



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE
REPORT OF EXAMINATION
OF THE
HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM
Salem, Massachusetts
as of December 31, 2006

N.A.I.C. GROUP CODE 0050

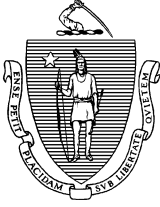
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EMPLOYERS ID NO. 04-1448835

HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM

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May 7, 2008

The Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee, NAIC
Commissioner of Insurance
The Commonwealth of Virginia
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The Honorable Nonnie S. Burnes
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Honorable Commissioners:

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

HOLYOKE MUTUAL INSURANCE COMPANY IN SALEM

at its home office located at Holyoke Square, Salem, MA, 01970-6506. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Holyoke Mutual Insurance Company in Salem (hereinafter referred to as “Company” or “Holyoke”) was last examined as of December 31, 2002 under the association plan of the National Association of Insurance Commissioners (“NAIC”) by the Massachusetts Division of Insurance (“Division”). The current examination was conducted by the Division and covers the four year period from January 1, 2003 through December 31, 2006, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards established by the NAIC Financial Condition (E) Committee as well as with the requirements of the NAIC Financial Condition Examiner’s Handbook, the examination standards of the Division and with Massachusetts General Laws. The principal focus of the examination was 2006 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Company, the examination included a review of the Company’s business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan 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 Ernst & Young LLP, an independent certified public accounting firm, in accordance with 211 CMR 23.00. The firm expressed unqualified opinions on the Company’s financial statements for the calendar years 2003 through 2006. A review and use of the Certified Public Accountants’ workpapers were made to the extent deemed appropriate and effective.

In 2000, the Company became affiliated with COUNTRY Mutual Insurance Company (“COUNTRY”), an Illinois domiciled company. An examination of COUNTRY as of December 31, 2006 is being conducted by the Illinois Division of Insurance. We utilized the work performed by Illinois wherever possible.

For a summary of findings contained within this report, refer to the Comments and Recommendations Section on page 19 of this Report.

Status of Prior Examination Findings

The previous report of examination, for the period ended December 31, 2002, did not contain any Comments or Recommendations.

HISTORY

General

The Company was chartered on March 14, 1843 and began issuing assessable policies in May of the same year. In April 1942, the Company was authorized to issue non-assessable policies, and in June 1951 it was authorized to write multiple lines of insurance.

On January 28, 1975, the Company changed its name from Holyoke Mutual Fire Insurance Company to Holyoke Mutual Insurance Company in Salem.

The Company formed a wholly owned subsidiary, Holyoke Square, Inc., on May 5, 1982. In June 1983, the Company transferred 100 percent of the shares of an existing subsidiary, Holyoke of Salem Insurance Agency, Inc., to its newly formed subsidiary, Holyoke Square, Inc. In 2007, Holyoke of Salem Insurance Agency, Inc., merged with Holyoke Square, Inc.

In January 2000, the Company became affiliated with COUNTRY Mutual Insurance Company, an Illinois domiciled company. The Company entered into a pooling agreement with COUNTRY, under which Holyoke will cede premiums and losses to COUNTRY and assume back a percentage of the pool. From the inception of the agreement until 2006, the pooling percentage was based on Holyoke's share of the combined surplus. Effective 2006, the pooling percentage was set at 3.94% for five years.

Effective January 1, 2006 all Holyoke employees became employees of an affiliated company, Middlesex Mutual Assurance Company ("Middlesex"), a Connecticut domiciled company.

In 2006, Holyoke and Middlesex started using the brand name of MiddleOak. This is not a new company, but a way of establishing a common identity for the two companies.

Guaranty Capital

At December 31, 2006, the Company's guaranty capital account consisted of 1,000 shares of authorized, issued and outstanding stock with a par value of \$100. The owners of the guaranty capital are classified as "shareholders". A 2.9% (\$2,929.00) dividend was paid to the shareholders in 2006.

A review of the shareholders' register indicated that the shares were held by various individuals, companies and charitable organizations affiliated with COUNTRY. These entities hold 754 of the 1,000 shares.

Holyoke Mutual Insurance Company In Salem

Dividends to Shareholders

The Company declared and paid dividends during the examination period as follows:

2003	\$6,000
2004	3,000
2005	4,500
2006	2,929

Dividends to Policyholders

COUNTRY pays dividends on its Crop Hail policies. As a result of pooling, Holyoke shares in the payment of these dividends. The dividends paid during the examination period are as follows:

2003	\$(2,328)
2004	58,039
2005	84,862
2006	52,776

Growth of the Company

The growth of the Company for the years 2003 through 2006 is shown in the following schedule which was prepared from the Company's Annual Statements, including any changes as a result of the examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Direct Premiums Written</u>	<u>Net Premiums Written</u>
2006	\$164,743,389	\$92,330,868	\$72,412,521	\$35,078,607	\$81,400,809
2005	150,922,923	84,481,372	66,441,551	32,614,357	76,837,153
2004	136,347,654	82,889,828	53,457,826	38,771,983	75,393,976
2003	138,842,285	91,973,745	46,868,540	84,163,491	68,410,550

MANAGEMENT

Annual Meeting

In accordance with the by-laws, the annual meeting of the Company is held on the second Tuesday in May. Every individual, partnership, corporation, or association to whom a policy has been issued by the Company, and whose policy has not expired or been cancelled, shall be a member of the Company and be entitled at any meeting of the Company to one vote for each policy. Fifteen members constitute a quorum. The minutes indicated that a quorum was obtained at each annual meeting held during the examination period.

Board of Directors

The by-laws provide that the business and affairs of the Company shall be managed by the board of directors except as otherwise provided by the Articles of Incorporation or by a valid shareholder agreement. The board of directors shall consist of not less than eight or more than twelve directors with the number determined at each annual meeting by resolution of the shareholders. Each director holds office for a term of four years. In 2007, this was changed to a term of three years. Upon expiration or resignation, his/her successor is elected at the next annual meeting.

At December 31, 2006, the board was comprised of eight directors, which is in compliance with the Company's by-laws. Directors duly elected and serving at December 31, 2006, with business affiliations, follows:

<u>Director</u>	<u>Business Affiliation</u>
John D. Blackburn	- Chairman of the Board, Holyoke Mutual Insurance Company in Salem
Barbara A. Baurer	- President and Vice Chairman, Holyoke Mutual Insurance Company in Salem
Alice B. Griffin	- Self-employed
Paul M. Harmon	Secretary and General Counsel, COUNTRY Mutual Insurance Company
Stephen L. Jones	- President – King's Grant Inn
Caleb Loring III	- Trustee – Essex Street Associates
David A. Magers	- Senior Vice President and Chief Financial Officer, Holyoke Mutual Insurance Company in Salem
Doyle J. Williams	- Vice President, COUNTRY Mutual Insurance Company

Holyoke Mutual Insurance Company In Salem

The board of directors appointed three committees in accordance with the bylaws. As of March 2006, the Executive Committee was dissolved and a new committee, Governance Committee was established. This change was approved by the board. The members of each committee at December 31, 2006 follow:

Governance Committee

John D. Blackburn, Chairman	Paul M. Harmon	Caleb Loring III
Alice B. Griffin	Stephen L. Jones	Doyle J. Williams

Investment Committee

David A. Magers, Chairman	Alice B. Griffin	Gary J. Vallo
Barbara A. Baurer	Stephen L. Jones	
John D. Blackburn	Caleb Loring III	

Audit Committee

Alice B. Griffin	Stephen L. Jones	Caleb Loring III
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Officers

The by-laws of the Company provide that the officers of the Company shall be a president, a secretary, and a treasurer and other officers as deemed necessary. Pursuant to the by-laws, the officers of the Company are elected by the board of directors. Vacancies among the officers shall be filled by the board of directors.

The elected officers and their respective titles at December 31, 2006 follow:

<u>Name</u>	<u>Title</u>
John D. Blackburn	- Chairman of the Board
Barbara A. Baurer	- President and Vice Chairman
Gary J. Vallo	- Chief Executive Officer
Keith A. Powers	- Senior Vice President and General Manager, CNE
David A. Magers	- Senior Vice President and Chief Financial Officer
Paul M. Harmon	- General Counsel, Secretary and Chief Legal Officer
Kevin E. Reardon	- Senior Vice President Claims and Administration
Alan T. Reiss	- Senior Vice President Service Operations

Holyoke Mutual Insurance Company In Salem

Anne M. Tarryk	-	Senior Vice President Distributed Technology
Mark W. Lynch	-	Vice President and Treasurer
Richard A. Bill	-	Vice President and Corporate Actuary
Peter D. Kasper	-	Vice President, Sales and Marketing Specialty
Christine M. Bussone	-	Vice President, Underwriting

Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflict of interest. The Company has an established procedure for the disclosure to the board of directors of any material interest or affiliation on the part of any officer or director, which is in or is likely to conflict with his/her official duties.

Annually, each officer, director and responsible employee completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and no discrepancies were noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Company's 2006 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 Articles of Incorporation since the previous examination. One change was made to the by-laws since the previous examination. It was to change the date of the annual meeting. This change was properly authorized by the board.

Disaster Recovery and Business Continuity

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

Board of Directors Minutes

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

AFFILIATED COMPANIES

Per Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C of the Massachusetts General Laws. Illinois Agricultural Association is the “ultimate controlling person” for the Company.

ORGANIZATIONAL CHART

Illinois Agricultural Association

- Partially owns CC Services, Inc.
- Controls COUNTRY Mutual Insurance Company
 - owns Country Casualty Insurance Company
 - owns Country Preferred Insurance Company
 - owns Modern Service Insurance Company
 - owns MSI Preferred Insurance Company
 - partially owns CC Services, Inc.
 - partially owns Cotton States Life Insurance Company
 - owns CSI Brokerage Services, Inc.
 - owns Cotton States Marketing Resources, Inc.
 - controls Middlesex Mutual Assurance Company
 - owns Midfield Corporation
 - partially owns Hollis D. Segur, Inc.
 - controls **Holyoke Mutual Insurance Company in Salem**
 - owns Holyoke Square, Inc.
 - owns Holyoke of Salem Insurance Agency, Inc.
- Controls Illinois Agricultural Holding Co.
 - owns Agrivisor Services, Inc.
 - owns Illinois Agricultural Service Company
 - owns Country Life Insurance Company
 - owns Country Investors Life Assurance Company
 - owns Country Capital Management Company
 - owns Country Trust Bank
 - owns Mutual Service Life Insurance Company
 - partially owns Cotton States Life Insurance Company
 - partially owns CC Services, Inc.

Transactions and Agreements with Subsidiaries and Affiliates

Alliance Agreement

Effective September 1, 1999, the Company and COUNTRY Mutual Insurance Company entered into an Alliance Agreement. It was deemed to be in the best interests of the two companies to enter into this agreement in order to leverage the complementary competencies of both parties, to enhance growth and profitability for both parties, and to increase geographic diversification for both parties. This agreement specified the initial terms and conditions of the alliance or affiliation of the two entities. In addition, the agreement states that, “until at least January 1, 2005, unless the board of directors of Holyoke, by 4/5 vote, elects otherwise Holyoke will: (i) maintain a separate corporate existence, including maintaining its corporate headquarters and executive offices at Holyoke Square in Salem, Massachusetts, maintaining Massachusetts as its state of domicile, and maintaining Holyoke Mutual Insurance Company in Salem as its corporate name; (ii) maintain current employee benefits programs and personnel policies; and (iii) make donations to charity and civic organizations of Holyoke’s choosing in the greater Salem, Massachusetts region in an amount of not less than \$50,000 per year.”

In 2006, both Middlesex and Holyoke began using the brand name of MiddleOak. Also, effective January 1, 2006 all employees of Holyoke became employees of Middlesex. As a result the employee benefits program and personnel policies were changed accordingly.

Services Agreements

The Company and COUNTRY entered into a Services Agreement effective January 1, 2000. This agreement states that COUNTRY shall provide Holyoke with actuarial, operational, claims, underwriting and other services, and shall obtain such good and services from third parties on behalf of Holyoke as requested by Holyoke. Charges for services provided by COUNTRY to Holyoke shall be based upon actual expenses incurred by COUNTRY. COUNTRY shall bill Holyoke for services provided and goods and services obtained on behalf of Holyoke on or before the 15th day of each month, with payment to be made prior to the last day of the month billed.

The Company and CC Services, Inc. (“CCSI”) a partially owned subsidiary of COUNTRY, entered into a Services Agreement effective January 1, 2000. Under the terms of the agreement CCSI shall provide Holyoke with such financial, marketing, information and other services, and shall purchase such goods and services from third-parties on behalf of Holyoke as requested by Holyoke. Charges for services provided by CCSI to Holyoke shall be based upon actual expenses incurred by CCSI. The billing and payment terms for this agreement are the same as the COUNTRY Services Agreement, as outlined above.

Holyoke and Middlesex entered into a service agreement effective August 2, 2005. Under the terms of the agreement they are to provide each other with financial, marketing, information services, underwriting, claims handling, rental office and/or storage space, actuarial and other services as necessary. Charges for services shall be based upon actual expenses.

The billing and payment is the same as that of COUNTRY Services Agreement, as outlined above. Effective January 2006, Holyoke does not provide services to Middlesex as all the employees are now Middlesex employees.

Tax Sharing Agreement

The Company participates in a tax allocation agreement with its two wholly owned subsidiaries, Holyoke Square, Inc. and Holyoke of Salem Insurance Agency Inc. 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. Inter-company balances are settled annually in the fourth quarter.

FIDELITY BOND AND OTHER INSURANCE

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

The Company has further protected its interests and property by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2006.

STATUTORY DEPOSITS

The statutory deposits of the Company as of December 31, 2006 are as follows:

<u>Location</u>	<u>Description Of Deposit</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Massachusetts	Bonds	\$2,224,564	\$2,263,149
Total Deposits		\$2,224,564	\$2,263,149

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting Practices

The Company offers personal and commercial coverages utilizing policy forms, riders and endorsements that are subject to the approval of the Division.

Territory and Plan of Operation

The Company is licensed to write business in all the New England states, New York and New Jersey. The Company's principal line of business is homeowners provided primarily to personal risks through its appointed independent agents. The Company has started to write high value homes and other specialty lines.

On June 16, 2003 the Company entered into an Asset and Liability Transfer Agreement with Plymouth Rock Assurance Corporation to transfer its private passenger automobile business. Holyoke paid \$5,850,000 to Plymouth Rock Assurance Corporation to transfer these obligations effective January 1, 2004.

REINSURANCE

Pooling Agreement

The Company and COUNTRY entered into a Reinsurance Pooling Agreement with an effective date of January 1, 2000. Under terms of the agreement, on an ongoing basis, the Company will cede and COUNTRY will assume 100% of the Company's net premiums written, net losses paid, net loss reserves, loss adjustment expenses paid, loss adjustment expense reserve, contingent commission reserve, other expense reserves and dividends to policyholders both paid and unpaid.

COUNTRY shall add the business ceded to it from Holyoke and business ceded to it by other pool companies to its own business after outside reinsurance to form a pool. The Company will then assume from the pool a percentage of the pool's net unearned premium reserve, net loss reserve and loss adjustment expense reserve, contingent commission reserve and other expense reserves. Prior to 2006 the Company's participation ratio in the pool was determined by dividing Holyoke's surplus by COUNTRY's surplus. Effective January 1, 2006 Holyoke's participation ratio was set at 3.94% for five years. Holyoke's pool percentage shall be recalculated at any time a pool company is added, eliminated or changes its pool ratio in the COUNTRY pool. Such recalculation shall be based upon the most recent annual statements of COUNTRY and Holyoke, provided however, Holyoke's pool percentage shall only be adjusted upward or downward in a year that COUNTRY's and Holyoke's respective annual statements reveal that Holyoke's existing pool percentage has increased or decreased more than ½ percentage point.

The members of the COUNTRY pool and their pooling percentages for the exam period are as follows:

<u>Company</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
COUNTRY Mutual Insurance Company	87.19%	88.10%	90.73%	90.73%
Middlesex Mutual Assurance Company	4.52	4.58	4.70	4.70
Cotton States Mutual Insurance Company	4.35	3.38	*	*
Holyoke Mutual Insurance Company in Salem	3.94	3.94	4.57	4.57

* Cotton States was not a party to the reinsurance agreement at this date.

Assumed Reinsurance

The Company participates in the FAIR plans in the states in which it is licensed. Also, the Company participates in the Automobile Facility Plans in both Massachusetts and New Hampshire. As a participant, the Company services individual accounts and is reimbursed by the facilities for losses and expenses. The Company's assessments are proportionate to its market share in each state.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent Certified Public Accountants, Ernst & Young LLP. No material internal control weaknesses were noted in connection with the examination, nor were any such matters reported by Ernst & Young, in their report filed with the Division.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Company for both mainframe systems and distributed systems. The mainframe questionnaire was reviewed by the Illinois Department of Insurance who evaluated the adequacy of the IT controls. No material deficiencies were noted. The distributed systems questionnaire was completed by the Company for systems that are applicable to Holyoke only. This was reviewed by the exam team and 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 2006 annual statement. No material exceptions were noted.

SUBSEQUENT EVENT

In 2007, Holyoke Square, Inc. and Holyoke of Salem Insurance Agency, Inc. merged. This merger was approved by the boards of all companies.

FINANCIAL STATEMENTS

The following financial statements comply with Statements of Statutory Accounting Principles as promulgated by the NAIC in their Accounting Practices and Procedures Manual. The Division of Insurance has adopted the codification of statutory accounting principles effective January 1, 2001.

The following financial statements reflect the assets, liabilities, capital and surplus as determined by our examination, showing the Statement of Assets as of December 31, 2006, Statement of Liabilities and Surplus as of December 31, 2006, together with a Summary of Operations for the year ended December 31, 2006, Statement of Capital and Surplus as of December 31, 2006, and a Reconciliation of Capital and Surplus for the four year period ended December 31, 2006.

Holyoke Mutual Insurance Company In Salem
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2006

Assets	Per Company	Examination Changes	Per Statutory Examination	Notes
Bonds	\$ 102,277,645	\$ 0	\$ 102,277,645	
Common stocks	17,831,510		17,831,510	
Real estate - Properties occupied by the company	2,885,652		2,885,652	
Cash and short-term investments	11,185,616		11,185,616	
Other invested assets	322,049		322,049	
Subtotals, cash and invested assets	134,502,472	0	134,502,472	
Investment income due and accrued	1,388,310		1,388,310	
Premiums and agents' balances in course of collection	13,710,741		13,710,741	
Premiums, agents' balances and installments booked but deferred and not yet due	18,391,399		18,391,399	
Reinsurance recoverable on loss and loss adjustment expenses	(6,674,125)		(6,674,125)	
Federal and foreign income tax recoverable	940,807		940,807	
Net deferred tax asset	255,141		255,141	
Guaranty funds receivable or on deposit	34,119		34,119	
Receivable from parent, subsidiaries and affiliates	1,196,301		1,196,301	
Aggregate write-ins for other than invested assets	998,224		998,224	
Total Assets	<u>\$ 164,743,389</u>	<u>\$ 0</u>	<u>\$ 164,743,389</u>	

Holyoke Mutual Insurance Company In Salem
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2006

Liabilities	Per Company	Examination Changes	Per Statutory Examination	Notes
Losses	\$ 34,486,575	\$ 0	\$ 34,486,575	(1)
Reinsurance payable on paid loss and loss adjustment expenses	322,599		322,599	
Loss adjustment expenses	6,854,890		6,854,890	(1)
Commissions payable	4,006,156		4,006,156	
Other expenses	1,087,460		1,087,460	
Taxes, licenses and fees	396,819		396,819	
Unearned premiums	29,181,256		29,181,256	
Dividends payable: Policyholders	53,385		53,385	
Ceded reinsurance premiums payable	14,668,304		14,668,304	
Remittances and items not allocated	143,013		143,013	
Payable to parent, subsidiaries and affiliates	952,258		952,258	
Aggregate write ins for liabilities	178,153		178,153	
Total Liabilities	<u>92,330,868</u>	<u>0</u>	<u>92,330,868</u>	
Guaranty capital	100,000		100,000	
Unassigned funds (surplus)	<u>72,312,521</u>		<u>72,312,521</u>	
Surplus as regards policyholders	<u>72,412,521</u>	<u>0</u>	<u>72,412,521</u>	
Total Liabilities, Capital and Surplus	<u>\$ 164,743,389</u>	<u>\$ 0</u>	<u>\$ 164,743,389</u>	

Holyoke Mutual Insurance Company In Salem
Summary of Operations
For the Year Ended December 31, 2006

	Per Company	Examination Changes	Per Statutory Examination	Notes
Premiums earned	\$ 78,956,778	\$ 0	\$ 78,956,778	
Deductions:				
Losses incurred	47,138,620		47,138,620	
Loss expenses incurred	6,597,250		6,597,250	
Other underwriting expenses incurred	24,381,545		24,381,545	
Total underwriting deductions	<u>78,117,415</u>	<u>0</u>	<u>78,117,415</u>	
Net underwriting gain (loss)	839,363	0	839,363	
Net investment income	5,151,501		5,151,501	
Net realized capital gains	907,708		907,708	
Net investment gain	<u>6,059,209</u>	<u>0</u>	<u>6,059,209</u>	
Net gain (loss) from agents' balances or premium balances charged off	(364,140)		(364,140)	
Finance and service charges not included in premiums	422,789		422,789	
Aggregate write-ins for miscellaneous income	<u>(613,472)</u>		<u>(613,472)</u>	
Total other income	(554,823)	0	(554,823)	
Net income before dividends to policyholders and before federal and foreign income taxes	6,343,749	0	6,343,749	
Dividends to policyholders	<u>52,776</u>	<u>0</u>	<u>52,776</u>	
Net income, after dividends to policyholders but before federal and foreign income taxes	6,290,973	0	6,290,973	
Federal and foreign income taxes incurred	<u>789,956</u>	<u>0</u>	<u>789,956</u>	
Net Income	<u>\$ 5,501,017</u>	<u>\$ 0</u>	<u>\$ 5,501,017</u>	

Holyoke Mutual Insurance Company In Salem
Capital and Surplus
For the Year Ended December 31, 2006

	Per Company	Examination Changes	Per Statutory Examination	Notes
Surplus as regards policyholders, December 31, 2005	\$ 66,441,551	\$ 0	\$ 66,441,551	
Net income	5,501,017		5,501,017	
Net unrealized capital gains or (losses)	833,351		833,351	
Change in net deferred income tax	(645,560)		(645,560)	
Change in nonadmitted assets	285,091		285,091	
Aggregate write ins for gains and losses in surplus	(2,929)		(2,929)	
Change in surplus as regards policyholders for the year	5,970,970	0	5,970,970	
Surplus as regards policyholders, December 31 current year	\$ 72,412,521	\$ 0	\$ 72,412,521	

Holyoke Mutual Insurance Company In Salem
Reconciliation of Capital and Surplus
For the Four Year Period Ended December 31, 2006

	2006	2005	2004	2003
Capital and surplus, December 31, prior year	\$ 66,441,551	\$ 53,457,826	\$ 46,868,540	\$45,476,647
Net income	5,501,017	6,595,996	7,354,831	1,436,713
Net unrealized capital gains or (losses)	833,351	705,791	1,679,296	1,871,675
Change in net deferred tax	(645,560)	389,016	(1,715,297)	(96,015)
Change in nonadmitted assets	285,091	5,235,063	(2,909,843)	(332,346)
Change in provision for reinsurance		62,359	(62,359)	
Aggregate write-ins for gains and (losses) in surplus	(2,929)	(4,500)	2,242,658	(1,488,134)
Net change in capital and surplus for the year	5,970,970	12,983,725	6,589,286	1,391,893
Capital and surplus, December 31, current year	<u>\$ 72,412,521</u>	<u>\$ 66,441,551</u>	<u>\$ 53,457,826</u>	<u>\$ 46,868,540</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Loss and Loss Adjustment Expense Reserves

COUNTRY acts as the lead company in an intercompany pooling arrangement with eight affiliated property/casualty insurers. All eight companies effectively cede all their direct insurance results to COUNTRY. COUNTRY then retrocedes a percentage of the pool results to the other three mutual insurers in the group. The pool participation rates for 2006 are as follows:

	<u>2006</u>
COUNTRY	87.19%
Country Casualty Insurance Company	
Country Preferred Insurance Company	
Modern Service Insurance Company*	
MSI Preferred Insurance Company	
Shield Insurance Company	
Middlesex Mutual Assurance Company	4.52%
Holyoke Mutual Insurance Company	3.94%
Cotton States Mutual Insurance Company	4.35%

**Modern retains credit risk, including uncollectible reinsurance, certain asbestos and environmental exposure, and exposure through a loss corridor.*

The actuarial examination of COUNTRY consisted of a peer review of the appointed actuary's workpapers and an independent loss reserve analysis conducted by the Casualty Actuarial Examination Unit of the Illinois Department of Financial and Professional Regulation, Division of Insurance. Based upon the results of the actuarial examination, net loss and loss adjustment expense reserves are within a reasonable range. Therefore, it is recommended that no adjustment be made in the examination report.

After reviewing the substantive memorandum of the Illinois Division Of Insurance and the work performed by them on the entire pool of COUNTRY, the Division determined that there was sufficient work done and thus determined it could rely upon the work of its peer regulator in Illinois and the actuarial work performed by them on the entire pool, of which Holyoke has a 3.94% participation. The conclusion reached was that the net loss and loss expense reserves are within a reasonable range. Thus no adjustment to the financial statements is made within this examination report.

COMMENTS AND RECOMMENDATIONS

1. Receivable from Parent

A detail listing provided for some Receivable from Parent amounts showed both amounts receivable from and payable to affiliates. The amounts were netted to arrive at the amount shown in the general ledger and the annual statement. SSAP 64 paragraph 2 states that assets and liabilities shall be offset and reported net only when a valid right of offset exists. The services contract with the affiliates does not address the issue of offsetting assets and liabilities; therefore it appears that a valid right of offset does not exist.

Recommend that the company comply with SSAP 64.

2. Reinsurance Treaties

Holyoke has an Equipment Breakdown reinsurance agreement with Factory Mutual through an intermediary, Benfield, Inc. Massachusetts General Laws Chapter 175 Section 177P states that when an intermediary is used, there is to be a contract between the insurer and the intermediary. A copy of an agreement between Holyoke and Benfield was not provided.

Recommend that the Company comply with Massachusetts General Laws Chapter 175 section 177P.

3. Investments

Minutes of the board of directors and its Investment Committee recorded the actions of the directors and Committee members in regard to voting and ratification of investment activity. The minutes did not contain copies of the investment schedules which were presented to the directors for their consideration as required by Massachusetts General Laws Chapter 175 Section 64.

Recommend that copies of the investment schedules presented to directors for their consideration be maintained in the minutes of meetings in order to comply with the related statute.

ACKNOWLEDGEMENT

Acknowledgment is made of the cooperation and courtesies extended by the Company to all the examiners during the course of the examination.

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

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