REPORT ON EXAMINATION

OF THE

MERCHANTS MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

DATE OF REPORT	FEBRUARY 20, 2005
EXAMINER	FRANK P. SCHIRALDI

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

February 20, 2005

Honorable Howard Mills
Acting Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22211 dated April 19, 2004 attached hereto, I have made an examination into the condition and affairs of Merchants Mutual Insurance Company as of December 31, 2003, and submit the following report thereon.

Whenever the designations "Company" or "MMIC" appear herein without qualification, it should be understood to indicate the Merchants Mutual Insurance Company. "Merchants of New Hampshire" or "MNH" indicates Merchants Insurance Company of New Hampshire, Inc. and "MGI" refers to Merchants Group, Inc.

The examination was conducted at the Company's home office located at 250 Main Street, Buffalo, NY 14240.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1998. This examination covered the five year period from January 1, 1999 through December 31, 2003. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner. The examination comprised a complete verification of assets and liabilities as of December 31, 2003. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review of audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

History of Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
Loss experience
Reinsurance
Accounts and records
Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated on April 10, 1917 pursuant to the New York Insurance Law as the Merchants Mutual Automobile Liability Insurance Company and commenced business on March 5, 1918.

In 1923, the corporate name was changed to Merchants Mutual Casualty Company and the present name, Merchants Mutual Insurance Company, was adopted on March 1, 1957.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than thirty-six members, divided into three classes as equally as possible. One class is elected at each annual policyholders' meeting for a term of three years. No less than three directors shall reside in New York State. At December 31, 2003, the board of directors was comprised of the following fourteen members:

Name and Residence	Principal Business Affiliation
Franklyn S. Barry, Jr. * Buffalo, NY	Retired Investor
Gary M. Brost Clarence, NY	President & Chief Executive Officer, Strategic Investments & Holdings, Inc.
Randall L. Clark * East Amherst, NY	Chairman, Dunn Tire Corporation
Linda P. Duch Williamsville, NY	National Executive, Key Bank National Association
John T. Hoskins Lakeview, NY	Chairman, Curtis Screw Company, Inc.
Muriel A. Howard East Amherst, NY	President, Buffalo State College
Margaret N. Kafka Cheektowaga, NY	Vice President, Corporate Services, Merchants Insurance Group
Ross B. Kenzie * Derby, NY	Retired
Brian J. Lipke Derby, NY	Chairman & Chief Executive Officer, Gibraltar Industries, Inc.

Name and Residence	Principal Business Affiliation
Frank J. McGuire Williamsville, NY	Chairman, The McGuire Group
Bryant H. Prentice III* Eggertsville, NY	Chairman, Bryant & Stratton Schools
Kurt Wiedenhaupt East Aurora, NY	Retired
Robert M. Zak* Kenmore, NY	President & Chief Executive Officer, Merchants Mutual Insurance Company
Ronald K. Zoeller Amherst, NY	Founder & Chief Executive Officer, North American Health Plans, Inc.

* Executive Committee member

The minutes of all meetings of the board of directors and committees held during the examination period were reviewed. This review indicated that all meetings were generally well attended with an average attendance of 92% for the years under examination. Each board member had an acceptable record of attendance.

As of December 31, 2003, the principal officers of the Company were as follows:

Name	Title
Robert M. Zak	President and Chief Executive Officer
Fred A. Hildebrand	Senior Vice President, Insurance Operations
Kenneth J. Wilson	Vice President, Chief Financial Officer, and Treasurer
Robert H. Fagerburg	Vice-President, Claims Operations
Camilla G. Belser	Vice-President, Eastern Strategic Business Center
Margaret N. Kafka	Vice-President, Corporate Services
Edward M. Murphy	Vice-President, Investments and Secretary
Thomas B. Harris	Vice-President, Underwriting
Clark M. Sykes	Vice-President, Information Technology

B. Territory and Plan of Operation

As of December 31, 2003, the Company was licensed to transact business in the following 14 states:

Delaware	New Jersey
Indiana	New York
Maine	Ohio
Maryland	Pennsylvania
Massachusetts	Rhode Island
Michigan	Vermont
New Hampshire	Virginia

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Kind of Insurance
3	Accident and health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers’ liability
16	Fidelity and surety
17	Credit Insurance
19	Motor vehicle and aircraft
20	Marine and inland marine
21	Marine protection and indemnity
26	Gap
29	Legal services insurance

Based upon the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13 and 41, of the New York Insurance Law, Merchants Mutual Insurance Company is required to maintain a minimum surplus to policyholders in the amount of $3,700,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

DIRECT WRITTEN PREMIUMS (000 Omitted)

Calendar Year	New York State	Total United States	Premiums Written in New York State as a Percentage of United States Premiums Written
1999	$29,778	$54,670	54.47%
2000	$33,615	$63,356	53.06%
2001	$41,906	$80,147	52.29%
2002	$54,270	$99,937	54.30%
2003	$66,552	$116,911	56.93%

Merchants Mutual Insurance Company is a northeast regional property/casualty insurer with almost 80% of its business written in New York and New Jersey. The business is split 70% commercial lines and 30% personal lines. Commercial lines operations are focused on small "main street" businesses with fewer than twenty-five employees and small artisan contractors. Commercial coverages include special multiple peril ("SMP"), business owners' packages ("BOP"), commercial automobile, general liability and workers' compensation. Personal lines coverages focus on middle to upper middle-income individuals who own homes and own/lease automobiles. Business is generated through approximately five hundred independent agents. Business centers are maintained in Manchester, NH, Moorestown, NJ, Buffalo, NY, Hauppauge, NY, Albany, NY, and Columbus, OH. The company services its agents from these six business centers and its home office in Buffalo, NY.

C. Reinsurance

Assumed

Effective January 1, 2003, Merchants Mutual Insurance Company ("MMIC") and Merchants Insurance Company of New Hampshire, Inc. ("MNH") became parties to a reinsurance pooling agreement, whereby the two companies agree to pool their tradional insurance business. The agreement does not apply to any new endeavor of MMIC or MNH outside of their tradional business unless agreed upon by the parties. The agreement was approved by the Department on May 9, 2003.

Under the terms of the agreement, MNH cedes 100% of its traditional business to MMIC and, as of the examination date, receives 40% of the pooled business. The agreement calls for MMIC's percentage to increase by 5% each year until 2006, when its poling percentage is 75%. There is no termination date in the agreement. However, the agreement may be terminated by either party for cause sixty days after giving written notice or for any reason on July 1, 2007, or any July 1 thereafter, for the calendar year commencing six months after such date.

Ceded

The Schedule F data as contained in the Company's filed annual statement was found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2003. The contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The following is a description of the Company's ceded reinsurance program in effect at December 31, 2003:

Type of treaty	Cession
Property:	
Excess of Loss 3 Layers 100% Authorized	$1,500,000 excess of $500,000 each risk, each occurrence ($8,000,000 excess of $2,000,000 covered by an automatic facultative agreement.)
Catastrophe Excess of Loss 3 Layers 29.92%, 95%, and 95% Authorized	$60,000,000 limit, $5,000,000 retention each occurrence. 50% retention of first layer ($5 mil excess of $5 mil) 5% coinsurance contribution.
Casualty:	
Excess of Loss 3 Layers 100% Authorized	$9,250,000 excess of $750,000 each occurrence
Workers' Compensation:	
Excess of Loss 1 Layer 100% Authorized	$5,000,000 excess of $10,000,000 each claimant each occurrence. Limited to $20,000,000 all occurrences each calendar year.
Personal Umbrella Liability Quota Share 100% Authorized	75% quota share of the first $1,000,000, plus 100% of amounts in excess of $1,000,000, not exceeding $5,000,000 each occurrence
Commercial Umbrella Liability Quota Share 100% Authorized	90% quota share of the first $1,000,000 each occurrence, plus 100% of amounts in excess of $1,000,000

In addition to its treaty reinsurance program, the Company also obtained automatic facultative reinsurance coverage in addition to its basic coverage for property losses. The facultative coverage was $8,000,000 in excess of $2,000,000.

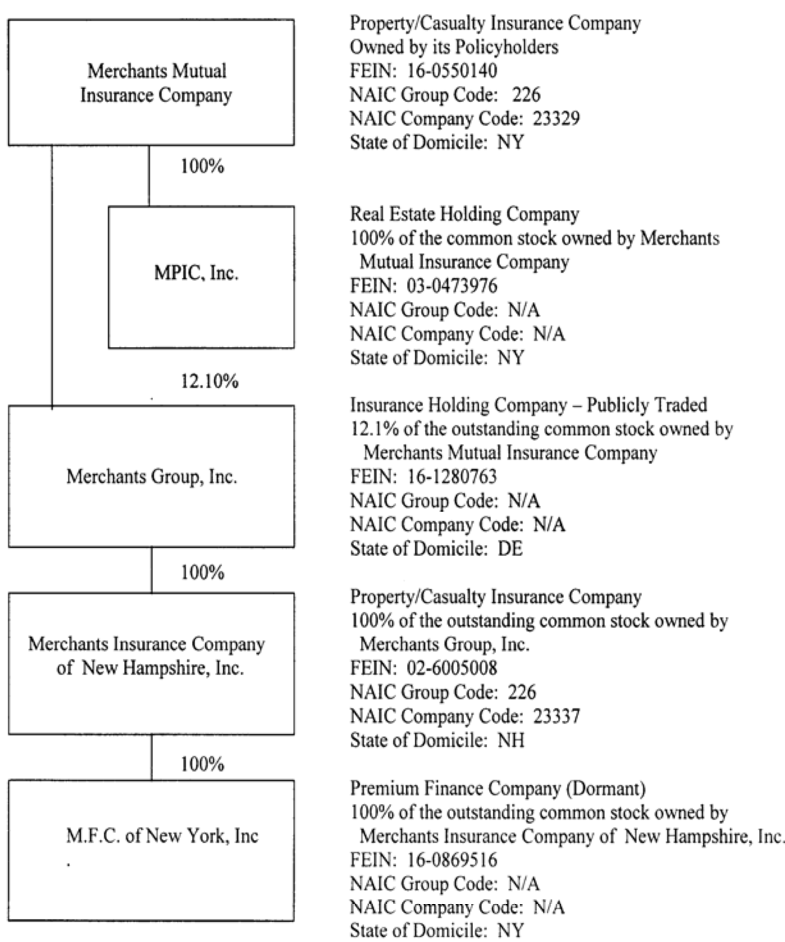
The retention for the casualty excess of loss treaty increased from $500,000 to $750,000 since the last examination. Also, the limit for the catastrophe excess of loss increased from $50,000,000 to

$60,000,000 since the last examination. The quota share percentage for the personal umbrella coverage also changed from 85% quota share to 75% quota share since the last examination. The commercial umbrella program described above was a new program in 2003. As of the examination date all of the Company's reinsurance was with authorized reinsurers.

None of the reinsurance agreements described above include loss corridors or variable ceding commissions that might limit the transfer of risk.

D. <u>Holding Company System</u>

The following is a chart of the holding company system at December 31, 2003:



As a mutual insurer, the Company is not subject to the provisions of Article 15 of the New York Insurance Law. However, the Company is required to submit an annual holding company registration statement with this Department pursuant to the provisions of Circular Letter 17 (2001). The Company made the required filings on a timely basis.

At December 31, 2003, the Company was party to the following agreements with other members of its holding company system:

1. Services Agreement

MMIC, MGI and MNH entered into a service agreement in which MMIC would provide certain administrative, underwriting, claims, investment and cash management services for MGI and MNH. This agreement also became effective January 1, 2003 and was approved by the Department on May 9, 2003.

2. Lease Agreement

Under the terms of the lease, the agreement is for the lease of the main office by MMIC at 250 Main Street, Buffalo, NY. The office is owned by MPIC, Inc. The terms of the lease are comparable to other leases in the Buffalo area. The agreement was effective on October 31, 2002 and was approved by the Department on July 22, 2002.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the New York State Comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company's abandoned property reports for the period of this examination were all filed on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	146%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	79%
Premiums in course of collection to surplus as regards policyholders	1%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$266,812,354	75.04%
Other underwriting expenses incurred	125,346,666	35.25
Net underwriting gain (loss)	(36,603,624)	(10.29)
Premiums earned	$355,555,396	100.00%

G. Accounts and Records

A review of the Company's accounts, records and annual statement reporting revealed the following:

1. Earned but Unbilled Premiums

The Company wrote various policies including workers' compensation and contractors coverall policies and performed audits to ascertain the final premium at the end of the policy period. Paragraph 9 of the National Association of Insurance Commissioners' Statement of Statutory Accounting Principles ("SSAP") No. 53 requires that the company record an estimate in the period the policy is written for the audited premium. The Company does not record this estimate.

It is recommended that the Company comply with SSAP No. 53 and record an estimate for its earned but unbilled premiums in the period that the policy is written.

2. Advance Premiums

The Company collected $407,337 in advance premiums in 2003 for policies incepting in 2004. The Company recorded the advance premiums as a reduction of Agents balances or uncollected premium. The does not comply with paragraph 13 of the SSAP No. 53 which requires that advance premiums be recorded as a separate liability.

It is recommended that the Company comply with paragraph 13 of SSAP No. 53 and report any advance premium collected as a liability in its filed annual statement.

3. Outstanding Checks

The Company reported $3,335,648 as a liability, Drafts outstanding, on its filed annual statement at December 31, 2003. This amount represented outstanding loss and loss adjustment checks and were not drafts. The Company also reported $636,191 as a liability, Reserve for uncashed checks, in its filed annual statement at December 31, 2003. This amount represented checks outstanding of one year or more.

Paragraph 7 of the SSAP No. 2 states that outstanding checks be reported as a reduction of cash.

It is recommended that the Company comply with SSAP No. 2 and report any outstanding checks as a reduction to cash in its filed annual statements.

A similar recommendation was made in the previous report on examination in which the Company reported outstanding checks as a liability included in Other expenses.

4. Notes to the Financial Statement

The Company commuted its general excess of loss treaty with American Mutual Reinsurance Company in 2001 and did not report this in the Notes to the Financial Statements as required by the NAIC annual statement instructions.

It is recommended that the Company comply with the annual statement instructions when completing the Notes to the Financial Statements in its filed annual statements and report any commutation of ceded reinsurance treaties in the appropriate note.

5. Regulation 30

The Company was unable to provide sufficient documentation supporting the allocation to the major expense groups listed on Underwriting and Investment Exhibit, Part 3 of the 2003 filed annual statement. Regulation 30 states that:

> "Wherever possible, salaries of individuals or similarly employed groups shall be allocated direct to companies, expense groups and primary lines of business….When a direct allocation is not made, salaries, with certain exceptions hereinafter noted, shall be allocated on whichever of the following bases, or combinations thereof, are appropriate:

1. Number of items or units
2. Time studies
3. Overhead on other allocations
4. Premiums dollar volume of losses
5. Other special studies"

It is recommended that the Company undertake a study to ensure that its salaries and other expenses are properly allocated to the expense groups pursuant to the provisions of Part 109 of Department Regulation 30.

Subsequent to the examination date, the Company did undertake a study to ensure that its salaries and other expenses are properly allocated to the expense groups pursuant to the provisions of Part 109 of Department Regulation 30.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2003 and as reported by the Company:

Assets	Assets	Non-admitted Assets	Net Admitted Assets
Bonds	$185,152,569	$ 0	$185,152,569
Preferred stocks	6,971,473	0	6,971,473
Common stocks	13,735,224	0	13,735,224
Cash	(1,552,449)	0	(1,552,449)
Short-term investments	14,325,000	0	14,325,000
Other Invested assets	541,845	0	541,845
Receivable for securities	9,973,047	0	9,973,047
Investment income due and accrued	1,383,677	0	1,383,677
Uncollected premium and agents' balances in the course of collection	1,372,388	464,398	907,990
Premiums booked but deferred and not yet due	24,058,879	0	24,058,879
Reinsurance recoverable from reinsurers	63,350	0	63,350
Funds held or deposited with reinsureds	141,442	0	141,442
Current federal and foreign income tax recoverable	329,245	0	329,245
Net deferred tax asset	5,316,000	0	5,316,000
EDP equipment and software	2,247,746	1,241,359	1,006,387
Furniture and equipment	532,873	532,873	0
Receivable from parent, subsidiaries and affiliates	2,496,249	0	2,496,249
Other assets non-admitted	49,600	49,600	0
Prepaid expenses	695,780	695,780	0
Equities and deposits in pools and associations	792,298	0	792,298
Total assets	$268,626,236	$2,984,010	$265,642,226

Liabilities, Surplus and Other Funds

Liabilities

Losses		$103,934,394
Loss adjustment expenses		20,883,890
Commission payable, contingent commissions and other similar charges		1,795,403
Other expenses		1,856,700
Taxes, licenses and fees		1,002,474
Unearned premiums		49,665,462
Ceded reinsurance premiums payable		2,033,958
Funds held by company under reinsurance treaties		304,606
Amounts withheld or retained by company for account of others		422,427
Provision for reinsurance		1,189,604
Drafts outstanding		3,335,648
Payable for securities		11,753,764
Reserve for uncashed checks		636,191
Total liabilities		$198,814,521
Surplus and Other Funds		
Special contingent reserve	$ 1,500,000	
Voluntary reserve	1,500,000	
Surplus notes	16,000,000	
Unassigned funds	47,827,705	
Surplus as regards policyholders		66,827,705
Total liabilities, surplus and Other funds		$265,642,226

NOTE: The Internal Revenue Service has completed its audits of the Company's federal income tax returns through tax year 1995. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $22,118,115 during the five-year examination period January 1, 1999 through December 31, 2003, detailed as follows:

Underwriting Income		
Premiums earned		$355,555,396
Deductions:		
Losses incurred	$220,563,466	
Loss adjustment expenses incurred	46,248,888	
Other underwriting expenses incurred	125,005,383	
Aggregate write-ins for underwriting deductions	341,283	
Total underwriting deductions		392,159,020
Net underwriting gain or (loss)		$(36,603,624)
Investment Income		
Net investment income earned	$42,892,524	
Net realized capital gains	2,037,944	
Net investment gain or (loss)		44,930,468
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$(1,979,397)	
Finance and service charges not included in premiums	3,756,276	
Aggregate write-ins for miscellaneous income	370,322	
Total other income		2,147,201
Net income before dividends to policyholders and before federal and foreign income taxes		$10,474,045
Dividends to policyholders		40,791
Net income after dividends to policyholders but before federal and foreign income taxes		$10,433,254
Federal and foreign income taxes incurred		5,494,630
Net Income		$4,938,624

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 1998			$44,709,591
Net income	$4,938,624		
Net unrealized capital gains or (losses)		$2,319,560	
Change in net deferred income tax	1,045,000		
Change in nonadmitted assets		264,183	
Change in provision for reinsurance	$ 464,396		
Change in surplus notes	16,000,000		
Cumulative effect of changes in accounting principles	2,253,838		
Total gains and losses	$24,701,858	$2,583,743	
Net increase (decrease) in surplus			22,118,115
Surplus as regards policyholders per report on examination as of December 31, 2003			$66,827,706

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $124,818,284 is the same as reported by the Company as of December 31, 2003. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

A. Sales and advertising
B. Underwriting
C. Rating
D. Claims and complaint handling

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained thirteen recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Board of Directors	
	It is recommended that the Company comply with Artivle VII of its charter and Article IV, Section 5 of its by-laws and hold its annual directors' meeting immediately after its annual members meeting or amend its charter and by-laws.	7
	The Company has complied with this recommendation.	
	It is recommended that the Company comply with Article VII of its charter or amend its charter to eliminate the requirement that the board must elect from its own number a president, vice president, secretary and treasurer.	7
	The Company has complied with this recommendation.	
	It is recommended that the Company abide by or amend Article V Section 7 of its by-laws which requires that the secretary take minutes of meetings.	7
	The Company has complied with this recommendation.	
B.	Reinsurance Schedule F	
	It is recommended that the Company comply with annual statement instructions and report all reinsurance transactions by individual reinsurer in Schedule F in all future filed annual statements.	12

ITEM		PAGE NO.
	The Company has complied with this recommendation.	
	It is recommended that the Company report reinsurance recoverable on paid losses as an asset in accordance with statutory accounting practices, properly report these balances in Schedule F, and properly calculate the "provision for reinsurance" in accordance with annual statement instructions.	12
	The Company has complied with this recommendation.	
C.	Management Agreement	
	It is recommended that when the Company discovers errors in allocations, the errors found should be promptly and properly accrued for and charged to the proper accounts. Uncorrected errors can distort Schedule P loss data and affect loss development analysis.	16
	The Company has complied with this recommendation.	
D.	Abandoned Property Law	
	It is recommended that the Company comply with the provisions of Sections 1315 and 1316 of the New York Abandoned Property Law and report all items related to insurance under Section 1316.	19
	The Company has complied with this recommendation.	
	It is also recommended that the Company reconcile its liability account for unclaimed checks, establish procedures to ensure that balances in its unclaimed checks account are correct and that all funds are being correctly remitted to New York State.	19
	The Company has complied with this recommendation.	
E.	Management Expense Ratios	
	It is recommended that the Company take measures to reduce its management expenses in order to comply with Section 4110(a).	20
	The Company has complied with this recommendation.	
F.	Custodial Agreement	
	It is again recommended that:	
1.	The agreement be amended to require that written instructions and/or confirmation of oral instructions be signed by two officers so authorized for that purpose.	21

ITEM		PAGE NO.
	The Company has complied with this recommendation.	
2.	Specific wire transfer limitations, as established by the Company's board of directors, should be included within the custodial agreement. These limitations should include specified accounts to which transfers could be made and specific amount limitations.	21
	The Company has complied with this recommendation.	
G.	Accounts and Records	
1.	Outstanding Checks	
	It is recommended that the Company report its outstanding checks as part of the asset "Cash" in accordance with statutory accounting procedures.	19
	The Company has not complied with this recommendation. A similar recommendation can be found in the current report on examination.	
2.	Drafts Outstanding	
	It is again recommended that the Company report its liability based on its actual amount of issued and outstanding drafts.	22
	The Company has not complied with this recommendation. A similar recommendation can be found in the current report on examination.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Accounts and Records	
i.	Earned but Unbilled Premium	
	It is recommended that the Company comply with SSAP No. 53 and record an estimate for its earned but unbilled premiums in the period that the policy is written.	12
ii.	Advance Premiums	
	It is recommended that the Company comply with paragraph 13 of SSAP No. 53 and report any advance premiums collected as a liability in its filed annual statement.	12
iii.	Outstanding Checks	
	It is recommended that the Company comply with SSAP No. 2 and report any outstanding checks as a reduction in cash in its filed annual statements.	13
iv.	Notes to the Financial Statement	
	It is recommended that the Company comply with the annual statement instructions when completing the Notes to the Financial Statements in its filed annual statements and report any commutation of ceded reinsurance treaties in the appropriate note.	14
v.	Regulation 30	
	It is recommended that the Company undertake a study to ensure that its salaries and other expenses are properly allocated to the expense groups pursuant to the provisions of Part 109 of Department Regulation 30.	14
	Subsequent to the examination, the Company did undertake a study to ensure that the allocation basis for salaries and other expenses complies with Department Regulation 30.	

Respectfully submitted,

/S/

Frank P. Schiraldi
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

FRANK P. SCHIRALDI, being duly sworn, deposes and says that the foregoing report, subscribed to by him, is true to the best of his knowledge and belief.

/S/

Frank P. Schiraldi

Subscribed and sworn to before me

this__________ day of ____________________, 2005.

Appointment No <u>*22211*</u>

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, <u>GREGORY V. SERIO,</u> *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Frank Schiraldi

as proper person to examine into the affairs of the

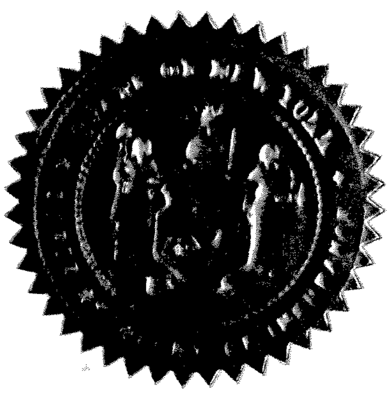
MERCHANTS MUTUAL INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,



this <u>19th</u> day *of* <u>*April, 2004*</u>

GREGORY V. SERIO
Superintendent of Insurance