

STATE OF CONNECTICUT
INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Anne Melissa Dowling, Deputy Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of MIDDLESEX MUTUAL ASSURANCE COMPANY (the "Company") as of December 31, 2011, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions, **TO WIT:**

1. I, Anne Melissa Dowling, Deputy Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes (C.G.S.).
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On April 19, 2013, the verified Report of the Company was filed with the Connecticut Insurance Department.
4. In accordance with C.G.S. §38a-14(e)(3), the Company was afforded a period of thirty (30) days within which to submit to the Connecticut Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On May 7, 2013, the Company notified the Department of certain responses and comments relating to matters contained in the Report.
6. Following review of the Report, it was deemed necessary and appropriate to modify the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

NOW, THEREFORE, it is ordered as follows:

1. That the Report of the Company hereby is adopted as filed with the Insurance Department.
2. That the Company shall comply with all of the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the C.G.S.

Dated at Hartford, Connecticut, this 20th day of May, 2013.

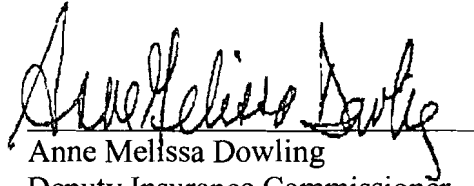

Anne Melissa Dowling
Deputy Insurance Commissioner

Exhibit A

EXAMINATION REPORT

OF THE

MIDDLESEX MUTUAL ASSURANCE COMPANY

AS OF

DECEMBER 31, 2011

BY THE

CONNECTICUT INSURANCE DEPARTMENT

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March 28, 2013

The Honorable Thomas B. Leonardi
Insurance Commissioner
State of Connecticut Insurance Department
153 Market Street, 6th Floor
Hartford, Connecticut 06103

Dear Commissioner Leonardi:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the Connecticut General Statutes (CGS), the undersigned has made a financial examination of the financial condition and affairs of

MIDDLESEX MUTUAL ASSURANCE COMPANY

(hereinafter referred to as the Company or MMAC), a mutual insurance corporation, incorporated under the laws of the State of Connecticut and having its statutory home office and main administrative office located at 213 Court Street, Middletown, Connecticut. The report on such examination is submitted herewith.

SCOPE OF EXAMINATION

The previous examination of the Company was conducted as of December 31, 2006. The current examination which covers the subsequent five-year period was conducted at the Company's statutory home office.

As part of the examination planning procedures, the Financial Regulation Division of the Connecticut Insurance Department (the Department) reviewed the following materials submitted by the Company:

- Board of Directors (Board) minutes from 2007 through the latest 2012 meeting;
- Statutory audit reports from 2007 through 2011 completed by the Company's independent certified public accountants, Ernst & Young, LLP (E&Y);
- Management's Discussion and Analysis from 2007 through 2011;
- Statements of Actuarial Opinion from 2007 through 2011;
- Annual Statements filed with the Department;
- Reports from the Company's Internal Audit Department.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department, reports from the National Association of Insurance Commissioners (NAIC) database, as well as the independent audit reports which indicated no material concerns with respect to financial condition or regulatory compliance issues.

MIDDLESEX MUTUAL ASSURANCE COMPANY

Work papers prepared by E&Y in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

The Department contracted with Regulatory Examination Consultants, LLC (REC), for accounting services.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (the Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management compliance with the NAIC Accounting Practices & Procedures Manual (Manual) and the NAIC Property and Casualty Annual Statement Instructions (Instructions).

Coordinated examinations were made of the following non-Connecticut domestic property and casualty companies within the COUNTRY Financial group of companies (the Group):

COUNTRY Mutual Insurance Company	Illinois
COUNTRY Casualty Insurance Company	Illinois
COUNTRY Preferred Insurance Company	Illinois
Cotton States Mutual Insurance Company	Georgia
Holyoke Mutual Insurance Company in Salem	Massachusetts
Modern Service Insurance Company	Illinois
MSI Preferred Insurance Company	Illinois
Shield Insurance Company	Georgia

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

HISTORY

The Company's charter, granted by the Connecticut General Assembly (CGA) in May 1836, empowered it to write fire, marine casualty, liability, indemnity, and fidelity insurance. A special act of the 1955 CGA amended the Company's charter and broadened its authority to engage in multiple line underwriting.

Pursuant to a capital contribution on April 28, 1969, the Company incorporated Midfield Corporation (Midfield), a full service commercial real estate leasing and management company. The Company owns

MIDDLESEX MUTUAL ASSURANCE COMPANY

all of the issued and outstanding common capital stock of Midfield, consisting of 2,500 shares of \$10 per share par value common stock.

During 1998, the Company formed an alliance with COUNTRY Mutual Insurance Company (CMIC), a mutual property and casualty insurance company located in Bloomington, Illinois.

The Company and its affiliates – CMIC, Holyoke Mutual Insurance Company in Salem (HMIC), Cotton States Mutual Insurance Company (CSM), COUNTRY Casualty Insurance Company, COUNTRY Preferred Insurance Company, Modern Service Insurance Company, MSI Preferred Insurance Company (MSI Preferred), and Shield Insurance Company – participate in an intercompany reinsurance pool (the Pool), whereby, each participant cedes 100% of its direct and assumed insurance business to CMIC.

Amounts are then retroceded from CMIC to the Company, HMIC, and CSM based upon their respective participation percentage.

In 2011, each member's participation in the Pool is as follows:

COUNTRY Mutual Insurance Company (lead company)	87.19 %
Middlesex Mutual Assurance Company	4.52 %
Holyoke Mutual Insurance Company in Salem	3.94 %
Cotton State Mutual Insurance Company	4.35 %

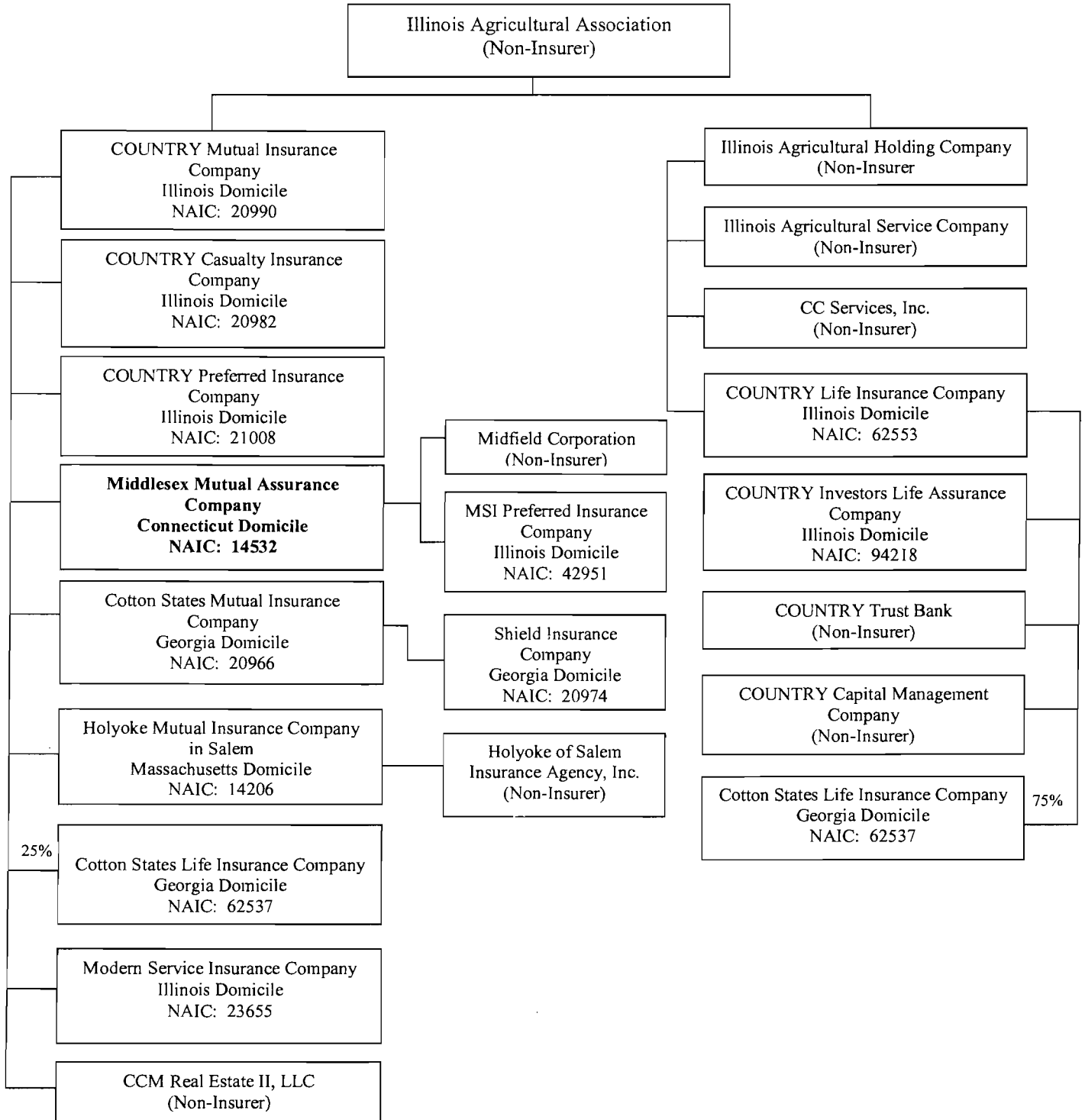
Prior to the distribution of business to each pool participant, the lead company cedes risks to non-affiliated reinsurers under property and auto catastrophe reinsurance agreements and a terrorism property catastrophe reinsurance agreement.

Certain participants make cessions to non-affiliated reinsurers prior to the cession of pooled business to the lead company. The pool participant retains the contractual right of direct recovery from these reinsurance contracts. Accordingly, the pool participant establishes a provision for reinsurance and assumes all credit risk related to uncollectible reinsurance balances.

MIDDLESEX MUTUAL ASSURANCE COMPANY

ORGANIZATIONAL CHART

The following organizational chart represents the identities of, and the interrelationship between, the Company and its subsidiaries and affiliate companies within the CMIC alliance as of December 31, 2011:



MIDDLESEX MUTUAL ASSURANCE COMPANY

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system, as defined in Sections 38a-138.1 to 38a-138.1b of the Connecticut Insurance Regulations and 38a-135 of the CGS.

The charter states, “the Corporation is empowered to do a fire, marine, casualty, liability, indemnity and fidelity insurance and other business or type of business not prohibited to domestic property and casualty insurance companies by the laws of Connecticut; and the Corporation is specifically empowered to accept and to cede reinsurance of any risks or hazards. The Corporation may exercise said powers outside Connecticut and outside of the United States. Policies and other contracts may be issued with or without seal.” The charter prescribes a mutual form of organization and empowers the Board to declare and pay dividends to policyholders.

The principal corporate office shall be in Middletown, Connecticut or such other town or city in Connecticut as the Company may decide; and the Company may continue, establish and maintain other offices and agencies in Connecticut and elsewhere.

The bylaws, as amended and restated on March 13, 2006, state that annual and all other meetings of members are to be held at the Company’s principal office. They permit the meeting of the members to be held at any time and date at the discretion of the Board.

CMIC maintains control of the Company through its control of a majority of the Board members. Certain officers of CMIC constitute a majority of the members of the Board and the Board Governance Committee (Governance Committee).

Annual Policyholder Meetings

The purpose of the annual meeting of the policyholders includes the election of directors for the ensuing year and the transaction of any other business that may come before the meeting. Irrespective of the number and amount of policies held, a policyholder is entitled to one vote on each matter submitted to a vote at a meeting of the policyholders. The numerical majority of the policyholders entitled to vote, either present in person or by proxy, constitutes a quorum.

Special meetings of the policyholders may be called for any purpose by the chairman or by a majority of the directors. The business transacted at any special meeting is limited to general purposes stated in the notice thereof.

Board of Directors

The Company’s bylaws state that the business and property of the Company shall be conducted and managed by the Board. The number of directors shall be no less than eight nor more than fourteen.

Actions of the Board shall be by majority vote of the directors present.

MIDDLESEX MUTUAL ASSURANCE COMPANY

Members of the Board serving the Company at December 31, 2011, were:

<u>Director</u>	<u>Title and Principal Business Affiliation</u>
Barbara Baurer	Executive Vice President & Chief Operating Officer COUNTRY Financial
John Blackburn	Chief Executive Officer COUNTRY Financial
Steven Denault	Senior Vice President of Human Resources & Communications COUNTRY Financial
Alice Griffin	President Griffin Pension Services, Inc.
James Jacobs	General Counsel, Secretary & Chief Legal Officer COUNTRY Financial
Caleb Loring III	Private Trustee The 1911 Trust Company
David Magers	Executive Vice President & Chief Financial Officer COUNTRY Financial
Robert Parker	Dean Georgetown University
Doyle Williams	Executive Vice President & Chief Marketing Officer COUNTRY Financial
Peter Wood	Retired

Officers

According to the bylaws, the officers of the Company shall be a Chairman of the Board (Chairman), president, vice chairman, chief executive officer, one or more vice presidents, secretary, treasurer and general counsel, each of whom shall be elected by the Board. The Board may also elect or authorize the appointment of such other officers as the business of the Company may require.

The Chairman, president, vice chairman, chief executive officer, treasurer, secretary and general counsel of the Company shall be elected annually by the Board.

MIDDLESEX MUTUAL ASSURANCE COMPANY

Senior officers of the Company, as of December 31, 2011, as elected by the Board were:

<u>Officer</u>	<u>Title</u>
John Blackburn	Chairman
Gary Vallo	Chief Executive Officer
Barbara Baurer	President & Vice Chairman
James Jacobs	Secretary & Chief Legal Officer
David Magers	Executive Vice President & Chief Financial Officer
Ronald Pridgeon	Vice President & Corporate Property/Casualty Actuary
Steven Denault	Senior Vice President
Alan Dodds	Treasurer
Peter Dunn	Senior Vice President, Alternative Distribution and National Marketing
Paul Federico	Senior Vice President, Sales and Marketing
Thomas Ford	Senior Vice President, Real Estate
William George, Jr.	Executive Vice President, Chief Sales & Marketing Officer
Peter Kasper	Senior Vice President, Commercial Lines Sales and Marketing
Robert Mueller	Executive Vice President, Chief Strategic Planning & Underwriting Officer
Kevin Reardon	Executive Vice President, Chief Claims & Service Officer
Alan Reiss	Senior Vice President, Service Operations
Greg Scruton	Senior Vice President, Actuarial & Assistant Treasurer
Anne Marie Tarryk	Senior Vice President, Distributed Technology

MIDDLESEX MUTUAL ASSURANCE COMPANY

Doyle Williams

Executive Vice President

Suzanne Wilson

Senior Vice President, Human Resources

Committees

The Board may, at any meeting at which a quorum is present, designate two or more directors to constitute a standing or special committee. Such committees shall have and may exercise such powers of the Board and be subject to such limitations as shall be provided by resolution of the Board and in the bylaws. The chairmen of special committees shall be elected by the Board. The Chairman shall have the power at any time to change the members of the committees of the Board, may fill vacancies on such committees and may discharge special committees, all subject to the approval of the Board and the provisions of the bylaws.

The Company shall have three standing committees.

- Investment
- Audit
- Governance

It also may have such other standing committees as may be duly designated. Members of standing committees shall be appointed each year by the Chairman and be approved at the organizational meeting of the Board. The Chairman shall be the chair of all standing committees.

Investment Committee

The Investment Committee shall exercise all powers of the Board relating to investments and loans of the Company made in the ordinary course of business and to the investment of assets of employee retirement and deferred compensation plans. It shall review the Company's cash flow projections, liquidity positions and statements of major real estate investments. The Investment Committee shall be comprised of the Chairman and two directors appointed by the Chairman.

Audit Committee

The Audit Committee shall annually recommend to the Board a firm of independent public accountants to audit the affairs and books of the Company and its subsidiaries. The Audit Committee shall meet with the independent auditors before the commencement of the audit to discuss the evaluation by the independent auditors of the adequacy and effectiveness of the accounting procedures and internal controls of the Company and its subsidiaries. The Audit Committee shall be comprised of the Chairman and two directors appointed by the Chairman.

Governance Committee

The Governance Committee shall recommend persons to be elected as directors of the Company, and all invitations to stand for election to the Board shall only be extended by the Board after action upon such

MIDDLESEX MUTUAL ASSURANCE COMPANY

committee recommendation. It shall review directors' performance and attendance at Board and committee meetings. It shall recommend to the Board the nature and amount of any and all fees, retainers and other forms of compensation for the directors of the Company. It shall be comprised of the Chairman and two directors appointed by the Chairman.

RELATED PARTY TRANSACTIONS

Tax Allocation Agreement

The Company is included in a consolidated federal income tax return with its wholly owned subsidiaries, MSI Preferred and Midfield. The written agreement, approved by the Company's Board, sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidated return. Pursuant to this agreement, the provision for federal income taxes is recorded based on amounts expected to be reported as if the Company filed a separate federal income tax return, adjusted for the benefit of any MSI Preferred or Midfield loss the companies are unable to utilize on a separate return basis. Intercompany tax balances are settled in the same year the consolidated tax return is filed.

Service Agreement

The Company is a party to a service agreement with CC Services, Inc. (CC Services), an affiliate whereby CC Services provides management and operational services required to run its business, market its products, and service its policyholders. Expenses incurred by CC Services are then shared among the Company and other members of the insurance holding company group on a basis that is fair and consistently applied according to statutory accounting guidance.

MMAC is a party to a service agreement with HMIC whereby the Company provides management and operational services required to run its business, market its products, and service its policyholders. Expenses incurred are then shared among MMAC, HMIC, and other members of the insurance holding company group on a basis that is fair and consistently applied according to statutory accounting guidance.

INSURANCE COVERAGE

The Company, its subsidiaries and affiliate alliance member companies are insured on a financial institution blanket fidelity policy with the Federal Insurance Company. The policy has a single loss limit of liability per occurrence of \$10 million with a \$100,000 deductible; excess coverage is provided in the aggregate. The aggregate limit of liability is greater than the prescribed minimum set forth by the NAIC's schedule of suggested minimum amounts of fidelity insurance.

The Company, its subsidiaries and affiliate alliance member companies also have a directors and officers' liability policy to protect against wrongful acts on a pre-occurrence basis and in the aggregate.

The Company is a named insured on a series of additional master policies with its subsidiaries and affiliates for the following lines and with the respective companies:

MIDDLESEX MUTUAL ASSURANCE COMPANY

<u>Company</u>	<u>Coverage</u>
Valley Forge Insurance Company	Property damage
Valley Forge Insurance Company	General liability
National Fire Insurance Company of Hartford	Workers' compensation
Ironshore Specialty Insurance Company	Management protection
Valley Forge Insurance Company (All states except MA)	Commercial automobile
Valley Continental Casualty Company (MA only)	Commercial automobile
Federal Insurance Company	Cyber security liability
Fireman's Fund Insurance Companies	Excess liability policy

TERRITORY AND PLAN OF OPERATION

The Company is licensed in nineteen states and the District of Columbia. The states of Connecticut, Maine, and Massachusetts accounted for 70% of all direct written premiums during 2011.

The Company's strategic focus is on underwriting commercial habitational business where the Company has experienced recent growth, especially outside of New England in keeping with its diversified strategy.

The Company's products are written through a diversified distribution network comprised of approximately 200 independent agents.

REINSURANCE

Affiliated Reinsurance

On November 7, 1997, the Company entered into a quota share "Reinsurance and Pooling Agreement" with CMIC, effective January 1, 1998, whereby the Company cedes 100% of its direct and assumed business, net of third party external reinsurance, to CMIC. The total pool of business is then redistributed by CMIC to the various participants based on pre-determined percentages. Each cedent and reinsurer is liable to the other for its respective quota share of written premiums, unearned premiums, paid losses and loss adjustment expenses, loss and loss adjustment expense reserves, commissions, dividends, service charges, and other underwriting expenses resulting from business assumed from one and ceded to the other. Accounts between CMIC and the Company and the other Pool members are to be settled within 30 days of the end of each month.

Accident year results for the period January 1, 1998, and forward are treated as prospective reinsurance for purposes of statutory accounting, while activity relating to the accident year reserve balances prior to 1998 is afforded retroactive reinsurance accounting treatment in accordance with Statement of Statutory Accounting Principles (SSAP) 62R.

Assumed Reinsurance

In addition to the Company's participation in the Pool, it also assumes business from participation in several mandatory reinsurance assigned risk pools, each being established by statute in the applicable states in which the Company is licensed to write business.

MIDDLESEX MUTUAL ASSURANCE COMPANY

Ceded Reinsurance

The Company maintains a variety of property reinsurance agreements with American Agriculture Insurance Company on a surplus share, excess of loss, catastrophe, aggregate catastrophe, and excess of loss over other protection basis.

The Company participates with Factory Mutual Insurance Company in a 100% quota share agreement with a \$25 million limit for any one accident, for equipment breakdown liability coverage.

The Company is a participant in the United States government's sponsored National Flood Insurance Program.

INFORMATION TECHNOLOGY (IT) CONTROLS

A risk-focused assessment and review of the Company's IT general controls in accordance with NAIC requirements as outlined in the Handbook was performed. The guidance and direction used to perform the review of the Company's IT general controls was derived from Exhibit C Part 1 - Information Technology Planning Questionnaire (ITPQ) and Exhibit C Part 2 Information Technology Work Program. The Company's responses to the ITPQ were evaluated and certain controls within the IT control environment were tested to assess whether the selected controls were designed effectively and were functioning properly.

The objectives of this review were to determine that Information System (IS) resources align with the Company's objectives and to ensure that significant risks (strategic, operational, reporting and compliance) arising out of its IT environment were appropriately mitigated by strategies and controls as outlined in the Handbook's Exhibit C Part 2 - Evaluation of Controls in Information Technology Work Program.

The objectives above were achieved through a combination of reviewing the Company's policies and procedures, testing in key areas related to the Exhibit C Parts 1 and 2, interviewing the Company's IT senior management at the Company, reviewing IT risk assessment processes, and leveraging the risk assessment procedures performed by Company.

Based on the scope of the IS examination, it appears that the Company has effective risk mitigation strategies/internal controls in place related to IT controls. This conclusion is based on the existence and application of the Company's policies and procedures in key areas related to Exhibit C, as well as effective risk assessment processes that were in place during the period under examination.

ACCOUNTS AND RECORDS

The Company utilizes the Lawson General Ledger Accounting System (Lawson) within a local area network maintained by CMIC. Security controls within Lawson limit access to the general ledger data, based on user function. Accounting transactions are summarized within the Data Warehouse System files at the Company and are uploaded to Lawson monthly. Additionally, accounting entries are also recorded directly to Lawson through manual and automated journal entries.

MIDDLESEX MUTUAL ASSURANCE COMPANY

Lawson produces an automated trial balance, general journal report and a general ledger activity detail report on a monthly basis.

The Company uses Eagle Technology Management – WINGS as its annual statement software package to produce its statutory annual statement.

Detail analyses were performed on individual general ledger accounts throughout the examination.

The 2011 year-end trial balance was reconciled without exception, to the 2011 Annual Statement.

MIDDLESEX MUTUAL ASSURANCE COMPANY

FINANCIAL STATEMENTS

The following statements reflect the Company's financial position, as filed by the Company and as determined by this examination as of December 31, 2011:

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$113,770,075		\$113,770,075
Common stocks	49,221,457		49,221,457
Real estate:			
Properties held for the production of income	665,419		665,419
Cash, cash equivalents and short-term investments	7,987,720		7,987,720
Investment income due and accrued	1,038,633		1,038,633
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	15,278,853	\$388,603	14,890,250
Deferred premiums, agents' balances and installments booked but deferred and not yet due	74,485,019		74,485,019
Reinsurance:			
Amounts recoverable from reinsurers	15,368,974		15,368,974
Funds held by or deposited with reinsured companies	1,734,295		1,734,295
Net deferred tax asset	13,486,588	4,557,027	8,929,561
Guaranty funds receivable or on deposit	141,407		141,407
Electronic data processing equipment and software	271,423	10,477	260,946
Furniture and equipment, including health care delivery assets	2,466,810	2,466,810	0
Receivables from parent, subsidiaries and affiliates	3,243,345	52,866	3,190,479
Aggregate write-ins for other than invested assets	<u>22,907,535</u>	<u>19,656,430</u>	<u>3,251,105</u>
Total	<u>\$322,067,553</u>	<u>\$27,132,213</u>	<u>\$294,935,340</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$45,694,178
Reinsurance payable on paid losses and loss adjustment expenses	5,861,407
Loss adjustment expenses	8,167,962
Commissions payable, contingent commissions and other similar charges	4,176,475
Other expenses (excluding taxes, licenses and fees)	1,812,070
Taxes, licenses and fees (excluding federal and foreign income taxes)	654,250
Current federal and foreign income taxes	231,225
Unearned premiums	36,571,389
Advance premium	1,225,326
Ceded reinsurance premiums payable	83,452,975
Funds held by company under reinsurance treaties	207,862
Amounts withheld or retained by company for account of others	98,437
Payable to parent, subsidiaries and affiliates	1,799,249
Aggregate write-ins for liabilities	<u>7,992,764</u>
Total liabilities	<u>\$197,945,569</u>
Aggregate write-ins for special surplus funds	5,289,218
Surplus notes	50,000,000
Unassigned funds (surplus)	<u>41,700,553</u>
Surplus as regards policyholders	<u>96,989,771</u>
Total	<u>\$294,935,340</u>

MIDDLESEX MUTUAL ASSURANCE COMPANY

STATEMENT OF INCOME

UNDERWRITING INCOME		
Premiums earned		<u>\$95,430,529</u>
DEDUCTIONS		
Losses incurred		72,149,577
Loss adjustment expenses incurred		9,607,723
Other underwriting expenses incurred		<u>28,889,602</u>
Total underwriting deductions		<u>110,646,902</u>
Net underwriting gain or (loss)		<u>(15,216,373)</u>
INVESTMENT INCOME		
Net investment income earned		2,978,634
Net realized capital gains or (losses)		<u>846,770</u>
Net investment gain (loss)		<u>3,825,404</u>
OTHER INCOME		
Net gain (loss) from agents' or premium balances charged off		(1,471,137)
Finance and service charges not included in premiums		383,083
Aggregate write-ins for miscellaneous income		<u>(361,116)</u>
Total other income		<u>(1,449,170)</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		(12,840,139)
Dividends to policyholders		<u>(2,157)</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		(12,837,982)
Federal and foreign income taxes incurred		<u>(22,352)</u>
Net income		<u>(12,815,630)</u>
CAPITAL AND SURPLUS ACCOUNT		
Surplus as regards policyholders, December 31 prior year		<u>\$62,829,608</u>
Net income		(\$12,815,630)
Change in net unrealized capital gains or (losses)		(5,045,404)
Change in net deferred income tax		6,746,641
Change in nonadmitted assets		(4,672,999)
Change in surplus notes		50,000,000
Aggregate write-ins for gains and losses in surplus		<u>(52,445)</u>
Change in surplus as regards policyholders for the year		<u>34,160,163</u>
Surplus as regards policyholders, December 31 current year		<u>\$96,989,771</u>

MIDDLESEX MUTUAL ASSURANCE COMPANY

LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE)

\$53,862,140

The following items are included in the captioned account:

Losses	\$45,694,178
LAE	<u>8,167,962</u>
	<u>\$53,862,140</u>

The Illinois Insurance Department contracted with Risk & Regulatory Consulting (RRC) to conduct a comprehensive actuarial analysis of the loss and LAE reserves of the property and casualty insurance companies within the Pool. The actuarial analysis was conducted in accordance with generally accepted actuarial reserving standards and principles. The primary purpose of this analysis was to evaluate the processes, procedures, methods, and assumptions used to determine the reasonableness of the carried loss and LAE reserves of the Pool as of December 31, 2011. RRC based its review on the following information provided by the Pool:

- Participation in interviews with key personnel, especially actuaries employed by the Group, to gain an understanding of the corporate structure, products, services, and reserving and pricing processes, and to determine where the majority of risks lie;
- Determination of the frequency and process of reporting actuarial indications to management and/or the Board and management's process of recording reserves in the financial statements and controls to mitigate reserving risk;
- A review of the 2011 Statements of Actuarial Opinion and the supporting actuarial reports which were prepared by the Group's appointed actuary, including compliance with the Instructions;
- A review of the 2011 Actuarial Opinion Summaries prepared by the Group's appointed actuary and a comparison of the companies carried reserves to their Appointed Actuary's indicated reserves;
- An independent review of the reconciliation of Schedule P to loss data in the Group's appointed actuary's work papers;
- A review of the external auditor's determination that reserves carried by the Group are reasonable; and
- An analysis of the Group's general pricing philosophy for all lines of business, including determination that processes and assumptions used in practice are consistent with the philosophy.

The scope of RRC's actuarial review included:

- An assessment of reserve risk including but not limited to:
 - An evaluation of the Company's reconciliation of the actuarial data to Schedule P as well as a review of the integrity and the appropriateness of data segmented for actuarial evaluation;
 - Meetings with appropriate reserve actuaries and/or other officers of the Company to assess the appropriateness of methodologies and the quality of assumptions, including but not limited to case reserve adequacy, expected loss ratios, claim emergence patterns, and anticipated recoveries;

MIDDLESEX MUTUAL ASSURANCE COMPANY

- A review of the primary reserve risks and the mitigation of those risks and the frequency of reporting actuarial indications to management by line of business and in the aggregate; and
 - A review of the Company's reserve segments that may increase the risk that actual losses or other contractual payments reflected in the corresponding reserves will be greater than the carried liabilities.
- An assessment of pricing and underwriting risk including but not limited to:
 - The interviewing of officers responsible for establishing pricing and underwriting practices and policies;
 - Meeting with appropriate ratemaking actuaries and/or other officers of the Company to assess the appropriateness of methodologies and the quality of assumptions, including but not limited to trend, loss development, expenses, catastrophes, large losses, and profit;
 - A high level evaluation of price monitoring processes; and
 - A review of the reporting of pricing and underwriting considerations to management.

Conclusion

Based upon the risk-based assessment and review, no material findings were noted which affected the Company's ability to manage its reserving and pricing and underwriting risk.

AGGREGATE WRITE-INS FOR SPECIAL SURPLUS FUNDS \$5,289,218

During the period under examination the balance in this account has exclusively included the admission of additional deferred tax assets as determined in SSAP No. 10R.

SURPLUS NOTE \$50,000,000

The Company issued a surplus debenture in exchange for cash to its affiliate, CMIC. Principal and interest payments are subject to the approval of the Department. Interest is scheduled to be paid quarterly. Principal is payable upon demand of the holder of the note. The note is subordinate to all claims of any policyholder, claimant and beneficiary, and to all other creditors.

UNASSIGNED FUNDS (SURPLUS) \$41,700,553

The following exhibit reflects the balance of this account at December 31, for the years under examination:

2011	\$41,700,553
2010	\$59,958,436
2009	\$61,033,157
2008	\$55,912,924
2007	\$70,655,599

The decrease in unassigned funds during the examination period was attributed to weak earnings.

MIDDLESEX MUTUAL ASSURANCE COMPANY

CONCLUSION

The results of this examination disclosed that as of December 31, 2011, the Company had admitted assets of \$294,935,340, liabilities of \$197,945,569, and surplus as regards policyholders of \$96,989,771. During the period under examination, admitted assets increased \$27,360,469, liabilities decreased by \$3,320,882, and surplus as regards policyholders increased \$30,681,351. It was determined that the Company's assets were fairly stated in accordance with guidance outlined in the Manual. Assets were acceptable under Section 38a-102 of the CGS. The liabilities established were adequate to cover the Company's obligations to the policyholders.

MIDDLESEX MUTUAL ASSURANCE COMPANY

SIGNATURE

In addition to the undersigned, Mark Murphy, CFE and Susan Gozzo Andrews, FCAS, MAAA, RPLU + of the Department, and the professional services firm of REC participated in this examination.

I, Michael Daniels, CFE, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2011, to the best of my information, knowledge, and belief.

Respectfully submitted,



Michael Daniels, CFE
Insurance Accredited Financial Examiner
State of Connecticut
Insurance Department

State of Connecticut

ss

County of Hartford

Subscribed and sworn to before me, Patricia Butler, Notary Public/Commissioner of the Superior Court, on this 19th day of April, 2013.

Patricia Butler
Notary Public/Commissioner of the Superior Court

My commission expires September 30, 2013