Report

of the

Examination of

Middlesex Insurance Company

Stevens Point, Wisconsin

As of December 31, 2013

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

April 10, 2015

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

MIDDLESEX INSURANCE COMPANY
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Middlesex Insurance Company (Middlesex or the company) was conducted in 2009 as of December 31, 2008. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the company was conducted concurrently with the examination of affiliates domiciled in Texas and New York. Wisconsin acted in the capacity as the lead state for the coordinated examinations. Work performed by the Texas Department of Insurance was reviewed and relied on where deemed appropriate.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the one recommendation made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company’s loss and loss adjustment expense reserves. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

II. HISTORY AND PLAN OF OPERATION

Middlesex was chartered in Massachusetts as the Middlesex Mutual Fire Insurance Company on March 3, 1826, and the company commenced business on March 31, 1826. The company has been the surviving entity in several mergers during its history. The company absorbed the South Danvers Mutual Fire Insurance Company in December 1928 and the Citizens Mutual Fire Insurance Company in June 1944.

In 1963 the name was changed to Middlesex Mutual Insurance Company (Middlesex Mutual). On October 20, 1967, Middlesex Mutual and Lynn Mutual Insurance Company (Lynn Mutual) voted to form the North Bridge Corporation, a downstream holding company. Middlesex Mutual held 80% ownership in the corporation, with the remaining 20% held by Lynn Mutual. In 1968, Middlesex Mutual and Lynn Mutual contributed their respective ownership interests in the newly established Patriot General Insurance Company (Patriot General), a stock property and casualty insurer, to this holding company.

Lynn Mutual was absorbed by Middlesex Mutual through a merger transaction effective December 31, 1970, thereby making Middlesex Mutual the sole owner of North Bridge Corporation and its subsidiary interests.

Middlesex Mutual entered into an agreement dated June 6, 1974, with Sentry Insurance a Mutual Company (SIAMCO), whereby Middlesex Mutual would demutualize and be acquired by The Sentry Corporation, then a wholly owned subsidiary of SIAMCO. In June 1974, special legislation passed by the Massachusetts Legislature permitted the conversion, articles of amendment were filed with the Secretary of the Commonwealth of Massachusetts in order to execute the conversion and rename the company to its current name, Middlesex Insurance Company, and the Massachusetts Insurance Division approved the transactions. The Sentry Corporation acquired all 200,000 shares issued by the company.

In 1986, ownership of Middlesex was transferred from The Sentry Corporation to SIAMCO, its current parent, as part of an effort to separate insurance operations from noninsurance operations. On April 28, 1994, Middlesex, together with its subsidiary, Patriot General, redomesticated from Massachusetts to Wisconsin.

In 2013, the company wrote direct premium in the following states:

Washington	$ 40,732,482	36.4%
Wisconsin	25,916,375	23.1
Texas	13,504,011	12.1
California	12,676,405	11.3
New Jersey	4,528,351	4.0
Florida	4,404,786	5.0
All others	10,196,323	9.1
Total	$111,958,733	100.0%

The company is licensed in all states and the District of Columbia.

On a direct basis, Middlesex writes a wide range of property and casualty insurance products. The major products marketed by the company include worker's compensation and auto lines. The company markets for National Accounts business (large commercial policies) which is obtained through brokers and independent agents, Standard Business Products (small- to mid-size business) which is sold exclusively through direct marketers, and Nonstandard Auto (NSA) products which is sold primarily through independent agents and a call center. Beginning in 2012, Middlesex began writing NSA products which comprised 37.1% of direct business as of December 31, 2013.

The following table is a summary of the net insurance premiums written by the company in 2013. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 3,022,957	$ 4,509,660	$ 3,760,994	$ 3,771,623
Allied lines	4,324,492	3,943,609	5,384,885	2,883,217
Homeowner's multiple peril	305,632	2,803,607	305,632	2,803,607
Commercial multiple peril	15,686	884,870	35,315	865,241
Inland marine	459,306	8,094,586	620,495	7,933,397
Medicl professional liability – occurrence	0	2,127	0	2,127
Earthquake	217	110,164	1,951	108,431
Group accident and health	0	1,190,525	0	1,190,525
Other accident and health	0	2,351	0	2,351
Worker's compensation	57,169,251	48,330,713	68,446,427	37,053,538
Other liability – occurrence	1,478,717	8,679,427	2,250,069	7,908,075
Other liability – claims made	3,272	240,255	7,844	235,683
Excess worker's compensation	0	292,946	0	292,946
Products liability – occurrence	1,122,285	4,249,047	1,907,871	3,463,461
Private passenger auto liability	36,261,619	77,522,945	44,782,580	69,001,983
Commercial auto liability	2,417,421	20,484,117	3,283,245	19,618,293
Auto physical damage	5,294,877	25,371,028	6,513,724	24,152,181
Fidelity	79,253	397,704	109,938	367,019
Surety	60	65,410	160	65,310
Burglary and theft	3,688	37,785	4,996	36,477
International	0	114	3	111
Reinsurance – non-proportional assumed liability	0	249	0	249
Total All Lines	$111,958,733	$207,213,239	$137,416,127	$181,755,846

The company assumes 100% of the premiums written by its subsidiary, Patriot General Insurance Company, after cessions to nonaffiliated reinsurers, which was $24,705,584 in 2013. All direct and assumed business, net of cessions to nonaffiliated reinsurers, is pooled with affiliates, SIAMCO, Dairyland Insurance Company, Sentry Casualty Company, Sentry Select

Insurance Company, and Viking Insurance Company of Wisconsin. The reinsurance pooling agreement is described in section V of this report titled "Reinsurance."

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members who are elected annually, each of whom is an officer of SIAMCO. Officers are elected at annual board meetings and are to hold those positions until the earlier of their resignation or removal by the board of directors. As inside directors, they receive no additional compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Peter G. McPartland Stevens Point, Wisconsin	Chairman of the Board, Chief Executive Officer and President of SIAMCO	2015
Kenneth J. Erler Plover, Wisconsin	Senior Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary of SIAMCO	2015
Carol P. Sanders Kronenwetter, Wisconsin	Executive Vice President, Chief Financial Officer and Treasurer of SIAMCO	2015
James J. Weishan Stevens Point, Wisconsin	Executive Vice President and Chief Investment Officer of SIAMCO	2015
Michael J. Williams Stevens Point, Wisconsin	Vice President, Chief Actuary and Risk Officer of SIAMCO	2015

Officers of the Company

The officers are employed and compensated by SIAMCO. The officers of Middlesex may also be officers of other companies in the Sentry Insurance Group. The officers serving at the time of this examination are as follows:

Name	Office	2013 Compensation
Daniel L Revai	President	$ 267*
Michael J. Williams	Vice President	19,969*
Kenneth J. Erler	Secretary	21,114*
Carol P. Sanders	Treasurer	9,240*

Compensation included salary, bonus, and all other compensation.

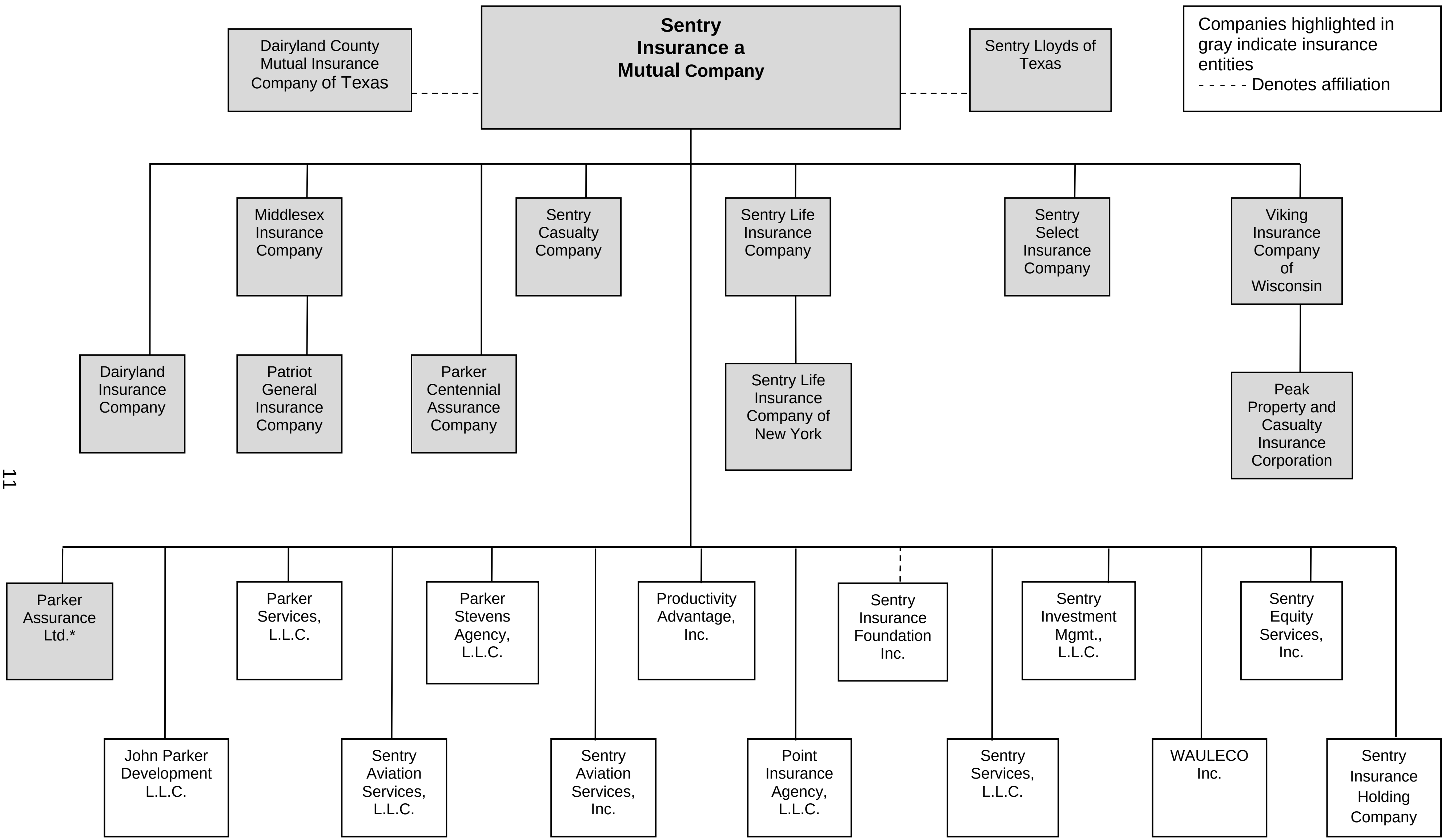
* Compensation reported here is the portion of the individual's total compensation that is allocated to Middlesex; most officers' compensation is allocated among several insurance companies in the group.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees appointed by the board at the time of the examination. The committees of the ultimate controlling party, SIAMCO, govern the company.

IV. AFFILIATED COMPANIES

Middlesex is a member of a holding company system (the Sentry Insurance Group) controlled by Sentry Insurance a Mutual Company, a Wisconsin-domiciled mutual insurer. As of December 31, 2013, the Sentry Insurance Group consisted of 13 insurers and 13 noninsurance entities; Dairyland County Mutual Insurance Company of Texas and Sentry Lloyds of Texas are affiliated through common management. A discussion of all the Sentry Insurance Group affiliated companies is included in the examination report for SIAMCO. This report includes only those affiliates (including other pool participants) or other important affiliated relationships. An organizational chart as of December 31, 2013, is shown on the next page.



* Parker Assurance Ltd. is a Bermuda-domiciled insurer that was inactive for many years and was dissolved in 2014.

Sentry Insurance a Mutual Company

SIAMCO owns all of the issued and outstanding common stock of Middlesex. SIAMCO is licensed in all 50 states, the District of Columbia, Puerto Rico, and Canada. On a direct basis, the parent company writes a wide range of property and casualty insurance products, predominantly worker's compensation and automobile coverages. SIAMCO is the lead company in a pooling arrangement with certain of its property and casualty affiliates, with a 55% participation share of the pool. As of December 31, 2013, SIAMCO reported assets of $6,631,964,314, liabilities of $2,556,630,322, and policyholders' surplus of $4,075,333,992. Operations for 2013 produced a net income of $308,405,578. SIAMCO was examined concurrently with Middlesex as of December 31, 2013, and the results of that examination are expressed in a separate report.

Dairyland Insurance Company

Dairyland Insurance Company (Dairyland) is a Wisconsin-domiciled stock property and casualty insurer licensed in 45 states. The company was formed on August 1, 1965, to become successor to the Dairyland Mutual Insurance Company organized on January 8, 1953. During 1966, SIAMCO acquired all outstanding common shares and has since held 100% ownership, though control has, at times, been indirect. At present, SIAMCO holds 100% of all outstanding common stock directly.

On its direct business, the company specializes in Nonstandard Auto and Motorcycle business. Dairyland also assumes 100% of the business of Dairyland County Mutual Insurance Company of Texas, a Texas county mutual. Dairyland has a 17.5% participation in the affiliated pooling agreement. As of December 31, 2013, the company reported assets of $1,163,189,493, liabilities of $691,525,167, surplus of $471,664,326, and net income of $25,576,277. Dairyland was examined concurrently with Middlesex as of December 31, 2013, and the results of that examination are expressed in a separate report.

Patriot General Insurance Company

Patriot General Insurance Company is a stock property and casualty insurer licensed in 22 states, incorporated under its present name pursuant to the laws of the Commonwealth of

Massachusetts on January 2, 1968. SIAMCO acquired 100% indirect ownership of Patriot General in June 1974 in connection with the acquisition of Middlesex. On April 28, 1994, Patriot General redomesticated to the state of Wisconsin.

Of its direct business, Patriot General writes 41.0% in auto lines relating to the Standard Business and National Accounts divisions, Nonstandard Auto and Motorcycle lines, 43.0% in worker's compensation and 16% in miscellaneous products relating to the Business Products division. Patriot General cedes 100% of its business to Middlesex, its immediate parent. As of December 31, 2013, Patriot General reported assets of $27,100,688, liabilities of $1,499,893, surplus of $25,600,795, and net income of $676,356. Patriot General was examined concurrently with Middlesex as of December 31, 2013, and the results of that examination are expressed in a separate report.

Sentry Casualty Company

Sentry Casualty Company (Sentry Casualty) is a property and casualty insurer incorporated on July 23, 1973, in the state of Nevada as Tahoe Insurance Company. It was organized by Deere & Company and ownership was shared with Sierra General Life Insurance Company (Sierra). Upon the liquidation of Sierra in 1995, the John Deere Insurance Group, Inc., assumed the shares. After the company redomesticated to Illinois in 1996, the name was changed to John Deere Casualty Company. SIAMCO acquired 100% indirect ownership in connection with the acquisition of John Deere Insurance Group, Inc., on September 30, 1999, and changed the company's name to Sentry Casualty Company. On January 1, 2001, the company redomesticated to Wisconsin.

Sentry Casualty is licensed in 50 states and the District of Columbia. Sentry Casualty did not write any direct business after its acquisition by SIAMCO in 1999, until 2008 when SIAMCO commenced transferring some of its National Accounts business to Sentry Casualty. Sentry Casualty has a 2.5% participation in the affiliated pooling agreement. As of December 31, 2013, Sentry Casualty reported assets of $240,263,968, liabilities of $167,253,837, surplus of $73,010,131, and net income of $5,016,878. Sentry Casualty was examined concurrently with Middlesex as of December 31, 2013, and the results of that examination are expressed in a separate report.

Sentry Investment Management, L.L.C.

Sentry Investment Management, L.L.C. (SIML) a Delaware corporation organized on June 13, 1969, manages the investment portfolios of SIAMCO and its affiliates, subject to the direction of their respective boards of directors. In 2007 the corporation changed its status to a limited liability corporation. As of December 31, 2013, SIML's unaudited financial statements reported assets of $340,491, liabilities of $198,928, and stockholder's equity of $141,563. Operations for 2013 produced net income of $5,274. SIML is a wholly owned subsidiary of SIAMCO.

Sentry Select Insurance Company

Sentry Select Insurance Company (Sentry Select) is a property and casualty insurer incorporated on August 1, 1929, as the Fulton Fire Insurance Company under the laws of New York. On May 8, 1969, Deere & Company acquired the company from Hanover Insurance Company of New York and changed its name to John Deere Insurance Company. The company redomesticated to Illinois on December 31, 1982. SIAMCO acquired 100% indirect ownership in connection with the acquisition of John Deere Insurance Group, Inc., on September 30, 1999, and the name was changed to Sentry Select Insurance Company. On January 1, 2001, the company redomesticated to Wisconsin.

Sentry Select is licensed in all 50 states and the District of Columbia. Of its direct business, it writes 51.9% in auto, 18.8% in inland marine, 10.6% in other liability, 7.1% in worker's compensation and 11.6% in a variety of business relating to the Sentry Insurance Group's Dealer Operations and Transportation products. Sentry Select has a 10% participation in the affiliated pooling agreement. As of December 31, 2013, Sentry Select reported assets of $641,304,426, liabilities of $413,826,220, surplus of $227,478,206, and net income of $12,369,072. Sentry Select was examined concurrently with Middlesex as of December 31, 2013, and the results of that examination are expressed in a separate report.

Viking Insurance Company of Wisconsin

Viking Insurance Company of Wisconsin (Viking) is a property and casualty insurer incorporated on August 10, 1971, as Viking Insurance Company in the state of Wisconsin and in 1973 its name was changed to what is used currently. The company was originally controlled by the directors, their families and employees through an employee stock ownership trust. In 1982, all of the outstanding stock was purchased by Crum and Forster, Inc., a New York holding company and a subsidiary of the Xerox Corporation. As a result of an organization restructuring in 1993, the company's stock was contributed to a newly formed holding company, Viking Insurance Holdings, Inc. (Viking Holdings) a Delaware corporation, which was a wholly owned subsidiary of Talegen Holdings, Inc., a Delaware corporation. In 1995, Guaranty National Corporation (GNC, now Orion Auto, Inc.) acquired Viking Holdings. In 1997, Viking became a subsidiary of Orion Auto, Inc., after Viking Insurance Holdings, Inc., was dissolved. In 1999, Viking redomesticated from the state of Wisconsin to the state of Colorado and on November 16, 1999, Royal & Sun Alliance Insurance Group plc purchased Orion Auto, Inc., and all of its subsidiaries. On November 1, 2005, SIAMCO acquired control of Viking and its subsidiary, Peak Property and Casualty Insurance Corporation (Peak), from Royal & Sun Alliance USA, Inc. On December 15, 2006, Viking redomesticated to Wisconsin.

Viking is licensed in 34 states. It was acquired primarily to expand the Sentry Insurance Group's presence as a nonstandard auto insurance writer and to obtain a sophisticated auto policy underwriting system. On its direct business, Viking specializes in Nonstandard Auto and Motorcycle business. The company also assumes 100% of the business of its subsidiary, Peak. Viking has a 5% participation in the affiliated pooling agreement. As of December 31, 2013, it reported assets of $381,328,273, liabilities of $203,151,816, surplus of $178,176,457, and net income of $7,431,595. Viking was examined concurrently with Middlesex as of December 31, 2013, and the results of that examination are expressed in a separate report.

Agreements with Affiliates

Middlesex has no employees of its own and all of its operations are conducted by employees of its parent organization, SIAMCO, in accordance with the business practices and internal controls of that organization. In addition to ongoing common management and control by this upstream affiliate, the company's operations are affected by various written agreements with Sentry Insurance Group affiliates. Reinsurance agreements are described in section V of the report titled "Reinsurance." A brief summary of the other agreements and undertakings follows.

Investment Advisory Agreement

Effective October 31, 1991, SIAMCO and certain named affiliates entered into an investment advisory agreement with Sentry Investment Management, L.L.C. This contract was amended and restated as of January 1, 2008, and as of September 12, 2011. Under this agreement, SIML is employed to manage and direct the investment and reinvestment of the assets of SIAMCO and certain named affiliates, subject to the control of those companies' board of directors. SIML agrees to comply with the companies' articles, bylaws, investment policies, and all applicable federal or state laws. SIML charges the companies a monthly fee computed as follows, annually not to exceed on average 25 basis points of the cash and invested assets reported on the companies' statutory annual statements:

> One twelfth (1/12) of an amount equal to the sum of (a), (b), and (c)
>
> (a) Common stocks, excluding those of affiliates:
> 0.50% ($5.00 per $1,000) of market value;
>
> (b) Bonds and preferred stocks, excluding those of affiliates:
> 0.15% ($1.50 per $1,000) of market value; and
>
> (c) All other assets, excluding those of affiliates:
> 0.75% ($7.50 per $1,000) of market value
>
> In addition, for any investment advisory services provided by SIML at the request of the companies, SIML is to be reimbursed for actual costs of rendering such services. Settlements are to be made within 60 days of the end of the month.

The contract may be terminated by any of the parties with 60 days' written notice.

Joint Investment Agreement

Effective October 1, 1996, the company entered into an amended and restated joint investment agreement with various affiliates to establish the Sentry Liquid Asset Partnership (SLAP), a joint venture organized pursuant to the Wisconsin Uniform Partnership Act. This agreement has been amended and restated to add or delete companies as needed. SIAMCO is designated as the managing partner, though the agreement permits a change by a majority decision of the participants. A participant may withdraw from the joint venture upon the delivery of written notice to the managing partner. The joint venture shall dissolve at such time as only one participant remains in the joint venture. The terms of this agreement are continuous; however, all parties to the agreement are required to review and negotiate the agreement no less than once every three years.

The business of the joint venture consists of investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. federal government with a maximum duration of 12 months. It functions in a manner analogous to a short-term bond mutual fund. Investment advisory services are provided by Sentry Investment Management, L.L.C. This office has directed all Wisconsin-domiciled Sentry companies to report their respective balances in SLAP as a one-line entry on Schedule DA – Part 1 (Short-Term Investments).

Tax Allocation Agreement

On February 22, 1983, the SIAMCO board of directors adopted a written federal income tax allocation policy for the purpose of filing federal income tax returns on a consolidated basis. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is effective March 1, 2009, and was amended to comply with requirements of the New York Circular Letter 1979-33 (relates to tax allocation agreements of New York-domestic insurers) because Sentry Life Insurance Company of New York is a party to this agreement. Under this agreement, SIAMCO prepares and files a consolidated U.S. federal income tax return that includes all affiliates of the holding company group. The agreement sets forth the rights and obligations of the parties to the agreement with respect to the determination and settlement of federal income tax liabilities as well as the allocation of Sentry Insurance Group's consolidated U.S. federal income tax liability and tax benefits in accordance with a rational, systematic formula. The agreement provides for computation of tax, settlement of balances between affiliates, tax sharing, filing the return, audits and other adjustments, and other administrative requirements. The agreement calls for the settling of estimated U.S. federal tax payments within 45 days of filing of those payments. Final settlement is due within 45 days of the filing of the consolidated U.S. federal tax return. The agreement has a provision for members entering or departing the group and provides for successors.

General Expense Allocation Agreement

In 1993, the insurance companies of the Sentry Insurance Group entered into a written general expense allocation agreement. The agreement formalized the parties' consent to an accounting allocation process that had been in place since 1982. This agreement has been amended and restated to add or delete companies as needed. Under the agreed procedure, expenses are first grouped and assigned to cost pools, each of which is distinguished by one or more of four characteristics, including activity, location, profit center, and division. Expenses, once assigned to cost pools, are then allocated to specific insurance products. An expense is not assigned to a specific legal entity until after it is coded to a cost pool and then to a specific product, unless the destination (profit center, line of business or legal entity) is known when the expense is originally recorded. Allocation at each phase of this process, outlined here in simplified form, is based on specific identification, utilization estimates developed from such criteria as premium or claim volume, time studies, or other rational means of distribution.

Intercompany Settlement Policy

The intercompany settlement policy between SIAMCO and its affiliates was last amended and restated effective December 3, 2012. This agreement has been amended and restated several times to add or delete companies as necessary. According to the terms of this agreement, SIAMCO's cash management department settles intercompany balances, in SLAP where possible, based on policies and procedures listed in the agreement for monthly and annual settlements. Other settlements under the agreement include reinsurance balances, which are to be settled according to the terms contained in the reinsurance agreements, and income tax related balances, which are to be settled in accordance to the terms outlined in the intercompany tax allocation agreement mentioned previously. There is also a clause that establishes procedures for those parties that do not have adequate funds available to settle intercompany debt.

Intercompany Servicing Agreement

SIAMCO has established an intercompany servicing agreement with Middlesex effective March 1, 1980, which has been amended and restated several times with the latest amendment effective December 31, 2004. Under this agreement SIAMCO is to provide essentially all services required for Middlesex's business operations. Expenses relating to the services provided under this agreement are to be allocated to the company by SIAMCO through the general expense allocation agreement (described earlier in this section of the report). Services may be terminated by either party by 30 days' written notice or at any time by mutual consent.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions. Certain property and casualty companies in the Sentry Insurance Group participate in a number of voluntary and involuntary reinsurance arrangements, serving predominantly the auto and worker's compensation markets, administered by individual states or by national organizations. The largest assuming reinsurance agreements are from the National Workers Compensation Reinsurance Association and Commonwealth Auto Reinsurers (Massachusetts). The ceding reinsurance agreements are to a variety of state mine subsidence, catastrophic auto and worker's compensation funds. A review of these arrangements indicated that all contracts have provisions deemed appropriate by the governmental authorities that establish and administer them.

Affiliated Property and Casualty Pooling Agreement

Middlesex participates in a pooling arrangement with certain of its property and casualty affiliates. The pool participants cede 100% of their direct and assumed premiums, losses, loss adjustment expenses, and underwriting expenses, net of all cessions to nonaffiliated parties, to SIAMCO. The net pooled business is then distributed according to the participations listed below. Income and expenses related to investment operations are not included in pooling.

Dairyland, Middlesex, Sentry Select, Viking and Sentry Casualty are direct co-parties to the automatic nonaffiliated ceding reinsurance agreements of SIAMCO along with all of SIAMCO's other U.S.-domiciled property and casualty affiliates. SIAMCO administers all aspects of the pooled business, including placement of reinsurance with nonaffiliated insurers. Reinsurance with nonaffiliated parties is transacted in the names of SIAMCO and other property and casualty affiliates, each for its own direct and assumed business, prior to pooling. After nonaffiliated cessions are made, the net business of each participant is pooled, and all of the net retained business of SIAMCO, Dairyland, Middlesex, Sentry Select, Viking and Sentry Casualty is derived from the pool. Additional terms of the pool are outlined below:

Participations:	As of January 1, 2014, participation was as follows:

Sentry Insurance a Mutual Company	55.0%
Dairyland Insurance Company	17.5
Middlesex Insurance Company	10.0
Sentry Select Insurance Company	10.0
Viking Insurance Company of Wisconsin	5.0
Sentry Casualty Company	2.5
Total Sentry Group Pool	100.0%

Lines covered:	All lines of property and casualty business written by the participants
Items included:	Premiums written and earned, losses, loss adjustment expenses, underwriting expenses, salvage and subrogation recoveries, assessments, taxes, and policyholder dividends
Effective:	December 31, 2003 (amended and restated) as amended effective January 1, 2006, January 1, 2007, and January 1, 2012
Termination:	Termination of any party's participation, or of the entire agreement, may be accomplished by any party for any reason upon 12 months' prior written notice to the other parties

Affiliated Assuming Contracts

1. Type:	100% Quota Share
Reinsured:	Patriot General Insurance Company
Scope:	All business written and assumed by the reinsured after cessions to nonaffiliated reinsurers
Ceding company retention:	None
Coverage:	100% of net losses and net loss adjustment expenses incurred by the reinsured arising from business covered by this treaty
Premium:	100% of all net premiums on business ceded pursuant to this treaty
Commissions:	Ceding commissions equal to the actual underwriting expenses
Effective date:	January 1, 1976, amended January 1, 2012, and is continuous
Termination:	This treaty may be terminated by either party giving 12 months' prior written notice to any anniversary date
Additional comment:	In effect, the reinsured does not retain any net premiums written, net premiums earned, net losses incurred, loss

adjustment expenses, or underwriting expenses under this contract and, therefore, cannot incur an underwriting profit or loss as long as this treaty is in force

Nonaffiliated Ceding Contracts

1. Type: Multiple Line Excess of Loss

Participating reinsurers: As of January 1, 2014, participation was as follows:

	1st	**2nd**
Aspen Re America, Inc.	9.0%	4.0%
Hannover Ruck SE	15.0	25.0
Maiden Reinsurance North America, Inc.	22.5	12.5
Munich Reinsurance America, Inc.	13.0	13.0
Partner Reinsurance Company of the U.S.	7.5	7.5
QBE Reinsurance Corporation	10.0	10.0
SCOR Reinsurance Company	4.0	7.0
Swiss Re Underwriters Agency, Inc.	5.0	6.0
Transatlantic Reinsurance Company	14.0	15.0
Total	100.0%	100.0%

Scope: Property and casualty business

Retention: First Layer: $3,000,000 each risk, each occurrence

Second Layer: $10,000,000 each risk, each occurrence

Coverage: First Layer: Property business – The amount of ultimate net loss, including loss adjustment expenses, in excess of the company’s retention of $3,000,000 per risk. Reinsurer’s risk is not to exceed $7,000,000 as respects any one risk each loss, nor shall it exceed $14,000,000 all risks involved in any one occurrence.

Second Layer: Property business – The amount of ultimate net loss, including loss adjustment expenses, in excess of the company’s retention of $10,000,000 per risk. Reinsurer’s risk is not to exceed $10,000,000 as respects any one risk each loss, nor shall it exceed $10,000,000 all risks involved in any one occurrence.

First Layer: Casualty business – The amount of ultimate net loss, including loss adjustment expenses, in excess of the company’s retention of $3,000,000 per occurrence. Reinsurer’s risk is not to exceed $7,000,000 as respects any one occurrence.

Second Layer: Casualty business – The amount of ultimate net loss, including loss adjustment expenses, in excess of the company’s retention of $10,000,000 per occurrence. Reinsurer’s risk is not to exceed $10,000,000 as respects any one occurrence.

	First Layer: Property and Casualty combined – One or more classes of property and casualty business, the amount of ultimate net loss, including loss adjustment expenses, in excess of the company retention of $3,000,000 per occurrence. Reinsurer's risk is not to exceed $3,000,000 as respects any one occurrence.
Special provisions:	Umbrella policies issued to the company's National Accounts clients shall not be subject to this contract. As respects business issued through the company's Transportation division, the maximum net automobile liability subject to policy limit shall be $1,000,000 with respect to each coverage, each occurrence under the company's policy or so deemed. As respects business classified as assisted living facility business, such business shall contain one per policy aggregate limit per line of business written.
Reinstatement:	Second Layer: Free for the first full reinstatement, second and third reinstatement to pay additional premium based on the ultimate net loss paid by the reinsurer multiplied by the earned reinsurance premium paid or payable for the period exclusive of reinstatement premium.
Premium:	First Layer: Annual deposit premium of $13,400,000 paid in quarterly installments; annual minimum premium of $10,720,000, subject to adjustment at the rate of 17.5% of subject net earned premium for umbrella business, 0.16% of subject net earned premium for personal auto business and 0.95% of subject net earned premium for all other business.
	Second Layer: Annual deposit premium of $3,040,000 paid in quarterly installments; annual minimum premium of $2,432,000, subject to adjustment at the rate of 1.75% of subject net earned premium for umbrella business, 0.02% of subject net earned premium for personal auto business and 0.24% of subject net earned premium for all other business.
Commissions:	None
Effective date:	January 1, 2014
Termination:	The contract is scheduled to expire on January 1, 2015. The company may terminate subscribing reinsurer's percentage share at any time by giving 60 days' written notice to the subscribing reinsurer in the event that certain named circumstances occur.
Intermediary:	Willis Re Inc.

2.	Type:	Multiple Line Clash and Contingency Excess of Loss
	Participating reinsurers:	As of January 1, 2014, participation was as follows:

	1st	**2nd**
Aspen Insurance UK Limited	8.88%	13.33%
Catlin Underwriting Inc.	9.35	0.00
Hannover Ruck SE	14.02	12.50
Safety National Casualty Corporation	0.00	10.00
Transatlantic Reinsurance Company	11.68	0.00
Certain Underwriting Members of Lloyds (14 syndicates)	56.07	64.17
Total	100.00%	100.00%

Scope:	All property and casualty business including Nuclear, Biological, Chemical and Radiological (NBCR)
Retention:	First Layer: The first $20,000,000 in ultimate net losses for each event Second Layer: The first $50,000,000 in ultimate net losses for each event for both Non-NBCR and NBCR
Coverage:	First Layer: Ultimate net loss in excess of the company's retention, up to a limit of $30,000,000 per loss event, and $60,000,000 in aggregate for the contract year Second Layer NBCR: Ultimate net loss in excess of the company's retention, up to a limit of $75,000,000 per loss event, and $150,000,000 in aggregate for the contract year, subscribed 84.99% Second Layer Non-NBCR: Ultimate net loss (90% of loss in excess of policy limits, 90% of extra contractual obligations and 100% of loss adjustment expense) in excess of the company's retention, up to a limit of $75,000,000 per loss event, and $150,000,000 in aggregate for the contract year, subscribed 15.01%
Reinstatement:	First Layer: Additional premium equal to the product of the percentage of the event limit multiplied by the earned reinsurance premium paid or payable Second Layer Non-NBCR and NBCR: Additional premium equal to the product of the percentage of the event limit multiplied by the earned reinsurance premium paid or payable
Premium:	First Layer: Annual deposit premium of $1,397,000 paid in quarterly installments; annual minimum premium of $1,117,600, subject to adjustment at the rate of 0.0777% of subject net earned premium on ceded policies pursuant to this treaty

Second Layer Non-NBCR: Annual deposit premium of $1,747,500 paid in quarterly installments; annual minimum premium of $1,398,000, subject to adjustment at the rate of 0.0972% of subject net earned premium on ceded policies pursuant to this treaty

Second Layer NBCR: Annual deposit premium of $2,250,000 paid in quarterly installments; annual minimum premium of $1,800,000, subject to adjustment at the rate of 0.1252% of subject net earned premium on ceded policies pursuant to this treaty

Commission: None

Effective date: January 1, 2014

Termination: The NBCR contract is scheduled to expire on January 1, 2016. The Non-NBCR contract is scheduled to expire on January 1, 2015. The company may terminate subscribing reinsurer's percentage share at any time by giving written notice to the subscribing reinsurer in the event that certain named circumstances occur.

Intermediary: Willis Re Inc.

3. Type: Property Catastrophe Excess of Loss

Participating Reinsurers: As of January 1, 2014, participation was as follows:

	1st	**2nd**
Allianz Risk Transfer AG (Bermuda Branch)	9.00%	7.25%
Allied World Assurance Company, Ltd.	0.00	10.00
Argo Re, Ltd.	3.00	2.00
Aspen Bermuda, Ltd.	10.00	5.00
China Reinsurance Corporation	5.00	2.50
Everest Reinsurance Company	2.50	3.50
Hannover Re (Bermuda), Ltd.	5.75	7.50
Mapfre Re Compania De Reaseguros SA	10.00	10.00
MS Frontier Reinsurance, Ltd.	0.00	10.00
Odyssey Reinsurance Company	2.00	2.00
QBE Reinsurance Corporation	5.00	5.00
SCOR Global P&C SE	7.50	6.50
Transatlantic Reinsurance Company	2.00	2.00
Certain Underwriting Members of Lloyds (12 Syndicates for 1st and 11 for 2nd)	33.25	21.75
Total	95.00%	95.00%

Scope: Property business with certain named exclusions

Retention: First Layer: The first $20,000,000 in ultimate net losses for each loss occurrence

	Second Layer: The first $50,000,000 in ultimate net losses for each loss occurrence
Coverage:	First Layer: Ultimate net loss in excess of the company's retention, up to a limit of $30,000,000 each loss occurrence and $60,000,000 in aggregate for the contract year, 95% subscribed Second Layer: Ultimate net loss in excess of the company's retention, up to a limit of $70,000,000 each loss occurrence and $140,000,000 in aggregate for the contract year, 95% subscribed
Reinstatement:	Additional premium equal to the product of the percentage of the event limit multiplied by the earned reinsurance premium paid or payable
Premium:	First Layer: Annual deposit premium of $2,850,000 paid in quarterly installments; annual minimum premium of $2,280,000, subject to adjustment at the rate of 2.3233% of subject net earned premium on ceded policies pursuant to this treaty Second Layer: Annual deposit premium of $2,450,000 paid in quarterly installments; annual minimum premium of $1,960,000, subject to adjustment at the rate of 1.9972% of subject net earned premium on ceded policies pursuant to this treaty
Commission:	None
Effective date:	January 1, 2014
Termination:	The contract is scheduled to expire on January 1, 2015. The company may terminate subscribing reinsurer's percentage share at any time by giving 10 days' written notice to the subscribing reinsurer in the event that certain named circumstances occur.
Intermediary:	Willis Re Inc.

4. Type: Worker's Compensation Excess of Loss

Reinsurers: As of January 1, 2014, participation was as follows:

	1st	**2nd**
Maiden Reinsurance North America, Inc.	25.0%	25.0%
Hannover Ruck SE	20.0	30.0
QBE Reinsurance Corporation	15.0	0.0
Safety National Casualty Corporation	20.0	25.0
Certain Underwriting Members of Lloyds (4 Syndicates)	20.0	20.0
Total	100.0%	100.0%

Scope:	Worker's compensation and employer's liability business (this contract was negotiated separately for Safety National and non-Safety National companies)
Retention:	First Layer: $2,500,000 each occurrence for non-Safety National and Safety National reinsurance agreements Second Layer: $5,000,000 each occurrence for non-Safety National and Safety National reinsurance agreements
Coverage:	First Layer: The ultimate net loss in excess of company's retention, up to a limit of $2,500,000 per loss occurrence and $2,500,000 in aggregate for terrorism loss occurrences in the contract year Second Layer: The ultimate net loss in excess of company's retention, up to a limit of $5,000,000 per loss occurrence and $5,000,000 in aggregate for terrorism loss occurrences in the contract year
Reinstatement:	First Layer: Free and unlimited Second Layer: Non-Safety National Agreement – Free for first reinstatement and second reinstatement additional premium equal to the product of the percentage of the event limit multiplied by the earned reinsurance premium paid or payable Second Layer: Safety National agreement – Free and unlimited
Premium:	First Layer: Non-Safety National agreement – Annual deposit premium of $4,684,000 paid in quarterly installments; annual minimum premium of $2,810,400, subject to adjustment at the rate of 1.2% of subject net earned premiums on ceded business pursuant to this treaty, 80% subscribed First Layer: Safety National agreement – Annual deposit premium of $1,319,000 paid in quarterly installments; annual minimum premium of $1,055,200, subject to adjustment at the rate of 0.338% of subject net earned premiums on ceded business pursuant to this treaty, 20% subscribed Second Layer: Non-Safety National agreement – Annual deposit premium of $2,479,000 paid in quarterly installments; annual minimum premium of $1,487,400, subject to adjustment at the rate of 0.6352% of subject net earned premiums on ceded business pursuant to this treaty, 75% subscribed Second Layer: Safety National agreement – Annual deposit premium of $2,380,000 paid in quarterly installments; annual minimum premium of $1,904,000, subject to adjustment at

		the rate of 0.610% of subject net earned premiums on ceded business pursuant to this treaty, 25% subscribed
	Commission:	None
	Effective date:	January 1, 2014
	Termination:	The contract is scheduled to expire on January 1, 2015. The company may terminate subscribing reinsurer's percentage share at any time by giving written notice to the subscribing reinsurer in the event that certain named circumstances occur.
	Intermediary:	Willis Re Inc.
5.	Type:	Machine & Equipment Coverage Quota Share
	Reinsurer:	Factory Mutual Insurance Company
	Scope:	All boiler and machinery or mechanical equipment breakdown business written or assumed
	Retention:	None
	Coverage:	Cessions shall not exceed a limit of liability of $100,000,000 on any one risk without prior written agreement of the reinsurer
	Premium:	100% of boiler and machinery or mechanical equipment breakdown written premium
	Commission:	30% of boiler and machinery or mechanical equipment breakdown premium ceded under this agreement (44% of Dealer Operations premium)
	Profit commission	50% of the net profit of business ceded under this contract [premiums earned net of ceding commissions minus expenses (20% of Dealer Operations earned premium; 30% of all other earned premium) minus losses incurred over each annual period]
	Effective date:	January 1, 2014, and is continuous
	Termination:	Either party may effect a termination of this treaty with 90 days' prior written notice to the following days in any year by certified letter: April 1st, July 1st, October 1st, and January 1st
6.	Type:	Identity Theft & Data Compromise Quota Share Liability
	Reinsurer:	Hartford Steam Boiler Inspection and Insurance Company
	Scope:	All Data Compromise and Identity Recovery on business written and assumed
	Retention:	None

Coverage:	100% of the ultimate net loss up to a limit of $15,000 annual aggregate per Policy for Identity Recovery. 100% of the ultimate net loss up to a limit of $250,000 annual aggregate per Policy for Data Compromise and $250,000 annual aggregate for Defense and Liability. As of June 1, 2014, data compromise and defense and liability limits of $500,000 and $1,000,000 are available.
Premium:	100% of identity theft and data compromise written premium
Commission:	30% of identity theft and data compromise premium ceded under this agreement
Effective date:	January 1, 2011, and is continuous
Termination:	Either party may effect a termination of this treaty with 90 days' prior written notice

7. Type: Commercial Property Excess of Loss Automatic Facultative

Reinsurer:	General Reinsurance Corporation
Scope:	All property business written and assumed
Retention:	Varies by eligible risk: (1) The first $100,000 in ultimate net losses for each loss occurrence for automobiles and mobile homes; (2) The first $250,000 in ultimate net losses for each loss occurrence for contractor's equipment; (3) The first $20,000,000 in ultimate net losses for each loss occurrence for other commercial property; (4) The first $20,000,000 in ultimate net losses for each loss occurrence for Auto Dealers PD inside and outside; and (5) The first $250,000 in ultimate net losses for each loss occurrence for logging equipment.
Coverage:	For the same risk as the retention: (1) The ultimate net loss in excess of company's retention up to $400,000; (2) The ultimate net loss in excess of company's retention up to $750,000; (3) The ultimate net loss in excess of company's retention up to $30,000,000; (4) The ultimate net loss in excess of company's retention up to $10,000,000; and (5) The ultimate net loss in excess of company's retention up to $500,000.
Premium:	Premium is based on reinsurance coverage with a $50 minimum
Commission:	None
Effective date:	January 1, 2008, and is continuous

	Termination:	Either party may effect a termination of this treaty with 90 days' prior written notice
8.	Type:	Commercial Automobile Excess of Loss Liability Facultative Automatic
	Reinsurer:	Swiss Reinsurance America Corporation
	Scope:	National Accounts Division commercial automobile liability with certain named exclusions
	Retention:	100% of first $1,000,000 in ultimate net losses for each loss occurrence
	Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $2,000,000 per loss event
	Premium:	Pricing is on a unit rate per vehicle basis in two rating groups based on the state the vehicles are garaged and licensed in. Unit premium rates range from $65.00 to $700.00 dependent on the type of vehicle covered.
	Commission:	None
	Effective date:	July 15, 2012, and is continuous
	Termination:	Either party may effect a termination of this treaty with 60 days' written notice
	Intermediary:	Aon Benfield Inc.
9.	Type:	Commercial Automobile Excess of Loss Liability Facultative Automatic
	Reinsurer:	Maiden Reinsurance North America, Inc.
	Scope:	National Accounts Division commercial automobile liability with certain named exclusions
	Retention:	100% of first $500,000 or $1,000,000 in ultimate net losses for each loss occurrence
	Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $2,000,000 per loss event
	Premium:	Pricing is on a unit rate per vehicle basis of Model/Weighted Average Annual Modifier
	Commission:	None
	Effective date:	July 15, 2012, and is continuous
	Termination:	Either party may effect a termination of this treaty with 60 days' written notice
	Intermediary:	Aon Benfield Inc.

10.	Type:	Commercial Automobile Excess of Loss Liability Facultative Automatic
	Reinsurer:	Maiden Reinsurance North America, Inc.
	Scope:	Transportation Division commercial automobile liability with certain named exclusions
	Retention:	100% of the first $500,000 or $1,000,000 in ultimate net losses for each loss occurrence
	Coverage:	100% of the ultimate net loss in excess of the company retention up to $1,000,000
	Premium:	Pricing is on a unit rate per vehicle basis of Model/Weighted Average Annual Modifier
	Commission:	None
	Effective date:	November 1, 2011, and is continuous
	Termination:	Either party may effect a termination of this treaty with 60 days' written notice
	Intermediary:	Aon Benfield Inc.
11.	Type:	Farm Equipment Manufacturers Product Liability Excess of Loss (casualty automatic facultative)
	Reinsurer:	Munich Reinsurance America, Inc.
	Scope:	General liability and commercial umbrella liability policies relating to farm equipment manufacturers
	Retention:	The first $1,000,000 in ultimate net losses for each loss occurrence or annual aggregate relating to products and completed operations general liability No retention relating to commercial umbrella liability policies
	Coverage:	Products and completed operations coverage under general liability policies – Ultimate net loss in excess of the company's retention, up to a limit of $4,000,000 each loss occurrence or annual aggregate relating to products and completed operations general liability Commercial umbrella liability policies – Ultimate net loss in excess of the company's retention, up to a limit of $5,000,000 each loss occurrence or annual aggregate relating to commercial umbrella liability policies
	Premium:	Products and completed operations coverage under general liability policies – Premium is a combination of the following: a) For the first $1,000,000 of coverage a rate of 26.25% of subject premium; and

b) For each additional $1,000,000 of coverage (up to $5,000,000) the rate is 50% of the preceding layer's premium charge subject to a minimum premium of $750.00 per million of underlying premium

Commercial umbrella liability policies – Premium is a combination of the following for the first $1,000,000 of coverage:

a) 31.5% of general liability and products/completed operations premium relating to the company's farm equipment manufacturers product program; and
b) Pricing based on a unit rate per vehicle basis. Unit premium rates range from $85.00 to $550.00 dependent on the type of vehicle covered

For each additional $1,000,000 of coverage (up to $5,000,000) the rate is 50% of the preceding layer's premium charge subject to a minimum premium of $750.00 per million of underlying premium

	Commission:	None
	Effective date:	July 1, 1998, and is continuous
	Termination:	Either party may effect a termination of this treaty with 90 days' written notice
12.	Type:	SentryGuard Excess of Loss Automatic Facultative
	Reinsurer:	General Reinsurance Corporation
	Scope:	All agriculture equipment written under the SentryGuard program
	Retention:	The first $100,000 in ultimate net losses for each loss occurrence
	Coverage:	The ultimate net loss in excess of company's retention, up to a limit total insured value First Excess Coverage – 50% of the next $100,000 net loss in excess of company's retention Second Excess Coverage – 100% of the next $200,000 net loss in excess of company's retention
	Premium:	100% of property business ceded under this agreement
	Commission:	None
	Effective date:	January 1, 2012, and is continuous
	Termination:	Either party may effect a termination of this treaty with 90 days' prior written notice

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2013, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Middlesex Insurance Company
Assets
As of December 31, 2013

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$474,679,865	$	$474,679,865
Stocks:			
Common stocks	25,601,867		25,601,867
Cash, cash equivalents, and short-term investments	8,677,754		8,677,754
Other invested assets	35,695,071		35,695,071
Investment income due and accrued	5,121,658		5,121,658
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	12,914,092	531,600	12,382,492
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	43,016,518	76,725	42,939,793
Accrued retrospective premiums	18,588,605	1,042,569	17,546,036
Reinsurance:			
Amounts recoverable from reinsurers	14,885,731		14,885,731
Funds held by or deposited with reinsured companies	263,061		263,061
Current federal and foreign income tax recoverable and interest thereon	2,247,487		2,247,487
Net deferred tax asset	11,924,968	313,113	11,611,855
Guaranty funds receivable or on deposit	24,143		24,143
Receivable from parent, subsidiaries, and affiliates	1,001,735		1,001,735
Write-ins for other than invested assets:			
Prepaid surcharges	550,762		550,762
Equities and deposits in pools and associations	4,825		4,825
Amounts billed and receivable under high-deductible policies	3,222		3,222
Total Assets	$655,201,363	$1,964,007	$653,237,357

Middlesex Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2013

Losses		$221,686,605
Reinsurance payable on paid loss and loss adjustment expenses		1,164,645
Loss adjustment expenses		54,549,365
Commissions payable, contingent commissions, and other similar charges		3,252,018
Other expenses (excluding taxes, licenses, and fees)		26,197,841
Taxes, licenses, and fees (excluding federal and foreign income taxes)		1,286,320
Unearned premiums		83,240,998
Advance premium		318,564
Dividends declared and unpaid:		
Policyholders		872,212
Ceded reinsurance premiums payable (net of ceding commissions)		9,770,456
Amounts withheld or retained by company for account of others		196,166
Provision for reinsurance		2,249,436
Payable for securities		1,768,454
Write-ins for liabilities:		
Accounts payable – other		3,530,815
Premium deficiency liability assumed		224,945
Escheat funds		177,054
Total liabilities		410,485,895
Common capital stock	$ 4,200,000	
Gross paid in and contributed surplus	11,953,299	
Unassigned funds (surplus)	226,598,162	
Surplus as regards policyholders		242,751,461
Total Liabilities and Surplus		$653,237,357

Middlesex Insurance Company
Summary of Operations
For the Year 2013

Underwriting Income		
Premiums earned		$177,171,933
Deductions:		
Losses incurred	$112,963,456	
Loss adjustment expenses incurred	22,210,612	
Other underwriting expenses incurred	48,682,590	
Net underwriting gain (loss)		(6,684,733)
Investment Income		
Net investment income earned	20,187,711	
Net realized capital gains (losses)	(397,756)	
Net investment gain (loss)		19,789,954
Other Income		
Net gain (loss) from agents' or premium balances charged off	(2,059,601)	
Finance and service charges not included in premiums	5,387,020	
Write-ins for miscellaneous income:		
Miscellaneous income (expense)	276,979	
Total other income		3,604,398
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		16,709,619
Dividends to policyholders		710,535
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		15,999,084
Federal and foreign income taxes incurred		4,212,553
Net Income		$ 11,786,531

Middlesex Insurance Company
Cash Flow
For the Year 2013

Premiums collected net of reinsurance			$182,553,898
Net investment income			22,322,474
Miscellaneous income			3,638,752
Total			208,515,125
Benefit- and loss-related payments		$115,517,891	
Commissions, expenses paid, and aggregate write-ins for deductions		71,120,951	
Dividends paid to policyholders		483,307	
Federal and foreign income taxes paid (recovered)		3,779,589	
Total deductions			190,901,738
Net cash from operations			17,613,386
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 82,362,574		
Stocks	304,986		
Other invested assets	12,370,884		
Miscellaneous proceeds	95		
Total investment proceeds		95,038,539	
Cost of investments acquired (long-term only):			
Bonds	100,868,382		
Stocks	311,738		
Other invested assets	2,458,307		
Miscellaneous applications	(1,512,300)		
Total investments acquired		102,126,127	
Net cash from investments			(7,087,588)
Cash from financing and miscellaneous sources:			
Dividends to stockholders		10,000,000	
Other cash provided (applied)		333,438	
Net cash from financing and miscellaneous sources			(9,666,562)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			859,237
Cash, cash equivalents, and short-term investments:			
Beginning of year			7,818.517
End of Year			$ 8,677,754

Middlesex Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2013

Assets			$653,237,357
Less security surplus of insurance subsidiaries			25,601,868
Less liabilities			410,485,895
Adjusted surplus			217,149,594
Annual premium:			
Individual accident and health	$ 2,351		
Factor	15%		
Total		$ 352	
Group accident and health	1,190,525		
Factor	10%		
Total		119,052	
Lines other than accident and health	180,081,310		
Factor	20%		
Total		36,016,262	
Compulsory surplus (subject to a minimum of $2 million)			36,135,666
Compulsory Surplus Excess (or Deficit)			$229,416,591
Adjusted surplus (from above)			$217,149,594
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)			48,783,149
Security Surplus Excess (or Deficit)			$168,366,445

Middlesex Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2013

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2013	**2012**	**2011**	**2010**	**2009**
Surplus, beginning of year	$237,382,481	$235,136,691	$238,319,165	$239,680,011	$237,859,770
Net income	11,786,531	10,269,480	11,871,194	16,296,877	18,608,238
Change in net unrealized capital gains/losses	3,947,545	2,106,708	297,736	675,554	1,417,090
Change in net unrealized foreign exchange capital gains/losses	(55,490)	29,400	(19,648)	6,000	
Change in net deferred income tax	445,499	136,493	(143,803)	(500,476)	(1,841,858)
Change in nonadmitted assets	1,417,740	1,019,394	(144,625)	(231,623)	2,332,179
Change in provision for reinsurance	(2,172,844)	184,315	932,930	8,242	(225,117)
Dividends to stockholders	(10,000,000)	(11,500,000)	(16,000,000)	(17,500,000)	(20,000000)
Write-ins for gains and (losses) in surplus: Additional admitted deferred tax assets			23,742	(115,420)	1,529,714
Surplus, End of Year	$242,751,461	$237,382,481	$235,136,691	$238,319,165	$239,680,014

Middlesex Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2013

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. There were no unusual results.

	Ratio	2013	2012	2011	2010	2009
#1	Gross Premium to Surplus	131%	117%	100%	95%	106%
#2	Net Premium to Surplus	75	73	69	68	67
#3	Change in Net Premiums Written	5	6	1	1	(10)
#4	Surplus Aid to Surplus	1	1	0	0	0
#5	Two-Year Overall Operating Ratio	91	92	91	90	88
#6	Investment Yield	3.8	4.2	4.6	4.8	4.7
#7	Gross Change in Surplus	2	1	(1)	(1)	1
#8	Change in Adjusted Surplus	2	1	(1)	(1)	1
#9	Liabilities to Liquid Assets	75	75	72	67	68
#10	Agents' Balances to Surplus	5	5	4	3	4
#11	One-Year Reserve Development to Surplus	(3)	(5)	(5)	(6)	(8)
#12	Two-Year Reserve Development to Surplus	(5)	(6)	(8)	(10)	(12)
#13	Estimated Current Reserve Deficiency to Surplus	1	(3)	(4)	(10)	(19)

Growth of Middlesex Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2013	$653,237,357	$410,485,895	$242,751,461	$11,786,531
2012	628,239,236	390,856,755	237,382,481	10,269,480
2011	622,230,238	387,093,547	235,136,691	11,871,194
2010	617,583,877	379,264,712	238,319,165	16,296,879
2009	628,327,121	388,647,110	239,680,011	18,608,238
2008	657,339,354	419,479,588	237,859,766	20,123,894

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2013	$319,171,972	$181,755,846	$177,171,933	76.3%	24.8%	101.1%
2012	277,719,512	172,732,384	165,869,713	77.3	27.4	104.6
2011	235,804,977	163,332,439	164,062,418	79.1	27.7	106.8
2010	225,607,289	161,929,516	163,996,417	75.5	28.8	104.2
2009	253,550,756	160,917,430	165,462,299	75.3	28.7	104.0
2008	296,407,541	178,617,345	183,932,170	74.5	26.8	101.3

The company reported surplus growth over the examination period of 2.1%. Middlesex reported net income in each year under examination and paid $75 million in stockholders' dividends to its parent, SIAMCO. During the period under examination gross premium increased 7.7% and net premium increased 1.8%. Beginning in 2012, Middlesex began writing Nonstandard Auto which comprised 37.1% of its total direct premium as of December 31, 2013. The company's combined ratio fluctuated slightly over the period under examination and has averaged 104.1%. In 2013, the combined ratio decreased to its lowest level since 2008. Net investment gains over the period offset the effects of combined ratios that exceeded 100%, as the company recorded net income in each of the last five years.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus of $242,751,461 reported by the company as of December 31, 2013, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Affiliated Agreements—It is recommended that the company file all affiliated service agreements and amendments to existing ones with the Commissioner for approval in accordance with s. Ins 40.04 (2) (d), Wis. Adm. Code.

   Action—Compliance

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Actuarial Examination

As mentioned previously, the Office of the Commissioner of Insurance contracted with an actuary to review the company’s aggregate loss and loss adjustment expense (LAE) reserve. The actuary concluded that the company generally followed accurate and appropriate procedures in determining the loss and LAE reserve and the reserves were found to be reasonable.

The actuary noted certain deficiencies in the company’s actuarial report. Specifically, the actuary found that the company’s 2013 review focused almost exclusively on the net loss and LAE reserves; thus, there was a lack of detailed support for the gross reserves. A detailed review of the gross reserves is performed periodically by the company, but not every year. Similarly, supporting documentation for the net reserves for general liability and product liability (GL/PL) segments (excluding asbestos and environmental) was not in the 2013 actuarial report, as a detailed review is not performed every year. It is recommended that future actuarial reports contain updated and completed work papers and documentation with respect to the gross loss and LAE reserves in general and the GL/PL liability segments in particular.

VIII. CONCLUSION

Middlesex's surplus increased slightly by 2.1% over the examination period. Premium growth was fairly significant in 2012 and 2013. In 2012 Middlesex began writing Nonstandard Auto which is currently 37.1% of its direct premium. The company's combined ratio fluctuated slightly over the five-year period under examination and averaged 104.1% over that period. In 2013 the combined ratio decreased to its lowest value since 2008. Net investment gains over the period offset the effects of combined ratios that exceeded 100%, as the company recorded net income in each of the last five years.

The current examination resulted in one recommendation and there were no reclassifications of account balance or adjustments to surplus as reported by the company in its year-end 2013 financial statutory financial statements. The examination determined that, as of December 31, 2013, the company had admitted assets of $655,201,363, liabilities of $410,485,895 and surplus of $242,751,461.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 43 - Actuarial Examination—It is recommended that future actuarial reports contain updated and completed work papers and documentation with respect to the gross loss and LAE reserves in general and the GL/PL liability segments in particular.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Levi Olson	Insurance Financial Examiner
John Pollock	Insurance Financial Examiner
Derek Sliter	Insurance Financial Examiner
James Vanden Branden	Insurance Financial Examiner
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist
John Litweiler	Workpaper Specialist

Respectfully submitted,

Judith Michael
Examiner-in-Charge