THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DIVISION OF INSURANCE

REPORT OF EXAMINATION

OF THE

QUINCY MUTUAL FIRE INSURANCE COMPANY

QUINCY, MASSACHUSETTS

as of DECEMBER 31, 2009

N.A.I.C. GROUP CODE 1275

N.A.I.C. COMPANY CODE 15067

EMPLOYER ID NUMBER 04-1752900

TABLE OF CONTENTS

COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE
1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • http://www.mass.gov/doi

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS AND BUSINESS REGULATION

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

April 8, 2011

The Honorable Joseph Torti, III, Chairman,
NAIC Financial Condition (E) Committee
Deputy Director and Superintendent
of Insurance and Banking
The State of Rhode Island
Rhode Island Department of
Business Regulation
Division of Insurance Regulation
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920-4407

The Honorable Mila Kofman, Secretary
Northeast Zone, NAIC
Superintendent of Insurance
The State of Maine
Department of Professional
and Financial Regulation
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333-0034

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, Suite 810
Boston, Massachusetts 02118-6200

Commissioner Murphy and Superintendents Torti and Kofman:

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

QUINCY MUTUAL FIRE INSURANCE COMPANY

at its home office located at 57 Washington Street, Quincy, Massachusetts 02169. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Quincy 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 multi-state examination also was conducted by the Division and it covers the period from January 1, 2005, through December 31, 2009, 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 Division's statutory financial condition examination of New England Mutual Insurance Company ("NEMIC"), an affiliated mutual insurer within the Quincy Mutual Group. Further, this examination was conducted at the same time and in conjunction with the statutory financial condition examination made by the Maine Bureau of Insurance on Patrons Oxford Insurance Company ("POIC"), the Company's wholly-owned subsidiary in Auburn, Maine.

The examination was conducted in accordance with standards of the NAIC Financial Condition Examiners Handbook, with the examination standards of the Division, and with the General Laws of Massachusetts. This requires that the examination be planned and performed to evaluate the financial condition of the Company by obtaining information about the Company, including corporate governance, indentifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate the risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions. 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. Accounts and activities of the Company were considered in accordance with the risk-focused examination process. The principal focus of the examination was 2009 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

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 2009. 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, 2009.

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. The prior Report of

Examination noted no exception conditions and contained no adverse comments to which the Company would have to respond.

HISTORY

General

The Company was organized under the laws of the Commonwealth of Massachusetts in March 1851 and commenced business in May 1851. As a licensed property and casualty insurer, the Company writes personal and commercial insurance through a network of independent agents. In 1995, the Company organized Program Managers, Inc., later renamed Quincy Mid-Atlantic, Inc., to operate as a branch office of the Company writing commercial line products in New Jersey and Pennsylvania. In August 1996, the Company formed a holding company subsidiary, Quincy Investment Holding Corporation ("QIHC"), which subsequently purchased two insurance agencies. In December 1997, the Company acquired control of POIC by the acquisition of all of POIC's issued and outstanding capital stock.

In 2006, the Company invested $20.0 million in Guaranty Capital Shares of NEMIC. The Company, POIC, and NEMIC entered into a reinsurance pooling agreement whereby POIC and NEMIC cede to the Company all business arising out of their insurance operations; the Company then retains 96%, NEMIC assumes 3% and POIC assumes 1% of the total of such amounts and the Company's homeowners and private passenger automobile business.

The Company currently is licensed to conduct business in the following states: Massachusetts, New Jersey, Rhode Island, Connecticut, New York, New Hampshire, Pennsylvania, Maine, and Vermont; however, it does not actively write business in these latter two jurisdictions.

Growth of the Company

The growth of the Company for the years 2005 through 2009 is shown in the following schedule which was prepared from information in the Company's annual statements:

Year	Admitted Assets	Liabilities	Surplus	Gross Premiums Written
2009	$ 1,161,825,435	$ 452,760,482	$ 709,064,953	$ 292,857,779
2008	1,061,024,917	441,038,663	619,986,254	301,076,229
2007	1,277,573,525	518,027,003	759,546,522	313,784,369
2006	1,259,232,244	537,324,480	721,907,764	352,978,672
2005	1,156,673,782	522,880,202	633,793,580	363,486,150

Management

Annual Meeting

In accordance with the Bylaws, the Annual Meeting of the Company is held on the first Wednesday of February in each year. Ten Members of the Company constitute a quorum; a Member is each person or entity insured by the Company whose policy has not expired. Minutes document that a quorum was obtained at each annual meeting held in the examination period.

Board of Directors

The Bylaws 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 policyholder agreement. The Board of Directors shall consist of not fewer than seven or not more than twelve Directors with the number determined at each annual meeting by resolution of the policyholders or at a special meeting called for that purpose. A majority of Directors shall be residents of Massachusetts. As of each annual meeting, no less than half of the Board shall be Independent Directors (those who are not employed by the Company and who the Board shall determine have no material relationship with the Company).

The Directors are divided into four 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 for a four-year term or until successors are elected and qualified.

At December 31, 2009, the Board was composed of seven Directors, which is in compliance with the Company's Bylaws. The following is a list of Directors duly elected and serving at that date, with their business affiliation and residence addresses:

	Director	Business Affiliation	Residence
+ &	James Dudley Asher	President, Retired, Television and Radio Broadcasting Corp.	South Weymouth, Massachusetts
+	Karl Douglas Briggs	President and Chief Executive Officer, QMFIC	Hingham, Massachusetts
&	Alexander Gordon Clark	President, The Vulcan Company	Norwell, Massachusetts
+	Kevin Michael Meskell	Executive Vice President, QMFIC	Weymouth, Massachusetts
&	Arthur P. Murphy	Managing Partner, Murphy, Hesse, Toomey, and Lehane	Milton, Massachusetts
* &	James Walter MacAllen	Retired Investment Manager	Hingham, Massachusetts
+ &	John Michael Sheskey	Chief Executive Officer and Managing Director, Sheskey Architects	Hingham, Massachusetts

* Newly elected since prior examination.
\+ Also serves on the Board of POIC.
& Also serves on the Board of NEMIC.

The Bylaws specify that the February meeting of the Board of Directors shall be held on the same day as the annual meeting of the Company's Members; otherwise, they do not specify the number of meetings to be held during a year. The minutes indicated that a quorum was obtained for all meetings of the Board of Directors held during the examination period.

The Board of Directors appointed an Executive Committee, an Investment Committee, and an Audit Committee in accordance with the Bylaws. A description of the purpose and membership of each committee at December 31, 2009, follows.

Executive Committee

The Executive Committee is comprised of not less than three Directors who are Independent Directors, in addition to the Chairman of the Board and the President. The Executive Committee is empowered to act on behalf of the Board between meetings and is charged with the duty of general supervision between regular meetings of the Board over the business operations, financial affairs, and corporate governance of the Company. It reports to each meeting of the Board all deliberations and decisions it made since the last meeting of the Board. The Board of Directors shall annually appoint an Independent Director as Chairman of the Executive Committee, who shall be deemed for all purposes to be the Lead Director of the Company. Directors serving on this Committee at December 31, 2009, were as follow:

John M. Sheskey, Chairman
James D. Asher   K. Douglas Briggs   James W. MacAllen

Investment Committee

The Investment Committee is comprised of not less than three Directors in addition to the President and the Treasurer. It is empowered to act on behalf of the Board on matters involving the general supervision over the investment or loaning of funds of the Company. In addition to the powers specifically set forth in the Bylaws, the Investment Committee shall have such further powers and perform such other duties as the Board may from time to time prescribe. The Investment Committee shall report to each regular meeting of the Board all transactions carried out by the Committee since the last regular Board meeting. Directors and Officers serving on this Committee at December 31, 2009, were as follow:

James W. MacAllen, Chairman
Alexander G. Clark   John M. Sheskey
K. Douglas Briggs   Thomas A. Harris

Audit Committee

The Audit Committee is comprised of not less than three Directors, a majority of whom qualify as Independent Directors. The Chairman of the Audit Committee, who shall be an Independent Director, shall be elected annually by members of this Committee. The Audit Committee is empowered to act on behalf of the Board on matters concerning general supervision and oversight of corporate accounting, the financial reporting processes and internal control systems of the Company, and the quality and integrity of the Company's financial statements. It shall engage the Company's outside auditor, monitor its independence and performance, and meet privately as appropriate with the outside auditor; it is authorized to directly engage on the Company's behalf such accountants, counsel, or other professionals as it believes necessary and appropriate. In addition, it shall have such further powers and perform such other duties as the Board may from time to time prescribe. The Audit Committee shall meet not less than four times each fiscal year, shall report its activities as appropriate to the Board, and shall adopt a written charter. In October 2003, the Audit Committee updated its charter; previously, the Audit Committee had consisted of the entire Board of Directors but now consists of three Independent Directors. Directors serving on this Committee at December 31, 2009, were the following:

James D. Asher, Chairman
Arthur P. Murphy   Alexander G. Clark

Officers

The Bylaws of the Company provide that the officers of the Company shall be a President, a Treasurer, a Secretary, and such other officers as the Board of Directors deems necessary. Pursuant to the Bylaws, the officers of the Company are elected by the Board of Directors annually at the February meeting held on the same day as the annual meeting of the Company's Members; other officers may be chosen by the Directors at such meeting or at any other meeting. Vacancies among the offices may be filled and new offices may be created and filled by the Board of Directors or by the President to the extent authorized by the Board of Directors.

The elected and appointed officers and their respective titles at December 31, 2009, were the following:

	Name	Title
+	Karl Douglas Briggs, CPA, CPCU	President and Chief Executive Officer
+ *s*	Kevin Michael M[illegible]kell	Executive Vice President
	James Joseph M[illegible]an, Jr., Esq., CPCU, ARe	Senior Vice President, Secretary*, and General Counsel
	Thomas Arthur Harris	Senior Vice President and Treasurer
	Steven Harvey Briggs, AIC	Senior Vice President, Claims
	Harold Eugene Gerbis, Jr., CPCU	Vice President, Personal Lines Underwriting
	Mark Anthony Giuliani	Vice President, Information Systems
	Deborah Lusardi Pennisi	Vice President, Commercial Lines Underwriting
	Lu-Ann Robin Smith	Vice President, Human Resources
	Lisa Marie Schooley	Controller
*	Lisa Michelle Grealish, Esq.	Assistant Vice President, Claims and Executive Counsel
	Ann Marie Kendall	Assistant Vice President, Claims
	John Francis Murphy, Jr., AIC	Assistant Vice President, Claims

* Newly elected or promoted to office since prior examination.
\+ Also serves on the Board of POIC.
s Also serves as Secretary of POIC.

These Officers of the Company also serve in identical capacities as Officers of NEMIC. In addition to those listed above, John P. Tierney, FCAS, MAAA, joined the management team of the Company as Senior Vice President and Chief Actuary in July 2010.

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 disclosure to the Board of Directors 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 or director or responsible employee completes a questionnaire disclosing any material conflicts of interests. The completed questionnaires were reviewed and no discrepancies were noted to contradict the Company's response to the General Interrogatory reported in the Company's 2009 Annual Statement.

Corporate Records

Articles of Incorporation and Bylaws

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

Disaster Recovery and Business Continuity

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

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 Bylaws 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 on April 27, 2006, recorded that the prior Report of Examination was reviewed and accepted by the Board.

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

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

- The Company issued a Surplus Note of $50,000,000 on December 15, 2005. The Note has a 30-year term with quarterly interest payments that are adjustable to a fixed rate over LIBOR. Proceeds from the Note are invested in fixed income securities. The Note was issued to provide additional capital for protection against catastrophic events for the Group's policyholders.

- In 2006, a corporate reorganization changed the form of organization of Quincy Investment Holding Corporation, a wholly owned subsidiary of QMFIC, to a limited liability company, Quincy Investment Holdings, LLC ("QIH"). Of $23.3 million, QMFIC contributed capital of $17.5 million and approximately $5.8 million of its investments in limited liability companies with their underlying assets (real estate) to QIH. Investments in subsidiaries grew steadily throughout the period of examination such that, by December 31, 2009, QIH had direct sole ownership of eleven limited liability companies, indirect sole ownership of three others, and indirect but significant partial interests in three others.

- On October 1, 2006, the Company acquired control of the clean shell of NEMIC and the Company subsequently capitalized NEMIC with a $20 million investment in Guaranty Capital Shares which allow a Massachusetts domestic mutual company to raise capital while maintaining its mutual form as provided under Section 79 of MGL Chapter 175. NEMIC thus became affiliated with the Quincy Mutual Group and, beginning January 1, 2007, is a participant in the inter-affiliate reinsurance pooling agreement with the Company and POIC.

- The Company became a member of the Federal Home Loan Bank of Boston ("FHLB") in 2007. Membership offers the Company access to collateralized loans at favorable interest rates. Favorable loan terms have been used to leverage investments in real estate.

- The Company entered into a joint venture with Merrimack Mutual Fire Insurance Company ("MMFIC") in July 2008. The Company offered an agency contract to independent agents of MMFIC to write personal automobile business in Massachusetts. Automobile business produced through the agents of MMFIC is underwritten and serviced by the Company and a quota share reinsurance agreement exists between the Company and MMFIC to share in the results of this business.

- Over a twenty-four month period beginning October 1, 2009, the Company intends to discontinue operations in New Jersey and Pennsylvania. New Jersey automobile business was renewed through September 30, 2010, and the renewal rights to non-automobile New Jersey business effective after September 30, 2009, were sold to Franklin Mutual Insurance Company; consequently, total direct written premium for New Jersey fell $26.6 million (approximately 99.37%) in 2010. Pennsylvania business was renewed through April 2010.

- The Company has entered into a renewal rights arrangement with Narragansett Bay Insurance Company ("NBIC") whereby NBIC has the right to renew personal property business for specified Rhode Island agents beginning April 1, 2010. Subsequently, the Company's total direct written premium for Rhode Island decreased $5.4 million (approximately 26.73%) in 2010 and the Company anticipates a further decrease in 2011.

<u>Surplus Notes</u>

On May 12, 2004, the Company issued a floating rate (based on the three-month LIBOR rate) surplus note for $50.0 million with a maturity date of June 17, 2034. The note is unsecured and is subordinate to all present and future indebtedness of the Company, policy claims, and prior claims against the Company, as provided by Massachusetts General Laws. This was voted by the Company's Board of Directors and appropriate filings were made with the Division. Issuance was approved by the Commissioner of Insurance of the Commonwealth of Massachusetts ("Massachusetts Commissioner").

All payments of principal and interest are subject to the prior approval of the Massachusetts Commissioner. Interest on the note is scheduled to be paid quarterly in March, June, September, and December of each year, beginning on September 17, 2004, to holders of record in the preceding quarter.

On December 15, 2005, the Company also issued a floating rate (based on the three-month LIBOR rate) surplus note for $50.0 million with a maturity date of December 15, 2035. The note is unsecured and is subordinate to all present and future indebtedness of the Company, policy claims, and prior claims against the Company, as provided by Massachusetts General Laws. This was voted by the Company's Board of Directors and appropriate filings were made with the Division. Issuance was approved by the Massachusetts Commissioner. As before, all payments of principal and interest are subject to the prior approval of the Massachusetts Commissioner. Interest on the note is scheduled to be paid quarterly in March, June, September, and December of each year, beginning on March 15, 2006, to holders of record on the preceding quarter.

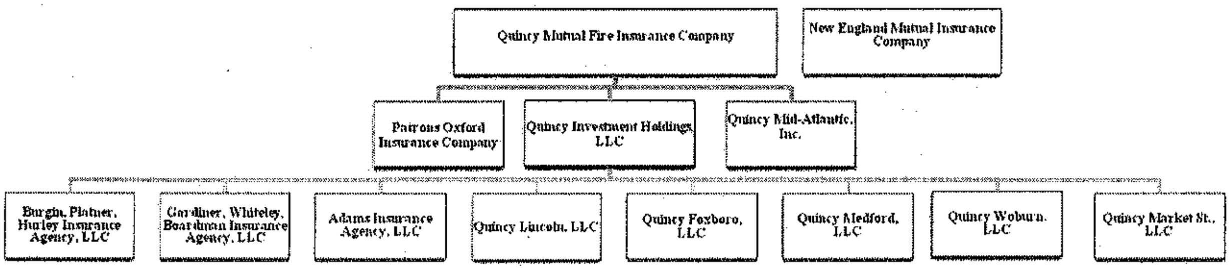
AFFILIATED COMPANIES

<u>Holding Company Filings</u>

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 Section 206C of MGL Chapter 175 and Regulation 211 CMR 7.00. The Company is the ultimate controlling party of the group consisting of twelve entities, including three insurance and nine non-insurance corporations.

<u>Organization Chart</u>

The corporate organization of entities held by the Company at December 31, 2009, is represented as follows:



In addition to the Company's wholly-owned subsidiaries displayed in the organization chart presented above, the Company had indirect ownership interests through QIH in the following nine limited liability companies at December 31, 2009:

Name of Entity		State of Formation	Percentage Owned
Quincy Chestnut Street, LLC		Massachusetts	100.0%
Quincy Andover, LLC		Massachusetts	100.0%
Minuteman General, LLC	*a*	Massachusetts	100.0%
Minuteman General Limited, LLC	*a*	Massachusetts	100.0%
Andover Rental Associates, LLC	*a*	Massachusetts	35.0%
Norfolk County Housing Initiatives, LLC		Massachusetts	100.0%
Morse Bay, LLC	*b*	Massachusetts	100.0%
Brickstone Sharon, LLC	*c*	Massachusetts	27.0%
Brickstone Sharon 2, LLC	*c*	Massachusetts	27.0%

a Subsidiary of Quincy Andover, LLC.
b Subsidiary of Norfolk County Housing Initiatives, LLC.
c Subsidiary of Morse Bay, LLC.

Additionally, the Company also has 1.3% interest in the Property and Casualty Initiative, LLC, in Massachusetts.

<u>Transactions and Agreements with Subsidiaries and Affiliates</u>

The three predominant cost-sharing agreements involving the Company are a management services agreement, a tax sharing agreement, and an inter-affiliate reinsurance pooling agreement. Each is described briefly in the following summary.

Management and Service Agreement

The Company provides certain accounting, management, and other services to its subsidiary, POIC, and to its affiliate, NEMIC. In consideration of such services, POIC and NEMIC agreed to pay the costs and expenses incurred by the Company relative thereto.

Cost Sharing Arrangement

The Company has an inter-affiliate reinsurance pooling arrangement with POIC and NEMIC whereby the Company assumes all of POIC's and NEMIC's business and then retrocedes to POIC and NEMIC a portion of such amounts combined with balances arising from its own homeowners and private passenger automobile business; by the percentages listed in the agreement, the Company retains 96%, NEMIC assumes 3%, and POIC assumes the remaining 1% of such combined business.

Tax Sharing Agreement

The Company participates in a written tax allocation agreement with its eligible subsidiaries. The allocation method is based upon the respective tax liability of each member computed as if a separate return were filed in accordance with the Internal Revenue Code. Inter-company balances are settled annually in the fourth quarter.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with Section 60 of MGL Chapter 175. 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, 2009.

PENSION AND INSURANCE PLANS

The Company has a non-contributory, qualified, defined benefit plan covering substantially all full-time employees. Further, covering substantially all full-time employees, the Company has a qualified defined contribution 401(k) and profit-sharing plan under which the Company partially matches voluntary contributions of employee compensation; in addition, the Board of Directors may approve a profit sharing and performance bonus of up to seven per cent of an employee's annual compensation. The Company also has a deferred compensation plan for directors and officers. The Company provides other post-retirement health care benefits for certain employees (and their spouses) who have retired from the Company and are not yet eligible for Medicare.

Company plans providing short and long term disability benefits, group accidental death and dismemberment insurance, contributory dental and medical coverage, and other health and life insurance benefits are offered to employees.

STATUTORY DEPOSITS

The statutory deposit of the Company as of December 31, 2009, is as follows:

Location	Description of Deposit	Par Value	Statement Value	Market Value
Massachusetts	US Treasury Bond 8.125% due 2021	$ 500,000	$ 576,115	$ 683,985

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. The Company's maximum retention limit, net of reinsurance, is $3.5 million per risk.

Territory and Plan of Operation

The Company is licensed to write business in the following states: Massachusetts, New Jersey, Rhode Island, Connecticut, New York, New Hampshire, Pennsylvania, Maine, and Vermont; however, it does not actively write business in these latter two jurisdictions. The Company's Certificates of Authority were current and in force.

The Company's principal lines of business are homeowners and automobile liability and physical damage provided to personal risks and motor vehicle, liability, and physical damage provided to commercial risks, through its appointed independent agents.

Treatment of Policyholders

Claim Settlement Practices

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

Dividends to Policyholders

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

REINSURANCE

In addition to participating in an inter-affiliate reinsurance pooling agreement, the Company has an extensive reinsurance program involving several reinsurers. The following briefly describes some of the major arrangements.

Inter-Affiliate Reinsurance Pooling Agreement

Effective January 1, 1998, the Company began to participate in an inter-company reinsurance pooling agreement with its subsidiary, POIC, whereby POIC ceded to the Company the premiums, incurred losses, loss adjustment expenses, and underwriting and administrative expenses of all policies issued or renewed after such effective date. The Company assumed these amounts and then retroceded to POIC one per cent of the total of such amounts and of similar amounts that arise from the Company's homeowners and private passenger automobile insurance business. Subsequently, after the Company's affiliation with the newly formed NEMIC, this agreement was modified to include NEMIC as a participant effective January 1, 2007. Per the amended agreement, POIC and NEMIC cede to the Company the premiums, incurred losses, loss adjustment expenses, and underwriting and administrative expenses of all policies issued or renewed after such effective date. The Company assumes these amounts and then retrocedes to POIC (at 1%) and NEMIC (at 3%) the specific, pre-agreed percentage of the total of such amounts and of similar amounts that arise from the Company's homeowners and private passenger automobile 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 but the Company is responsible for servicing and administering the business.

Aggregate balances for gross premiums associated with reinsurance transactions are presented in the summary below for each company at the examination dates listed.

GROSS PREMIUM	2009 QMFIC	2009 POIC	2009 NEMIC	2004 QMFIC	2004 POIC
Direct Business	$254,716,651	$31,231,769	$ 85	$308,601,647	$31,137,557
Reinsurance Assumed from:					
Affiliates	31,231,854	2,149,361	6,448,082	31,137,557	893,631
Non-Affiliates	6,909,274	-	-	10,539,708	-
Reinsurance Ceded to:					
Affiliates	8,597,444	31,231,769	85	1,893,631	1,137,557
Non-Affiliates	30,884,477	-	-	25,205,285	-
NET PREMIUM WRITTEN	$253,375,858	$ 2,149,361	$6,448,082	$323,179,996	$ 1,893,631

Assumed Reinsurance

Involuntary Pools

The Company participates in several involuntary pools and associations for property and motor vehicle risks of the states in which it is licensed. Among these is the residual market for motor vehicle insurance in Massachusetts, Commonwealth Automobile Reinsurers ("CAR"), which now operates on an assigned risk basis. The Company also accepts risks from property insurance underwriting associations (FAIR Plans) in Connecticut, New Jersey, and Rhode Island; business from FAIR Plans of Massachusetts and New York is booked as direct business.

Voluntary Pools

Under the umbrella organization of the Mutual Fire Insurance Association ("MFIA"), the Company participates in two voluntary pools to spread large and unusual risks among several companies. The Selected Insurance Risks ("SIR") Pool is used for commercial property risks in excess of $2.5 million; the SIR Pool went into run-off mode on June 30, 2009. The Associated Inland Marine ("AIM") Pool is used for all monoline inland marine risks.

Other Assumed Reinsurance

Beginning in 2009, the Company has established a relationship with two Lloyd's Syndicates that write world-wide property catastrophe reinsurance. Under the agreements, the Company accepts a fixed percentage of the specified business produced by these Syndicates.

<u>Ceded Reinsurance</u>

Involuntary Pool

The Company cedes some Massachusetts personal auto business to CAR and assumes back its share of the Pool as described above.

Voluntary Pools

The Company cedes to the SIR Pool and AIM Pool as described above.

Other Quota Share Ceded

The Company cedes 100% of its boiler and machinery business, net of expenses, and cedes 5% of subject Massachusetts personal auto business, net of expenses.

Excess of Loss

The Company maintains three separate excess of loss programs to protect against losses from large risks or events. A catastrophe excess of loss program protects the Company from a single event (typically hurricane) in excess of $100 million. A risk excess of loss treaty protects against individual umbrella losses in excess of $2.0 million and facultative reinsurance protects against individual commercial property losses in excess of $3.0 million.

ACCOUNTS AND RECORDS

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

The NAIC provides a questionnaire covering the evaluation of controls in the information systems environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the controls in the Company's information systems.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to annual statements and 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, 2009:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2009

Statement of Income for the Year Ended December 31, 2009

Reconciliation of Capital and Surplus for the Five-Year Period Ended December 31, 2009

Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2009

Assets	Per Company	Examination Changes	Per Examination	Notes
Bonds	$ 454,615,104	$ 0	$ 454,615,104	
Preferred stocks	5,261,387		5,261,387	
Common stocks	526,356,940		526,356,940	
Mortgage loans on real estate: First liens	21,102,813		21,102,813	
Properties occupied by the Company	10,000,000		10,000,000	
Cash, cash equivalents, and short-term investments	48,703,230		48,703,230	
Other invested assets	26,445,071		26,445,071	
Receivables for securities	1,983,159		1,983,159	
Subtotals, cash and invested assets	1,094,467,704		1,094,467,704	
Investment income due and accrued	5,637,111		5,637,111	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collection	5,195,426		5,195,426	
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	32,312,379		32,312,379	
Reinsurance: Amounts recoverable from reinsurers	1,717,966		1,717,966	
Electronic data processing equipment and software	116,525		116,525	
Receivable from subsidiaries and affiliates	244,623		244,623	
Aggregate write-ins for other than invested assets:				
Cash value of life insurance policies	1,966,523		1,966,523	
Equity in pools and associations	20,167,178		20,167,178	
Total Assets	$1,161,825,435	$ 0	$1,161,825,435	

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2009

Liabilities	Per Company	Examination Changes	Per Examination	Notes
Losses	$ 157,535,080	$ 0	$ 157,535,080	(2)
Reinsurance payable on paid losses and LAE	4,522,949		4,522,949	
Loss adjustment expenses	40,332,183		40,332,183	(2)
Commissions payable, contingent commissions, and other similar charges	8,817,202		8,817,202	
Other expenses	7,615,328		7,615,328	
Taxes, licenses, and fees	1,874,292		1,874,292	
Current federal and foreign income taxes	10,400,000		10,400,000	
Net deferred tax liability	42,301,671		42,301,671	
Borrowed money	21,664,573		21,664,573	
Unearned premiums	141,199,204		141,199,204	
Advance premium	5,221,220		5,221,220	
Ceded reinsurance premiums payable	566,664		566,664	
Funds held by Company under reinsurance treaties	2,246,253		2,246,253	
Amounts withheld or retained by Company for account of others	7,390,287		7,390,287	
Remittances and items not allocated	677,157		677,157	
Provision for reinsurance	377,000		377,000	
Payable for securities	202		202	
Aggregate write-in for liabilities: Miscellaneous accruals	19,217		19,217	
Total Liabilities	452,760,482	0	452,760,482	(1)
Surplus notes	100,000,000		100,000,000	
Unassigned funds (surplus)	609,064,953		609,064,953	
Surplus as regards policyholders	709,064,953	0	709,064,953	
Total Liabilities, Capital, and Surplus	$1,161,825,435	$ 0	$1,161,825,435	

Statement of Income
for the Year Ended December 31, 2009

	Per Company	Examination Changes	Per Examination	Note
Premiums earned	$ 259,903,277	$ 0	$ 259,903,277	
Deductions:				
Losses incurred	143,747,492		143,747,492	
Loss expenses incurred	22,411,339		22,411,339	
Other underwriting expenses incurred	97,051,472		97,051,472	
Total underwriting deductions	263,210,303	0	263,210,303	
Net underwriting gain	(3,307,026)	0	(3,307,026)	
Net investment income earned	27,257,122		27,257,122	
Net realized capital gains	22,294,510		22,294,510	
Net investment gain	49,551,632	0	49,551,632	
Net gain (loss) from agents' or premium balances charged off	(271,309)		(271,309)	
Finance and service charges not included in premiums	2,120,899		2,120,899	
Aggregate write-in for miscellaneous income:				
Interest expense on funds held under reinsurance treaties	(14,336)		(14,336)	
Total other income	1,835,254	0	1,835,254	
Net income before dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes	48,079,860		48,079,860	
Dividends to policyholders	-		-	
Net income, after dividends to policyholders, after capital gains tax, and before all other federal and foreign income taxes	48,079,860		48,079,860	
Federal and foreign income taxes incurred	4,068,003		4,068,003	
Net Income	$ 44,011,857	$ 0	$ 44,011,857	

Reconciliation of Capital and Surplus
for Each Year in the Five Year Period Ended December 31, 2009

	2009	2008	2007	2006	2005
Surplus as regards policyholders as of December 31, prior year	$ 619,986,254	$ 759,546,522	$ 721,907,764	$ 633,793,581	[illegible]
Net income	44,011,857	(40,373,258)	39,306,537	48,921,385	60,326,390
Change in net unrealized capital gains or (losses)	46,507,368	(103,302,631)	(1,464,962)	[illegible]	(7,886,355)
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-	[illegible]	(368,872)
Change in net deferred income tax	(3,096,899)	7,738,351	720,269	(1,727,226)	2,826,197
Change in non-admitted assets	(1,819,670)	(568,057)	(816,716)	841,264	(3,301,142)
Change in provision for reinsurance	145,750	275,620	[illegible]	52,953	(315,953)
Change in surplus notes	-	-		-	50,000,000
Aggregate write-in for gains and losses in surplus:					
Change in pension additional minimum liability	3,330,293	[illegible]	-	620,479	(620,479)
Net change in surplus as regards policyholders for the year	89,078,699	[illegible]	37,638,758	88,114,183	100,659,786
Surplus as regards policyholders as of December 31, current year	[illegible]	$ 619,986,254	$ 759,546,522	$ 721,907,764	$ 633,793,581

NOTES TO FINANCIAL STATEMENTS

NOTE 1

LIABILITIES

As of December 31, 2009, the Company reported total liabilities amounting to $452,760,482.

In the normal course of business, the Company has been involved in litigation from time to time with insureds, claimants, and others. In the opinion of the Company, its ultimate liability, if any, associated with lawsuits arising from or related to insurance claims would not have a materially adverse financial effect upon the Company that could not be addressed through its usual business operations. Company officers indicated that they were not aware of any material contingent liabilities not already addressed. Consequently, other than allowances potentially inherent in prudent reserving methodologies for contract benefits and claim expenses, the Company has not maintained additional reserves to cover contingent liabilities.

NOTE 2:

Losses	$ 157,535,080
Loss Adjustment Expenses	$ 40,332,183

The Company's Board of Directors appointed as its actuary a consulting actuary with the firm of PwC to render a Statement of Actuarial Opinion as of December 31, 2009, on the Company's loss and loss adjustment expense reserves. Among the items in the Statement of Actuarial Opinion, the appointed actuary specifically listed the following amounts:

Actuarial Reserve Items for the Company as of December 31, 2009

	Net	Direct and Assumed
Reserve for Unpaid Losses	$ 157,535,080	$ 163,652,000
Reserve for Unpaid Loss Adjustment Expenses	40,332,183	41,020,000

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

a. meet the requirements of the insurance law of Massachusetts,
b. are consistent with reserves computed in accordance with generally accepted actuarial standards and principles,
c. make a reasonable provision for all unpaid loss and loss adjustment expense obligations and unearned premium reserves on long duration contracts of the Company under the terms of its contracts and agreements.

As part of the examination, the Division engaged the consulting actuarial services of KPMG, LLP. The consulting actuaries for the Division reviewed the analyses performed by the Company's appointed actuary, performed an independent analysis of the loss and loss adjustment expense reserves carried by the Company, NEMIC, and POIC, such review conducted separately on each insurer, and rendered an actuarial opinion on the reasonableness of the reserves carried by each insurer as of December 31, 2009.

KPMG reported that as of December 31, 2009, the Company recorded statutory-basis loss and loss adjustment expense reserves, gross of reinsurance recoverables, of $204.7 million. Based on its own independent review, KPMG estimated the Company's gross loss and loss adjustment expense liabilities as of December 31, 2009, at $202.2 million, with a range of reasonable gross loss and loss adjustment expense reserves which spans from a low of $186.9 million to a high of $217.1 million. In the opinion of KPMG, the gross loss and loss adjustment expense reserves carried by the Company as of December 31, 2009, make a reasonable provision for the unpaid loss and loss adjustment expense obligations of the Company as of that date.

KPMG reported that as of December 31, 2009, the Company recorded statutory-basis loss and loss adjustment expense reserves, net of reinsurance recoverables, of $197.9 million. Based on its own independent review, KPMG estimated the Company's net loss and loss adjustment expense liabilities as of December 31, 2009, at $194.6 million, with a range of reasonable net loss and loss adjustment expense reserves which spans from a low of $179.8 million to a high of $208.9 million. In the opinion of KPMG, the net loss and loss adjustment expense reserves carried by the Company as of December 31, 2009, make a reasonable provision for the unpaid loss and loss adjustment expense obligations of the Company as of that date.

The following table summarizes KPMG's reserve ranges, KPMG's actuarial central reserve estimates, and the Company's carried loss and loss adjustment expense reserves as of December 31, 2009, for each reserve category.

Loss and Loss Adjustment Expense Reserve as of December 31, 2009

(000 omitted) Reserve Category	KPMG Indicated Estimates Low	Selected	High	Company Carried
Gross Loss Reserves	$ 151,372	$ 164,265	$ 176,862	$ 163,652
Gross D&CCE Reserves *	26,152	27,389	28,565	26,549
Gross A&OE Reserves #	9,331	10,515	11,651	14,471
Total Gross Reserves	$ 186,856	$ 202,169	$ 217,078	$ 204,672
Net Loss Reserves	$ 144,989	$ 157,332	$ 169,414	$ 157,535
Net D&CCE Reserves *	25,719	26,946	28,112	26,152
Net A&OE Reserves #	9,133	10,292	11,407	14,180
Total Net Reserves	$ 179,841	$ 194,570	$ 208,933	$ 197,867

* D&CCE Reserves = Defense and Cost Containment Expense Reserves
\# A&OE Reserves = Adjusting and Other Expense Reserves

KPMG noted that the Company's loss and loss adjustment expense reserves as of December 31, 2009, are stated gross of salvage and subrogation recoverables and gross of expected interest income associated with the time value of money. KPMG's estimates of the unpaid loss and loss adjustment expenses as of December 31, 2009, were developed in accordance with Actuarial Standards of Practice promulgated by the Actuarial Standards Board. In the course of review, KPMG used several accepted loss reserving methods and procedures to derive estimates of unpaid loss and loss adjustment expense liability and to construct ranges. KPMG gave consideration to the relative strengths and weaknesses of each of the methods in deriving its actuarial central estimate of the liability (*i.e.*, an expected value over a range of reasonably possible outcomes); the terms "selected" and "selection" should be interpreted to reflect the actuarial central estimates. KPMG noted that the range of reasonable reserve estimates reflects a range of actuarial estimates that were derived using alternative methodologies and parameter assumptions that are either more optimistic or more pessimistic than those underlying the actuarial central estimate but that KPMG considers reasonable for financial reporting purposes.

In its Report, KPMG similarly detailed the reserve positions of NEMIC and POIC for loss and loss adjustment expense liabilities as of December 31, 2009. Whereas KPMG demonstrated that the Company's reserve position was conservative and that participation in the inter-affiliate reinsurance pooling agreement had distribution percentages of 96% for the Company, 3% for NEMIC, and 1% for POIC, summaries of KPMG's analyses for NEMIC and POIC are not presented in this Report.

ACKNOWLEDGMENT

The undersigned examiners gratefully acknowledge the participation of Massachusetts Insurance Examiner II Linh La, CFE, in this examination.

The examiners hereby express their appreciation to the officers and staff of the Company for their courteous cooperation throughout the examination.

Respectfully submitted,

Richard Looney, AFE, CIE
Examiner-in-Charge
Massachusetts Division of Insurance

Robert Dynan, AFE
Supervising Examiner
Massachusetts Division of Insurance

John Turchi, CFE, CPCU
Deputy Commissioner, Field Examinations and Chief Administrative Examiner
Massachusetts Division of Insurance