



**THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

DIVISION OF INSURANCE

***REPORT OF EXAMINATION OF*
THE PREMIER INSURANCE COMPANY OF MASSACHUSETTS**

Worcester, Massachusetts

As of December 31, 2005

NAIC GROUP CODE: 3548

NAIC COMPANY CODE: 12850

EMPLOYER'S ID NO: 04-3175569

**THE PREMIER INSURANCE
COMPANY OF MASSACHUSETTS**

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COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

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NONNIE S. BURNES
COMMISSIONER OF INSURANCE

May 30, 2007

Honorable Alfred W. Gross, Chairman
Financial Condition (E) Committee, NAIC
Commissioner of Insurance
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Commissioner of Insurance
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Honorable Director and 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 as of December 31, 2005, of

THE PREMIER INSURANCE COMPANY OF MASSACHUSETTS
Worcester, Massachusetts

at its home office located at Ten Chestnut Street, Suite 410, Worcester, MA, 01608-2898.
The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Premier Insurance Company of Massachusetts (hereinafter referred to as “the Company”) was last examined as of December 31, 2000 under the association plan of the National Association of Insurance Commissioners (“NAIC”) by the Massachusetts Division of Insurance (the Division). The current examination was also conducted by the Division and covers the five-year period from January 1, 2001 through December 31, 2005, 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 Financial Condition (E) Committee of the NAIC as well as with the requirements of the NAIC Financial Condition Examiners Handbook, the examination standards of the Division and with Massachusetts General Laws. The principal focus of the examination was 2005 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 KPMG 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 2001 through 2005. A review and use of the Certified Public Accountants’ work papers were made to the extent deemed appropriate and effective. An independent actuarial consulting firm, Ernst & Young LLP’s Actuarial Services Group (E&Y), was retained by the Division to evaluate the adequacy of the Company’s loss and loss adjustment expense reserves as of December 31, 2005.

For a summary of findings contained within this report, refer to the “Notes to Financial Statements” section.

HISTORY

General

The Company was incorporated on January 1, 1993 under the laws of the Commonwealth of Massachusetts and commenced business on July 1, 1993. The Company is a wholly owned subsidiary of The Travelers Indemnity Company (TIC). TIC is an indirect wholly owned subsidiary of The St. Paul Travelers Companies, Inc. (Effective 2/26/07, the St. Paul Travelers Companies, Inc., changed its name to The Travelers Companies, Inc.)

The Company is only licensed to write business in Massachusetts and its principle line of business is Massachusetts private passenger automobile insurance. Since its inception the Company assumed, through a Personal Lines Quota Share Reinsurance Agreement, 100% of all personal lines property business written by TIC and its affiliates in Massachusetts. On June 29, 2004 the Company and TIC terminated the agreement retroactively to January 1, 2004, on a policy renewal basis. The Company continues to manage and service the personal lines property business for TIC.

Capital Stock

The Company has 100,000 shares of authorized common capital stock, 50,000 of which are issued and outstanding with a stated par value per share of \$50.00, for an aggregate par value of \$2,500,000. As of December 31, 2005 the Company's capital structure also consists of \$87,500,000 of additional paid-in and contributed surplus, of which \$42,500,000 was contributed in 1993 and prior, and \$45,000,000 was contributed in 1994. As noted previously, TIC is the sole shareholder.

Dividends to Stockholders

During the five-year period covered by this examination, the Company paid a total of \$116 million in dividends to TIC as follows:

<u>Year</u>	<u>Dividend</u>
2005	\$ 60,000,000
2004	18,000,000
2003	18,000,000
2002	0
2001	<u>20,000,000</u>
Total	<u>\$116,000,000</u>

Subsequent to the examination period, the Company declared and paid a dividend to TIC totaling \$104,900,000 on December 15, 2006.

Growth of Company

The growth of the Company for the years 2001 through 2005 is shown in the following schedule, which was prepared from the Company's Annual Statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Surplus</u>
2005	\$629,015,178	\$327,420,102	\$272,235,349
2004	693,602,387	348,112,153	228,178,208
2003	712,631,038	413,263,562	186,312,443
2002	613,168,322	360,339,459	189,871,263
2001	551,800,196	314,515,638	179,938,267

MANAGEMENT

Annual Meeting of Stockholders

In accordance with the bylaws, the annual meeting of the Company shall be held each year during the month of March. The meeting is held on a date selected by the Board of Directors or if no date is selected then on the first Wednesday in March of each year or if any such first Wednesday is a legal holiday, then the meeting shall be held the next succeeding business day. If for any reason the annual meeting shall not be held at the time provided, it may be held at any time thereafter, or the business to be transacted as such annual meeting may be transacted at any special meeting called for that purpose. The bylaws provide guidance for special meetings, as well as place of meetings, notice of meetings, voting at meetings, shareholder action without a meeting, and organization of meetings.

Board of Directors

The bylaws provide that the Board of Directors shall be elected by the stockholders at the annual meeting of the stockholders and shall manage the business of the Company and, in addition to the powers and authorities expressly conferred upon them by the by-laws, may exercise all such powers, subject to the provisions of statutes and the Articles of Incorporation. The Board of Directors shall consist of not fewer than five or more than eighteen Directors with the number determined at each annual meeting by resolution of the shareholders. Each Director shall hold office until the next annual meeting and until others are duly elected and qualified. Any vacancy occurring among the directors may be filled by a vote of a majority of Directors in office.

At December 31, 2005 the Board was set and comprised of six Directors, which is in compliance with the Company's bylaws. Directors duly elected and serving at December 31, 2005, with business affiliations, follows:

Director**Business Affiliation**

Nancy L. Baily	President, Travelers of Florida
Kelley L. Buchanan, Chairman	President, Personal Lines Specialty Operations, Travelers Insurance
Phyllis M. Forsyth	President, Travelers of New Jersey,
Douglas K. Russell	Senior Vice President, Controller and Treasurer, Travelers Insurance
Nicholas J. Santoro	Chief Financial Officer, Personal Lines, Travelers Insurance
Richard E. Welch, Jr.	President and Chief Executive Officer, The Premier Insurance Company of Massachusetts

The bylaws do not specify the number of meetings to be held during any one year, however, at any meeting of the board a majority of the directors then in office, but not less than four, constitutes a quorum. The minutes indicated that a quorum was obtained at all meetings of the Board of Directors held during the examination period.

Executive Committee

The Board of Directors, in accordance with provisions of the by-laws, has elected an Executive Committee, which shall have and may exercise, when the Board is not in session, all of the authority and powers of the Board of Directors in managing the business, property and affairs of the Company. Members of the Executive Committee duly elected and serving as of December 31, 2005 are as follows:

Nancy L. Baily
Phyllis M. Forsyth
Richard E. Welch, Jr.

Finance Committee

The Board of Directors, in accordance with provisions of the by-laws, has elected a Finance Committee. Each loan or investment, both purchases and sales, made by the Company shall be approved by the Finance Committee. It shall be the duty of the Finance Committee to direct the mode, manner and time of making and calling in of investments and the sale and transfer of investments and reinvestment of the proceeds thereof, in which the funds of the Company are invested. Members of the Finance Committee duly elected and serving as of December 31, 2005 are as follows:

Kelley L. Buchanan
Nancy L. Baily
Richard E. Welch, Jr.

The Board of Directors may, by resolution adopted by affirmative vote of Directors holding a majority number of directorships, designate two or more Directors to constitute another committee or committees for any purpose. In addition to those committees noted above, the Board of Directors has adopted a Compensation Committee and as of March 10, 2005 voted to appoint the members of the Audit Committee of the Board of St. Paul Travelers Companies as the Audit Committee for the Company. The members of these committees are listed below.

Compensation Committee

Kelley L. Buchanan
Nicholas J. Santoro

Audit Committee

As of March, 2005 St. Paul Travelers Audit Committee serves as the Audit Committee for Premier. All of the members are outside directors of St. Paul Travelers. Members of the Audit Committee as of December 31, 2005 are listed below.

John H. Dasburg – Chairman
Janet M. Dolan
Thomas R. Hodgson
Clarence J. Otis
Laurie J. Thomsen

Officers

The bylaws provide that the Board of Directors may from their number elect a Chairman of whom shall serve for a term of one year, and may appoint a President, one or more Vice Presidents, as may be determined from time to time by the Board, a Secretary and a Treasurer. So far as is practical, all required officers shall be elected or appointed by the Board of Directors at its first annual meeting after each annual meeting of the shareholders. The Board may also appoint one or more Assistant Secretaries and Assistant Treasurers and such other officers and assistant officers and agents as it shall from time to time deem necessary. Any two offices may be held by the same person, except that the President and Secretary shall not be the same person.

The President shall be the Chief Executive Officer and shall administer, direct and control the affairs and property of the corporation, subject to and in accordance with the policies and decisions of the Board. The Secretary shall be custodian of the corporate records and the corporate seal and generally shall perform all duties usually pertaining to the office of Secretary of a corporation. The Treasurer shall have the care and custody of

all monies, funds, and securities of the corporation and shall deposit or cause to be deposited all such funds in and with such depositories as the Board or the appropriate committee shall from time to time direct. The Treasurer shall generally perform all duties usually pertaining to the office of Treasurer of a corporation.

The elected senior officers and their respective titles at December 31, 2005 follow:

<u>Name</u>	<u>Title</u>
Richard E. Welch, Jr.	President and Chief Executive Officer
Susan K. Scott	Sr. Vice President, Secretary and General Counsel
Christopher F. Malone	Vice President, Chief Financial Officer, Treasurer and Assistant Secretary
John J. Cook	Vice President – Product Management
John A. Kostal	Vice President – Technology and Information Systems
Mary E. Falwell	Vice President – Marketing
Richards C. Ives	Vice President – Chief Claim Officer
Christopher A Matherly	Vice President – Business Center Operations and Strategic Project Management

Conflict of Interest Procedures

St. Paul Travelers Companies, Inc. (the Company's ultimate parent) monitors compliance with its Code of Business Conduct and Ethics by annually requiring affirmation from its employees, officers, and board members.

Corporate Records

Articles of Incorporation and Bylaws

The Company's articles of incorporation and bylaws were reviewed and verified that there were no changes during the examination period as stated in the Annual Statement General Interrogatories.

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.

Annual Meeting of Stockholders

In accordance with the by-laws, the Annual Meeting of the Stockholders was held during the month of March each year under the examination period. The minutes of the meetings were reviewed and indicate that a quorum was obtained at each annual meeting held during the examination period, and the Board of Directors duly elected.

Board of Directors Minutes

The minutes of the Board of Directors and committee meetings for the period under examination were reviewed and indicate that all meetings were held in accordance with the Company's bylaws and the laws of the Commonwealth of Massachusetts.

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 Chapter 175, Section 206C of the Massachusetts General Laws. The St. Paul Travelers Companies, Inc. is the "ultimate controlling person" of the holding company system. The following is an abbreviated listing of Companies showing the ownership succession of the Company in relationship to the "ultimate controlling person". Each subsidiary is 100% owned by its direct parent.

The St. Paul Travelers Companies, Inc.,

Travelers Property Casualty Corp.

The Travelers Insurance Group Holdings Inc.

The Travelers Indemnity Company

**The Premier Insurance Company of
Massachusetts**

Transactions and Agreements with Affiliates

Investment Management Agreement

This agreement, effective January 1, 2005 is between TIC and the Company whereby TIC provides certain investment management services to the Company. Under this agreement the investment manager will act upon all monies, stocks, bonds, securities, real estate, and other investments held by the Company in accordance with set investment policy guidelines. This agreement is in effect for each succeeding calendar year unless specifically terminated.

Claims Processing Agreement

This agreement, originally dated January 1, 1994 with TIC provides the Company with claims processing services. The Company shall pay an annual fee based on the ratio of the Company's projected annual information system usage to TIC's total projected annual information system usage. The resulting fee will be paid in twelve monthly installments. This agreement has been renewed through December 31, 2006.

Remittance Processing Service Agreement

This agreement with TIC dated May 24, 2000 provides the Company with their processing of incoming premium checks and related documents. The original agreement remained in effect until December 31, 2000 after which it is automatically renewed for additional one-year terms thereafter.

Tax Allocation Agreement

As a wholly owned subsidiary of TIC, the Company is a member of an "affiliated group" of "includible corporations" and as such files its Federal Income Taxes on a consolidated basis with its parent and affiliates pursuant to Section 1501 of the Internal Revenue Code of 1986.

This agreement was amended and restated effective April 1, 2004 for taxable years ending after April 1, 2004 and governs the allocation of federal, state and local income tax liabilities among The St. Paul Travelers Companies, Inc.

Expense Allocation Agreement

This agreement, effective January 1, 1995 among TIC and a number of its subsidiaries, including the Company, allocates certain services required by the subsidiaries in the ordinary course of business. Such services may include, but not limited to, financial management, operational management, accounting, payroll, internal audit, human resource management, tax, transportation, risk management, legal, investment advisory, government relations, record-keeping and data processing services and the acquisition of equipment, software and office space.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer under a Financial Institutions Bond designed for insurance companies, consistent with Massachusetts General Laws Chapter 175, Section 60. The aggregate limit of liability exceeds the NAIC suggested minimum. Other coverages provided under this policy include assorted loss of property coverage, losses due to forgery and counterfeit currency losses and computer systems fraud. The Company has further protected its interest and property by policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2005.

PENSION, INSURANCE PLANS AND EMPLOYEE WELFARE

The Company offers various insurance plans, including life, AD&D and dependent life plans, and group health, dental and vision care to all full time employees.

The Company participates in a 401(k) savings plan sponsored by the St. Paul Travelers Companies, Inc. for substantially all employees of the Company without a required eligibility period.

Employees participating in this plan will receive a matching contribution from the Company dollar for dollar up to the first 5% of eligible salary that an employee contributes.

The Company participates in a qualified noncontributory defined benefit pension plan sponsored by the St. Paul Travelers Companies, Inc. for substantially all employees of the Company. In addition the Company participates in nonqualified defined benefit pension plans sponsored by the St. Paul Travelers Companies, Inc. and by Travelers Property Casualty Corporation which covers certain highly-compensated employees of the Company.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write property and casualty business only in Massachusetts and exclusively writes personal lines automobile coverage.

Treatment of Policyholders and Claimants – Market Conduct

During the financial examination of the Company, the Division's Market Conduct Section initiated a comprehensive market conduct examination of the Company for the period January 1, 2005 through June 30, 2006. The market conduct examination was called pursuant to authority in Massachusetts General Laws Chapter 175, Section 4. The market conduct examination is being conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Eide Bailly, LLP were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Conduct Examiner's Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The basic business areas that are being reviewed under this market conduct examination are company operations/management; complaint handling; marketing and sales; producer licensing; policyholder services; underwriting and rating; claims; and an assessment of the Company's internal control environment. Once this market conduct examination is completed a Report on the Comprehensive Market Conduct Examination of the Company for the period January 1, 2005 through June 30, 2006 will be issued and become available as a public document.

REINSURANCE

During the period covered by this examination the Company reinsured and administered through a Personal Lines Property Quota Share Reinsurance agreement 100% of all personal lines property business written by its parent, TIC and its affiliates in Massachusetts. Effective January 1, 2004, the Company and TIC terminated the agreement on a policy renewal basis. To mitigate the risk associated with its automobile property coverage business, the Company participates as a named insured along with its parent and other affiliates in an external catastrophe reinsurance treaty.

Commonwealth Automobile Reinsurers ("CAR")

As a writer of automobile insurance in the Commonwealth of Massachusetts, the Company must participate in CAR, the state-mandated reinsurance facility for both private passenger and commercial automobile lines of business. CAR is the reinsurance mechanism whereby all companies writing automobile insurance are allowed to cede any automobile policy it deems an undesirable risk, to the facility. The Company pays to CAR all of the premiums generated by the policies it has ceded and CAR reimburses the Company for all losses incurred on account of those ceded policies. As a "Servicing Carrier" the Company receives a fee (which acts as a ceding commission) for servicing ceded policies based on an expense formula established by CAR.

As a participant in CAR, the Company must share (assume) in the underwriting results of CAR, which historically has generated annual underwriting losses. The Company's share of the CAR deficit is allocated based on a formula which calculates the Company's "participation ratio". In general, a Company's participation ratio is negatively affected if its use of CAR (ceded reinsurance) exceeds that of the

Massachusetts industry and its participation ratio is favorably affected if its use of CAR is less than that of the Massachusetts industry.

SUBSEQUENT EVENTS

On October 26, 2006, the Board of Directors authorized management to pay a dividend to its parent in an amount not to exceed \$104.9 million on or after December 15, 2006. The Company paid a dividend in this amount on December 15, 2006.

As noted, the Company is only licensed in Massachusetts and writes private passenger automobile insurance. The automobile insurance market in Massachusetts in recent years has been the subject of legislative reform and continues to be an area of considerable attention by the insuring public, the Massachusetts Legislature, and the insurance industry. What form if any these reforms will take, and the impact on the industry, is unknown. However given the Company's underwriting objectives, significant changes in the current system could have a material impact on the Company's operations.

ACCOUNTS AND RECORDS

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

The NAIC also provides a questionnaire (NAIC Exhibit C Questionnaire) covering the evaluation of the controls in the information systems (IS) environment. The Company operates on information systems owned, operated and maintained by St. Paul Travelers Companies, Inc. The NAIC Exhibit C Questionnaire was completed by the Company and reviewed by the Division as part of our evaluation of the adequacy of the IS controls. No material deficiencies were noted.

The Company maintains its accounts and records on an electronic data processing basis. All entries are input to this data processing system, which then generates general ledger and supporting reports as well as other reports common to the insurance industry. The Company utilizes the services of an outside vendor, CGI, Inc. to process written premium and premium billing, and perform all statistical reporting required for all automobile insurance business in Massachusetts. CGI, Inc. annually undergoes a SAS-70 Type II audit, and the corresponding Report of General Controls was reviewed and relied upon where applicable. No exceptions were noted.

FINANCIAL STATEMENTS

The following financial statements reflect the assets, liabilities, capital and surplus as determined by our examination, showing the Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2005, together with a Statement of Income, Capital and Surplus for the year ended December 31, 2005, and a Reconciliation of Capital and Surplus for the Five Years Period ended December 31, 2005.

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and by the NAIC, as of December 31, 2005.

For Information Purposes Only

The Premier Insurance Company of Massachusetts
Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2005

	Per Company	Examination Changes	Per Examination
Assets			
Bonds	\$499,720,979	\$0	\$499,720,979
Preferred stocks	9,424,035		9,424,035
Common stocks	1,398,490		1,398,490
Cash and cash equivalents	13,478,852		13,478,852
Other invested assets	1,171,700		1,171,700
Investment income due and accrued	6,746,241		6,746,241
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	14,799,687		14,799,687
Deferred premiums, agents' balances and installments booked but deferred and not yet due	61,600,584		61,600,584
Reinsurance:			
Amounts recoverable from reinsurers	6,077,305		6,077,305
Net deferred tax asset	14,578,055		14,578,055
Electronic data processing equipment and software	19,250		19,250
 Total Assets	 \$629,015,178	 \$0	 \$629,015,178

The Premier Insurance Company of Massachusetts
HStatement of Assets, Liabilities, Surplus and Other Funds
HAs of December 31, 2005

	Per Company	Examination Changes	Notes	Per Examination
HLiabilities, Surplus and Other Funds				
H				
HLosses	\$141,609,674	\$0	1	\$141,609,674
HReinsurance payable on paid losses and loss adjustment				
H expenses	898,932			898,932
H Loss adjustment expenses	24,394,198		1	24,394,198
HCommissions payable, contingent commissions and				
H Other similar charges	10,771,962			10,771,962
HOther expenses (excluding taxes, licenses and fees)	2,239,406			2,239,406
HTaxes, licenses and fees (excluding federal and				
H foreign income taxes)	1,137,558			1,137,558
HCurrent federal and foreign income taxes	1,717,808			1,717,808
HUnearned premiums	154,817,830			154,817,830
HAdvance premiums	12,481,540			12,481,540
HCeded reinsurance premiums payable	3,313,801			3,313,801
HRemittances and items not allocated	702,687			702,687
HPayable to parent, subsidiaries and affiliates	2,657,133			2,657,133
HPayable for securities	37,300			37,300
H Total Liabilities	356,779,829			356,779,829
H				
HCommon capital stock	2,500,000			2,500,000
HGross paid in and contributed surplus	87,500,000			87,500,000
HUnassigned funds (surplus)	182,235,349			182,235,349
H Surplus as regards policyholders	272,235,349			272,235,349
H				
HTotal liabilities and policyholders surplus	\$629,015,178	\$0		\$629,015,178

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The Premier Insurance Company of Massachusetts
HHHStatement of Income, Capital and Surplus
HHHFor the Year Ended December 31, 2005

HHH	Per	Examination	Per
HHH	Company	Changes	Examination
HHHUnderwriting Income			
HHHPremiums earned	\$333,830,351	\$0	\$333,830,351
HHHDeductions:			
HHLosses incurred	118,472,867		118,472,867
HHLoss expenses incurred	26,236,526		26,236,526
HHOther underwriting expenses incurred	70,994,447		70,994,447
HHTotal underwriting deductions	215,703,840		215,703,840
HHNet underwriting gain or (loss)	118,126,511		118,126,511
HHInvestment Income:			
HHNet investment income earned	28,139,404		28,139,404
HHNet realized capital gains or (losses)	64,674		64,674
HHNet investment gain or (loss)	28,204,078		28,204,078
HHOther Income:			
HHNet gain (loss) from agents' or premium			
HH balances charged off	(1,027,127)		(1,027,127)
HHFinance and service charges not included			
HH in premiums	4,417,814		4,417,814
HHAggregate write-ins for miscellaneous income	1,999,598		1,999,598
HHTotal other income	5,390,285		5,390,285
HHNet income before dividends to policyholders			
HH and before federal income taxes	151,720,874		151,720,874
HHNet income after dividends to policyholders			
HH but before federal income taxes	151,720,874		151,720,874
HHFederal income taxes incurred	46,754,195		46,754,195
HHNet income	\$104,966,679		\$104,966,679
HHCapital and Surplus Account			
HHSurplus as regards policyholders,			
HH December 31 previous year	\$228,178,208		\$228,178,208
HHGains and (Losses) in Surplus			
HHNet income	104,966,679		104,966,679
HHChange in net unrealized capital gains (losses)	(486,971)		(486,971)
HHChange in net deferred income tax	(3,714,170)		(3,714,170)
HHChange in nonadmitted assets	3,291,603		3,291,603
HHDividends to stockholders	(60,000,000)		(60,000,000)
HHChange in surplus	44,057,141		44,057,141
HHSurplus as regards policyholders,			
HH December 31 current year	\$272,235,349	\$0	\$272,235,349

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The Premier Insurance Company of Massachusetts
HReconciliation of Capital and Surplus
HFor the Five Year Period Ended December 31, 2005

	2005	2004	2003	2002	2001
HSurplus as regards policyholders,					
H December 31 prior year	\$228,178,208	\$186,312,443	\$189,871,263	\$179,938,267	\$160,765,838
H					
HNet income (loss)	104,966,679	62,643,250	9,787,363	10,754,701	23,668,696
HChange in net unrealized capital gains (losses)	(486,971)	130,082	2,428,862	(2,610,434)	115,451
HChange in net deferred income taxes	(3,714,170)	(3,199,041)	2,339,262	3,807,018	1,533,883
HChange in nonadmitted assets	3,291,603	291,474	(114,307)	(2,018,289)	(143,605)
HCumulative effect of changes in accounting					
H principles	0	0	0	0	13,998,004
HDividends to stockholders	(60,000,000)	(18,000,000)	(18,000,000)	0	(20,000,000)
H					
HChange in surplus	44,057,141	41,865,765	(3,558,820)	9,932,996	19,172,429
H					
HSurplus as regards policyholders,					
H December 31 current year	<u>\$272,235,349</u>	<u>\$228,178,208</u>	<u>\$186,312,443</u>	<u>\$189,871,263</u>	<u>\$179,938,267</u>
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NOTES TO THE FINANCIAL STATEMENTS

Note 1: Loss and Loss Adjustment Expense Reserves

As noted in the forepart, the Division retained E&Y's Actuarial Services Group to review the analysis performed by the Company's appointed actuary, perform an independent analysis of the loss and LAE reserves carried by the Company, and render a statement of actuarial opinion on the reasonableness of the reserves carried by the Company as of December 31, 2005.

The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board. The review covered reserves both gross (direct and assumed) and net of ceded reinsurance. During the course of its analysis, E&Y used several accepted loss reserving methods and procedures to derive their reserve estimates and to construct its ranges.

The table below summarizes E&Y's reserve ranges, including E&Y's select point estimate and the Company's booked reserve estimates for both loss and loss adjustment expenses as of December 31, 2005. All amounts are shown in thousands.

Reserve Component	E&Y Estimates			Company Carried	Company Over/(Under)
	Low	High	Select		
Direct & Assumed	\$161,939	\$185,371	\$172,978	\$184,642	\$11,664
Net	\$154,295	\$170,069	\$161,907	\$166,004	\$4,097

Based on E&Y's review and analysis, the Company's reserves for loss and loss adjustment expenses, as reported in its December 31, 2005 annual statement, fall within a reasonable range of estimates.

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