31, 2008, the Hingham Group recorded statutory-basis loss and loss adjustment expense reserves, net of reinsurance recoverables, of $26.0 million. Based on its own independent review, KPMG estimated the Group's net loss and loss adjustment expense liabilities as of December 31, 2008, at $27.7 million, with a range of reasonable net loss and loss adjustment expense reserves which spans from a low of $25.3 million to a high of $30.9 million. In the opinion of KPMG, the net loss and loss adjustment expense reserves carried by the Hingham Group as of December 31, 2008, 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, 2008, make reasonable provision for all unpaid loss and loss adjustment expense obligations of that respective Group member.

In specific regard to Hingham Mutual Fire Insurance Company, 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, 2008:

Net Loss and Loss Adjustment Expense Reserves

(*000 omitted*) Reserve Category	Low End of Range	KPMG Selection	High End of Range	Company Carried
Net of Reinsurance				
Hingham	$ 22,155	$24,216	$ 27,030	$ 22,584
Danbury	3,162	3,493	3,918	3,452
Total Net Reserves	$ 25,317	$ 27,712	$ 30,948	$ 26,040

Similarly, 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, 2008

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Gross Loss and Loss Adjustment Expense Reserves

(*000 omitted*) Reserve Category	Low End of Range	KPMG Selection	High End of Range	Company Carried
Gross of Reinsurance				
Hingham	$ 24,514	$ 26,838	$ 30,193	$ 31,796
Danbury	3,512	3,873	4,364	4,799
Total Gross Reserves	$ 28,026	$ 30,711	$ 34,556	$ 36,595

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.

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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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