

REPORT ON EXAMINATION AS TO THE CONDITION OF

CUMBERLAND INSURANCE COMPANY, INC.

BRIDGETON, NEW JERSEY 08302

AS AT DECEMBER 31, 2006

**N.A.I.C. GROUP CODE 0054
N.A.I.C. COMPANY CODE 10448**

F I L E D

JUN 26 2008

**COMMISSIONER
NJ DEPT OF BANKING & INSURANCE**

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
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STEVEN M. GOLDMAN
Commissioner

June 23, 2008

Honorable Steven M. Goldman
Commissioner of Banking and Insurance
State of New Jersey
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

Cumberland Insurance Company, Inc.
BRIDGETON, NEW JERSEY
N.A.I.C. GROUP CODE 0054
N.A.I.C. COMPANY CODE 10448

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the Cumberland Insurance Company, Inc. will be referred to in this report as the "Company" or "CIC".

The "Cumberland Insurance Group" in this report is referring to the group entity of Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc.

SCOPE OF EXAMINATION

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:23-22 of the New Jersey Revised Statutes.

The examination was made as at December 31, 2006, and addressed the four-year period from December 31, 2002, the date of the last Financial Condition Examination. During this four-year period under examination, the Company's assets increased from \$48,249,099 to \$79,113,132. Liabilities increased from \$28,068,028 to \$54,341,417 and its surplus to policyholders increased from \$ \$20,181,071 to \$24,771,715.

The conduct of the examination was governed by the procedures outlined in the NAIC Financial Condition Examiners Handbook and followed accepted procedures of regulatory authorities and generally accepted insurance company examination standards.

In determining the emphasis to be placed on specific accounts, consideration was given to the Company's system of internal control, the nature and size of each account, its relative importance to solvency, and the results of the analytical reviews performed within the New Jersey Department of Banking and Insurance.

The material accounts specific to the Company are Losses and Loss Adjustment Expenses, Unearned Premiums, Uncollected Premiums, Investments and Reinsurance. We have assessed the following emphasis level for these accounts:

Loss and Loss Adjustment Expenses	High
Unearned Premiums	High
Uncollected Premiums	High
Investments	High
Reinsurance	High

All other accounts were determined to have low control risk. Other areas reviewed during this examination included:

- History and Kind of Business**
- Management and Control**
- Territory and Plan of Operation**
- Accounts and Records**
- Employees' Welfare and Pension Plans**
- Fidelity Bond and Other Insurance Coverages**
- Treatment of Policyholders**
- Continuity of Operations**

The control risk level will ultimately determine the amount of emphasis placed on each account. Based on our review of Exhibit B, discussions with the Department's IS Specialist concerning the completion of Exhibit C by the Company, the cycle questions and verification

of Company responses to these questions on a test basis, the intended reliance on the Company's control environment has been determined to be low.

The examination report, contained herein, will address significant balance sheet accounts and, if necessary, comments on those accounts which involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

Parent, Subsidiaries and Affiliates

2002 Examination Recommendation

It is recommended that the Company complete Schedule Y – Part 2 “Summary of Insurer’s Transactions with any Affiliates” in all future annual statements.

Company Response

The Company will, in the future, complete Schedule Y – Part 2 “Summary of Insurer’s Transactions with any Affiliates”.

2006 Examination Findings

The Company is in compliance with this recommendation, as noted through the review of their amended 2006 Schedule Y - Part 2. The Company is properly including all affiliates in Schedule Y - Part 2 "Summary of Insurer's Transactions with any Affiliates".

Continuity of Operations

2002 Examination Recommendation

It is recommended that the Company finalize development and testing of a business continuity plan.

Company Response

Cumberland Insurance Company continues to develop its business continuity plan and should have it finalized early in 2005.

2006 Examination Findings

The Company has complied with the recommendation by establishing a Disaster Recovery Plan which is tested, reviewed and updated annually.

Bonds

2002 Examination Recommendation

It is recommended that the Company review the NAIC's current guidance concerning custodial agreements and that its agreement be updated to reflect current NAIC guidance.

Company Response

Cumberland Insurance Company has changed its custodian since the examination and now believes that we are in compliance with current NAIC guidelines.

2006 Examination Findings

The Company was in compliance with NAIC's current guidance concerning custodial agreements when they switched to Wachovia Bank.

Agents Balances or Uncollected Premiums

2002 Examination Recommendation

It is recommended that the main office monitor the portion of this asset attributed to its Downingtown Office and that all supporting records be reconciled to the year end trial balance.

Company Response

Cumberland Insurance Company continues to convert the Downingtown's office to our main computer system, enabling us to reconcile balances to our year end trial balance. This conversion should be finished in 2005.

2006 Examination Findings

The Company has converted the Downingtown office premium system to the Company's main computer system. The Company has complied with this recommendation.

Losses

2002 Examination Recommendation

It is recommended that the Company maintain accurate Schedule P data files that will permit electronic auditing in the future.

Company Response

Cumberland continues to convert the Downingtown Office to our main computer system. Once the conversion is complete, the Schedule P data files will permit electronic auditing in the future.

2006 Examination Findings

The Company has complied with this recommendation.

HISTORY AND KIND OF BUSINESS

The Cumberland Insurance Company, Inc. was incorporated on August 16, 1982 under and pursuant to the provisions of Chapter 17 of the Revised Statutes of the State of New Jersey. The Certificate of Incorporation was approved by the Deputy Attorney General of New Jersey on September 14, 1982 and filed with the New Jersey Department of Banking and Insurance on November 12, 1982. The Certificate of Incorporation authorized the issuance of 200,000 shares of common stock having a par value of \$10.00 per share, for total common capital stock of \$2,000,000. The Company commenced business as at September 1, 1983 and was authorized to transact the kinds of insurance specified in paragraphs “a”, “b”, “d”, “e”, “f”, “g”, “j”, “k”, “l and “o-1” of N.J.S.A. 17:17-1.

An Amended Certificate of Authority was issued by the Commissioner of Banking and Insurance of the State of New Jersey on September 12, 1984, which authorized the Company to transact the business of writing insurance against the various risks and perils named in said Certificate, being the kinds of insurance specified in paragraphs “a”, “b”, “*d”, “e”, “f”, “g”, “j”, “k”, “l and “o-1” of N.J.S.A. 17:17-1. *Except that authority granted under paragraph “d” shall not include authority to write policies of individual or group health insurance as defined in the Life and Health Insurance Code N.J.S.A. 17B:17-1 et seq. is specifically excluded.

An Amendment to the Certificate of Incorporation was filed with the New Jersey Department of Banking and Insurance on July 19, 1989. This amendment was filed to update the second paragraph to read as follows: “The location of the principal office is 633 Shiloh Pike, township of Hopewell, County of Cumberland and State of New Jersey. The name of the registered agent upon whom legal process against the Company may be served is Ephraim M. Carll.”

An Amendment to the Certificate of Incorporation was filed with the New Jersey Department of Banking and Insurance on July 25, 1994. This amendment was filed to amend the fifth paragraph to read as follows: “The amount of the capital stock of the Company is \$2,900,000 divided into 290,000 shares, each of which will have a par value of \$10.00.” The Commissioner of Banking and Insurance of the State of New Jersey, on November 2, 2007, issued a Certificate of Compliance which reflects the Company’s amended 1994 Certificate of Incorporation, stating that as at December 31, 2006, the Company has common capital stock of \$2,900,000.

An Amendment to the Certificate of Incorporation was filed with the New Jersey Department of Banking and Insurance on September 26, 1997. This amendment was filed to update the second paragraph to read as follows: “The name of the registered agent upon whom legal process against the Company may be served is the Company.”

The principal office of the Company is located at 633 Shiloh Pike, Bridgeton, New Jersey 08302. The registered agent upon whom process may be served is the Company.

STATUTORY DEPOSITS

As of December 31, 2006, the Company maintained securities on deposit with the States of New Jersey and Delaware, in trust for the benefit and security of all the policyholders of Cumberland Insurance Company, Inc.:

<u>State</u>	<u>Security</u>	<u>Par Value</u>
New Jersey	Hudson United Bank Certificate of Deposit, 2.960%, due 8/18/2007	\$100,000
Delaware	US Treasury Note, 3.00%, due 11/15/2007	<u>100,000</u>
Total		\$200,000

TERRITORY AND PLAN OF OPERATION

Cumberland Insurance Company is a domestic property and casualty insurance company licensed to transact business in the States of New Jersey, Pennsylvania, Maryland and Delaware. At December 31, 2006, the Company reported direct premiums written of \$30,845,072. The percentage of these premiums written in New Jersey, Pennsylvania and Delaware were 80%, 18% and 2% respectively.

The Company operates as a for-profit stock insurance company. The Company has gradually expanded its product lines and territories. In 2002, they acquired a technology team in Mansfield, Ohio to develop new technological systems to deliver products, services and information to meet the needs of the consumer. As of December 2006, the Company wrote the following lines of business: commercial multiple peril, workers' compensation, other liability-occurrence, products liability-occurrence, private passenger auto liability, commercial auto liability and auto physical damage. The Company also assumes coverage from the National Workers Compensation Pool which is a mandatory pool. Cumberland Mutual markets its products predominately through a network of approximately 325 independent agents. The Company utilizes an agency agreement which has been revised as of January 1, 2006. And the Company has no MGA relationships.

The Company maintains various service agreements with vendors who are not affiliated with the Company. These include the following:

TPA Service Agreement between PMA Management Corp. (PMA), a Pennsylvania Corporation, and Cumberland Insurance Group was entered into on April 19, 2002. Under the terms of this agreement, PMA agrees to provide customary and appropriate workers' compensation claims handling services for Pennsylvania insured's for all qualified claims or losses. Such claims handling services for each qualified claim or loss include but are not limited to the investigation, adjusting, settling or litigating, investigation and pursuit of subrogation, setting reserves and necessary and customary administrative tasks. This agreement is effective May 1, 2002, for a term of three (3) years until April 31, 2005.

Thereafter, the Agreement was extended for another five (5) years until April 30, 2010. The Agreement may be terminated upon sixty (60) days advance written notice by either party with or without cause.

Agency Agreement between Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company (the Company) and each individual agent. The Company hereby grants authority to Agent to receive and accept proposals for such contracts of insurance, for which the agent has been appointed covering risks on policies as the Company has authority lawfully to make; subject to restrictions placed upon such Agent by the laws of the State in which such Agents is authorized to write insurance business to the terms and conditions here-in-after set forth. The Agent agrees wholly to abide by the rules, underwriting instructions and guidelines of the Company. The Agency Agreement was revised January 1, 2006 to address, among other things, Errors and Omissions coverage and i-Solutions information, stop-loss limits and commissions.

Alliance Claims Solutions Service provides around-the-clock claim reporting, statement taking, glass program administration, desk review and billing services to insurance companies nationwide. They have a set price per claims loss reports and unrelated claims reports.

A review of the Company's service agreements with their outside vendors disclosed that the Company does not have an executed contract with "Alliance Claims Solutions" for their around-the-clock claims reporting service. It is recommended that the Company execute a signed contract with "Alliance Claims Solutions" for the services which are provided to the Company by Alliance Claims Solutions.

Asset Allocation & Management Co., LLC Investment Agreement includes the following agreements:

- **Investment Advisory Agreement** between Asset Allocation & Management Company, LLC (AAM), located in Chicago, Illinois and Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company (Clients) made on February 1, 2000. As investment adviser, AAM shall act with respect to the assets of Clients in accordance with their written investment guidelines and only with prior approval of Clients, except where specific investment parameters are agreed to in writing in advance; and they shall prepare and deliver monthly and quarterly reports which shall list all assets in the Client's account. AAM's services shall be compensated in accordance with its schedule of fees current from time to time, upon sixty (60) days prior written notice. This Agreement is not subject to assignment by AAM except with the written consent of Client. This Agreement may be terminated at any time by either party upon thirty (30) days prior written notice to the other party.
- **Investment Management Agreement** between AAM Advisors, Inc. (AAM), an Illinois corporation and Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company (Client) made on February 1, 2000. The Client designates and appoints AAM as investment adviser for the management of Convertible Securities with regard to the cash and securities listed in Exhibit A. AAM shall have full authority and discretion to supervise the management of the securities in accordance

with the client's written investment guidelines. AAM may engage a Sub-Advisor with regard to the management of the convertible securities. The client shall receive monthly and quarterly reports which shall list all assets in Client's account. This Agreement shall continue in effect until terminated by either party upon thirty (30) days prior written notice.

- **Investment Management Fee Agreement** made among AAM Advisors, Inc., Zazove Associates, LLC and Cumberland Insurance Company (the Client) and dated September 29, 1998. This agreement sets forth the management fees to be paid by Cumberland in connection with the assets of the Client that are to be managed under the Convertible Program. In the event of early termination prior to the close of a Fiscal Year, modifications shall be applied to the annual incentive fee. This Agreement may be modified, amended or supplemented only by a written instrument which is signed by the parties. The Agreement shall be governed by the laws of the State of Illinois.

Subscription Agreement & Power of Attorney - AAM / Zazove Institutional Income Fund, L.P. - The subscriber, Cumberland Insurance Company, Inc., hereby irrevocably subscribes for a \$1,000,000 limited partnership interest in AAM / Zazove Institutional Income Fund L.P., a Delaware limited partnership which is made on September 29, 1998. The subscriber hereby acknowledges and agrees that they are not entitled to cancel, terminate or revoke this subscription which shall survive the subscribers death, incapacity, disability or insolvency.

The following additional vendor agreements are in Cumberland Mutual Fire Insurance Company's name, but they are for the operations of the Cumberland Insurance Group: Computer Software License Agreement, Computer Services Corp. (CSC) Agreement, SunGard Insurance Systems Inc., AGO Insurance Systems Agreement, Simsol Software License Agreement, License & Service Agreement with Insurance Data Processing, Inc. and Alliance Claims Solutions Services.

The Company conducts its everyday business operations from its statutory home and main administrative office located at 633 Shiloh Pike, Bridgeton, New Jersey 08302. This location handles administrative functions for the entire company as well as the personal and commercial lines underwriting, claims and marketing for New Jersey. The Company also maintains three branch offices in Coatesville, Pennsylvania which provide underwriting, marketing and claims services for Pennsylvania, Delaware and Maryland; Prince Frederick, Maryland which provides underwriting services for personal lines and farm business in the State of Maryland; and Mansfield, Ohio which serves as an information technology center for the Company. The Company plans on being licensed in Ohio and start writing private passenger auto in Maryland by year 2007.

The Company maintains an in-house claims department which handles the notification, processing, adjusting and payment of claims for New Jersey, Pennsylvania, Delaware and Maryland. The New Jersey only workers compensation claims are handled by Garden State Reinsurance Association (GSRA); and Pennsylvania workers compensation claims are handled by PMA Management Corp., as a provider of third-party administrative services (TPA). As at February 2007, the Company withdrew from the GSRA's claims processing

services for New Jersey and switched over to PMA Management Corp. Please see section titled Subsequent Events.

At December 31, 2006, the Company has no employees.

CORPORATE RECORDS

The Company's By-laws, which were restated in June of 2001, stipulate that the annual meeting of the shareholders will be held on the second Monday of March of each year, at the principal office of the Corporation or at such place which may be authorized by the Board of Directors. The President or a Vice President or by resolution of the Board of Directors may call special meetings of the members. Notice of the time and place of each annual meeting and each special meeting of members shall be given to each shareholder entitled to vote thereat, either personally or by mail, not less than ten nor more than sixty days before the date of the meeting.

The Board of Directors governs the business of the Company. Each director shall be elected by the shareholders at each annual meeting and shall hold office until the next annual meeting of shareholders. The Board shall consist of not more than fifteen Directors or less than nine Directors, the exact number to be fixed from time to time by resolution adopted by a majority of the full Board. The presence of shareholders holding a majority of the shares of the corporation entitled to vote shall constitute a quorum for the transaction of business.

A review of the minutes of the Board of Director's meetings noted that they were well attended by the Company's Directors', and that the proceedings of the meetings were done in compliance with the Company's State Charter and By-laws. The Board minutes also indicated that the Company's overall transactions and events were adequately supported and approved. A review of the signed affidavits of each member of the Board indicated that they had received and reviewed a copy of the December 31, 2002 financial condition examination report. Evidence of this review and approval is documented in the August 9, 2004 Board minutes.

MANAGEMENT AND CONTROL

The business, property and affairs of the Company are managed by the President and his delegated officers under the guidance of the Board of Directors.

Directors

Cumberland Insurance Company, Inc.'s amended By-laws specify that the Board of Directors shall consist of not more than fifteen (15) Directors or less than nine (9) Directors, the exact number to be fixed from time to time by resolution adopted by a majority of the full Board. Each director shall be elected by the members of this Corporation at their annual meeting which is held on the second Monday of March. The elected directors shall hold office for a term of three years and until a successor shall have been elected and

qualified, or until such position has been terminated by reduction of the number of authorized Directors, whichever shall first occur.

The annual meeting of the Board will be held on the second Monday of March, proceeding the annual meeting of members. Regular meetings of the Board will be held in the months of March, May, August and November of each year as fixed by the Board. Special meetings of the Board of Directors may be called by the President or a Vice President and at the request of two directors, with at least two days notice of which shall be given in person or by mail, telegraph, telephone or cable. At all meetings of the Board of Directors, a majority of the members of the Board of Directors shall constitute a quorum for the transaction of business.

A listing of the eleven Directors serving the Company as of December 31, 2006 is as follows:

<u>Name</u>	<u>Principal Occupation</u>	<u>Business/Residential Address</u>
Leo T. Hogan	Chairman of the Board, CEO -- Cumberland Insurance Company, Inc. and Cumberland Mutual Fire Insurance Company	50 Rutgers Avenue Bridgeton, NJ 08302
Robert P. Brady	President – Cumberland Insurance Company, Inc. and Cumberland Mutual Fire Insurance Company	27 Shadow Brook Rd. Bridgeton, NJ 08302
John L. Bear	Retired – J. L. Bear Company	65 Mary Elmer Dr. Bridgeton, NJ 08302
Donald E. Strang	President – Farm-Rite, Inc.	65 Roberts Avenue Bridgeton, NJ 08302
Lawrence A. Pepper Jr.	Partner – Gruccio, Pepper, Giovinazzi, DeSanto & Farnoly, P.A.	2538 Beechwood Rd. Vineland, NJ 08360
Clair H. Miller, Jr.	Professor – Cumberland County College	2 Holly Lane Bridgeton, NJ 08302
Clarence D. McCormick	Retired – President of Farmers & Merchants National Bank	65 Marimac Rd. Bridgeton, NJ 08302
Robert L. Davis	Retired – Henry D. Young Agency, Inc.	254 Washington Dr. Pennsville, NJ 08070
Bruce R. Hankins	Vice President / Sales – H. H. Hankins & Bros.	138 Beebe Run Rd. Bridgeton, NJ 08302

<u>Name</u>	<u>Principal Occupation</u>	<u>Business/Residential Address</u>
Eugene W. Pashley	Chief Executive Officer – Eugene W. Pashely Agency, Inc.	1312 South Shore Rd. Marmora, NJ 08223
Stephen Paul Hoyt	President – Hoyt & Associates	1140 Harmony Hill Rd. Downingtown, Pa. 19335

The Company's By-laws stipulate that the Board of Directors may, by resolution or resolutions adopted by a majority of the entire Board, appoint one or more Committees, each Committee to consist of two (2) or more directors of the corporation. Any such Committee, to the extent provided in the resolution or in the By-laws of the corporation, shall have and may exercise all the authority of the Board of Directors except that no such Committee shall: make, alter or repeal any By-law of the corporation; elect or appoint any director or remove any officer or director; no submission that requires shareholders' approval; and amend or repeal any resolution theretofore adopted by the Board.

The Company has an Executive Committee comprised solely of Directors who are not officers or employees of the Corporation, consisting of four (4) Board of Directors. The duties and functions of this Committee shall include, but not be limited to, appointment of an independent actuary and an independent certified public accountant and approval of their reports; approval of security purchases by their investment manager; appointment of depositories; and review of workers compensation information.

Members serving on the Executive Committee at December 31, 2006 were as follows:

John L. Bear	Donald E. Strang
Lawrence A. Pepper, Jr.	Clair H. Miller

The Company does not have any other committees which were adopted by resolution. The Company is included in the committees which their parent, Cumberland Mutual Fire Insurance Company, has formed. As at December 31, 2006, Cumberland Mutual Fire Insurance Company maintained the following committee's: Audit, Budget, Compensation, Facilities and Investment Committee's. Each committee consisted of four outside directors.

Cumberland Insurance Company, Inc. is required to comply with the provisions of N.J.S.A. 17:27A-4d(3) which states that "not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity". The Company was determined to be in compliance with the provisions of this statute as of the examination date, as the Board of Directors consists of eleven members of which nine are outside directors.

The Company is also required to comply with the provisions of N.J.S.A. 17:27A-4d(4) which states that “the board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer or any such entity”. The Company was determined to be in compliance with the provisions of this statute as of the examination date, as the Executive Committee is comprised solely of Directors who are not employees or controlling shareholders of the Company or any affiliate.

Officers

The Board of Directors has the power to elect the officers of the Corporation which consist of a Chairman of the Board, President, one or more Vice Presidents, Secretary and Treasurer. The Board, from time to time, may also designate additional officers to be served including such Assistant Secretaries and Assistant Treasurers as the Board may deem advisable. All officers shall perform duties in the conduct and management of the business and property of the Company as designated by the Board. More than one person may hold an office of the same title, but the person serving as President may not serve simultaneously as Secretary. The following senior officers have been elected and were serving the Company as of December 31, 2006:

<u>Name</u>	<u>Office</u>
Robert Paul Brady	President
Margaret Virginia Ball	Secretary
John Aldo Hervochon	Executive Vice President, CFO, Treasurer

REINSURANCE

The Company’s reinsurance program is managed through Guy Carpenter and Company, Inc. of Philadelphia, PA., a licensed reinsurance intermediary pursuant to N.J.S.A. 17:22E-2.

The following is a summary of the various reinsurance contracts that the Company has submitted to the Office of Solvency Regulation of the New Jersey Department of Banking and Insurance as their Reinsurance Profile in effect as of December 31, 2006:

Commercial Auto – Physical Damage Coverage

The Company’s Primary retention is \$50,000 and policy limits are \$550,000.

The First Surplus Treaty has a reinsurer limit per occurrence of \$500,000.

Commercial Auto – Liability Coverage

The Company's primary retention is \$400,000 and policy limits are \$4,200,000.

The First Casualty Excess Treaty has a reinsurer limit per occurrence of \$800,000.

The Second Casualty Excess (Clash) Treaty has a reinsurer limit per occurrence of \$2,000,000.

The Third Casualty Excess (Clash) Treaty has a reinsurer limit per occurrence of \$1,000,000.

General Liability

The Company's primary retention is \$400,000 and policy limits are \$4,200,000.

The First Casualty Excess Treaty has a reinsurer limit per occurrence of \$800,000.

The Second Casualty Excess (Clash) Treaty has a reinsurer limit per occurrence of \$2,000,000.

The Third Casualty Excess (Clash) Treaty has a reinsurer limit per occurrence of \$1,000,000.

Workers' Compensation (WCP)

The Company's primary retention is \$400,000 and policy limits are \$20,000,000.

The First WCP Excess of Loss Treaty has a reinsurer limit per occurrence of \$500,000.

The Second WCP Excess of Loss Treaty has a reinsurer limit per occurrence of \$4,000,000.

The Third WCP Excess of Loss Treaty has a reinsurer limit per occurrence of \$5,000,000.

The Fourth WCP Excess of Loss Treaty has a reinsurer limit per occurrence of \$10,000,000.

It was determined by this examination that certain reinsurance contracts did not allocate contract provisions between Cumberland Insurance Company, Inc. and Cumberland Mutual Fire Insurance Company both of whom are named as the reinsured. The reinsurance agreements are as follows:

- **First Casualty Excess of Loss Reinsurance**
- **Property Facultative Pro Rata Reinsurance**
- **Underlying Property per Risk Excess of Loss Reinsurance**
- **Property Catastrophe Second, Third and Fourth Excess of Loss Reinsurance**
- **Obligatory First Surplus Reinsurance**
- **Casualty Clash Excess of Loss Reinsurance**
- **First and Second Workers' Compensation Excess of Loss Reinsurance**
- **Third and Fourth Workers' Compensation Excess of Loss Reinsurance**
- **Quota Share Boiler and Machinery Reinsurance**

It is recommended by this examination that the Company file a Form D with the New Jersey Department of Banking and Insurance creating a Reinsurance Allocation Inter-Company Agreement with its ultimate parent, Cumberland Mutual Fire Insurance Company on each reinsurance contract in which they are collectively referred to as the "Company" or collectively referred to as the "Cumberland Insurance Group" on the agreements. The contract should state that various allocations be fair and equitable in dividing reinsurance recoveries and the allocation of premiums among the two companies by line of business.

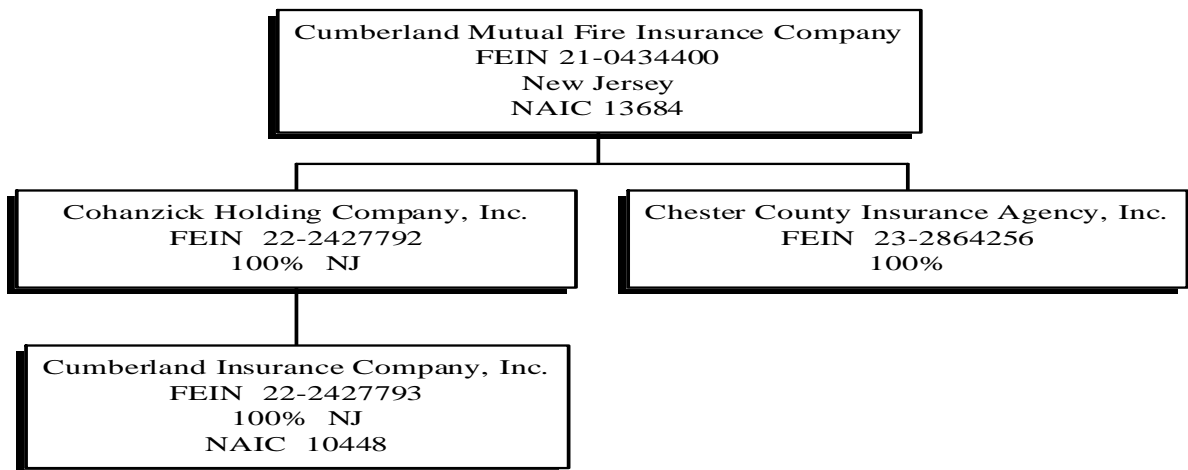
In addition, the Company participates in the Garden State Reinsurance Association. This association of New Jersey Mutual Insurers provides Workers' Compensation reinsurance protection.

The Company is also a member of the following mandatory pools:

- 1. National Council on Compensation Insurance**
- 2. New Jersey Crime and Fair Plan**

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

Cumberland Insurance Company, Inc. is a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1 and is subject to the registration requirements of N.J.S.A. 17:27A-3. The Company is a wholly owned subsidiary of Cohanzick Holding, Inc., a New Jersey domiciled insurance holding company, who is owned 100% by the Cumberland Mutual Fire Insurance Company. At December 31, 2006, it was determined by the examination that the Company did file the holding company registration statement in compliance with N.J.S.A. 17:27A-3. Below is the Company organizational chart as of December 31, 2006:



INTER-COMPANY AGREEMENTS

At December 31, 2006, Cumberland Insurance Company, Inc. participated in various inter-company agreements with its parent and affiliates. These Agreements include the following:

Tax Allocation Agreement

Effective as of January 1, 2000 by and among Cumberland Mutual Fire Insurance Company, Cohanzick Holding Company, Inc., Cumberland Insurance Company, Inc. and Chester County Insurance Agency, Inc., collectively referred to as the "Companies". The Companies are members of an affiliated group (the "Affiliated Group") as defined in section 1540 of the Internal Revenue Code of 1986. Under the terms of this agreement, it is agreed that the tax liability of the respective members of the Affiliated Group will be apportioned pursuant to Regulation 1.1552-1(a)(2) of the Code, in accordance with the total separate tax liability attributable to each member of the Affiliated Group. All settlement shall be made thirty days after the filing of the consolidated return.

Expense Sharing Agreement

Effective December 4, 1998, the Company entered into an Inter-company Expense Sharing Agreement with their wholly owned subsidiary, Cumberland Insurance Company, Inc. Under the terms of this agreement, each member shall pay all direct expenses of that member. Such expenses include but are not limited to: commissions, state and local insurance taxes, insurance department licenses and fees, loss adjustment, reinsurance and investment expenses. Allocable expenses shall be allocated among the members based on a percentage of premium volume. Such expense include but are not limited to: payroll, payroll taxes, fringe benefits, advertising, insurance, director fees, travel, equipment, legal, audit, real estate expenses and taxes, data processing, rent and donations. The apportioned pro rata share of incurring expenses is in accordance with SSAP No. 70 - Allocation of Expenses. Payments are due no later than sixty days after each quarter.

POLICY ON CONFLICT OF INTEREST

The Company maintains an annual Conflict of Interest Questionnaire for all directors, officers or employee of the corporation. The Company's By-law, Article VII, stipulates the various conditions and actions, the existence of which would conflict with the proper performance of corporate duties or responsibilities. Each director, officer or employee who has such a conflicting interest is required to make timely disclosure thereof so that it may be part of the Directors' consideration of the transaction.

The examination reviewed all officers and directors executed Conflict of Interest Questionnaire Statements for the period under examination, noting that there were no apparent or potential conflicts of interest.

EMPLOYEE WELFARE AND PENSION PLANS

Cumberland Insurance Company, Inc. has no employee welfare and pension plans in place during the period under examination, as the Company has no employees. All employees are with the Company's ultimate parent Cumberland Mutual Fire Insurance Company.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company, along with its parent and any affiliates are named insured's on a financial institution bond underwritten by Fidelity and Deposit Company of Maryland. The fidelity bond provides the Cumberland Insurance Group with fidelity coverage up to a liability limit of \$1,000,000 on a single loss limit basis, for the bond period of May 14, 2006 through May 14, 2009. The amount of fidelity coverage carried on this policy meets the suggested minimum amount of fidelity coverage as measured on a group basis using the NAIC's formula and exposure index.

The Company also maintains other insurance coverage designed to protect its assets from losses arising out of various risks. The Company is covered under the Cumberland Insurance Group policies which covers NJ, PA, MD and Ohio for the following coverage's

that were in force as at December 31, 2006: commercial package policy which includes property, general liability, automobile, inland marine, boiler and machinery and umbrella coverage's; directors and officers liability; and workers compensation.

POLICY FORMS AND UNDERWRITING PRACTICES

The Company filed its rates, rules and forms filings with the New Jersey Department of Banking and Insurance for their commercial automobile liability, commercial automobile physical damage, commercial business owners – special contractors and commercial general liability lines of business. The Company uses Mutual Services Office (MSO) rates, rules and forms for these lines of business. The commercial line filings have been reviewed and approved by the Department and have been determined to be in compliance with N.J.S.A. 17:29AA-1 et seq. in accordance with N.J.A.C. 11:13-2.1.

ACCOUNTS AND RECORDS

CIC's accounting books and records are maintained at the home office at 633 Shiloh Pike, Bridgeton, New Jersey.

The Company's accounting and statistical information is produced by electronic data processing equipment. Their general ledger is compiled at the home office in Bridgeton. In January of 2004, the Company converted to a computer based general ledger and accounts payable system using software of the PTE Financial Solutions / Freedom System. The general ledger is an excel spread sheet which is linked to the Freedom System.

Premium and loss information is contained on the Company's core system, CSC Point-in Processing System, and resides on the AS400 machine at the Bridgeton office. This system is used to produce relevant and timely premium and loss reports for all states. Premium and loss information contained in these reports is utilized by the Company's accounting department in the preparation of journal entries and for various other external reporting purposes.

The Company's premium information can be rated and calculated by the AGO System, which is located in the home office, and then uploaded to the AS400. The Company also uses the Insurance Data Processing, Inc. (IDP) to generate the rating, policy issuance and state code generation for commercial lines of business for the States of Pennsylvania, Delaware, Maryland and New Jersey. This IDP information is generated from the Pennsylvania office and then uploaded to the AS400. Loss checks are produced and printed from the AS400.

The Company's investment exchanges and results are recorded in the home office with the assistance of software from the SunGard Insurance System. Also, commencing on August 1, 2006, the Company is utilizing the Simultaneous Solutions Incorporated (SIMSOL) Software which is a property estimating program for the Company's adjusters.

Financial information needed in conjunction with the verification of assets and the determination of liabilities was made available in detail and summary form. All quarterly

and annual statements are prepared in-house by the Company's accounting department under the direction and management of the Controller.

ADVERTISING AND SALES MATERIAL

The Company advertises as the "Cumberland Insurance Group". A review of the Company's advertising and sales materials, which includes an on-line web sight, disclosed that the Company is in compliance with N.J.S.A. 17:18-10 and that there were no material inconsistencies between the Company's sales material and the Company's policies.

TREATMENT OF POLICYHOLDERS AND CLAIMANTS

The Company's complaint handling procedures as well as its complaint logs were reviewed for the period under examination. It was determined that the Company was in compliance with the provisions of N.J.S.A. 17:29B-4(10) which states: "This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." The Company's complaints are received from the New Jersey Department of Banking and Insurance.

CONTINUITY OF OPERATIONS

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. Management should assess how the Company's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion.

The Company's comprehensive Business Continuity Plan, which includes a Disaster Recovery Plan, was reviewed and approved by New Jersey Department of Banking and Insurance Office of Solvency Regulation, Information Technology Specialist, Thomas Walker.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A Balance Sheet as of December 31, 2006 and December 31, 2002

**Exhibit B Summary of Operations for the Four-Year Period Ending
December 31, 2006**

**Exhibit C Capital and Surplus Account for the Four-Year Period Ending
December 31, 2006**

CUMBERLAND INSURANCE COMPANY, INC.
BALANCE SHEET AT DECEMBER 31, 2006 AND DECEMBER 31, 2002

	Current Examination at 12/31/06	Balance per Company at 12/31/06	Examination Change	Note Number	Previous Examination at 12/31/02
<u>Assets</u>					
Bonds and Stocks	\$57,007,938	\$59,380,352	(\$2,372,414)	1	\$37,040,823
Cash and Short Term Investments	4,247,152	4,247,152	0		3,440,679
Other Invested Assets	913,265	1,777,439	(864,174)	2	1,555,905
Receivable for Securities	246,008	246,008	0		
Investment Income Due and Accrued	586,657	586,657	0		426,271
Premiums and Considerations:					
In Course of Collection	1,910,910	1,910,910	0	3	595,838
Booked but Deferred and Not Yet Due	8,388,748	8,388,748	0	3	3,621,349
Reinsurance:					
Amounts Recoverable from Reinsurers	138,443	11,962	126,481	4	29,829
Net Deferred Tax Asset	1,305,763	1,305,763	0		1,044,528 **
Guaranty Funds Receivable or on Deposit	(5)	(5)	0		0
Aggregate Write-ins for other than Invested Assets	<u>1,258,146</u>	<u>1,258,146</u>	<u>0</u>		<u>493,877</u>
Total Admitted Assets	<u>\$76,003,025</u>	<u>\$79,113,132</u>	<u>(\$3,110,107)</u>		<u>\$48,249,099</u>
<u>Liabilities</u>					
Losses and Loss Adjustment Expenses	\$33,310,868	\$33,310,868	\$0	5	\$16,572,646
Commissions Payable, Contingent Commissions and Other Similar Charges	1,281,746	1,281,746	0	6	622,156
Other Expenses	213,553	213,553	0		82,868
Taxes, Licenses and Fees	311,757	311,757	0	7	327,332
Current Federal and Foreign Income Taxes Payable	1,175,000	1,175,000	0		572,057 **
Unearned Premiums	14,869,105	14,869,105	0		7,837,401
Ceded Reinsurance Premiums Payable	17,605	17,605	0		17,442
Provision for Reinsurance	25,184	0	25,184	8	0
Payable to Parent, Subsidiaries and Affiliates	1,780,517	1,780,517			1,240,440
Aggregate Write-ins for Liabilities	<u>1,381,266</u>	<u>1,381,266</u>	<u>0</u>		<u>795,686</u>
Total Liabilities	<u>\$54,366,601</u>	<u>\$54,341,417</u>	<u>\$25,184</u>		<u>\$28,068,028</u>
<u>Surplus and Other Funds</u>					
Common Capital Stock	\$2,900,000	\$2,900,000	\$0		2,900,000
Gross Paid In and Contributed Surplus	1,175,354	1,175,354	0		1,175,354
Unassigned Funds (Surplus)	<u>\$17,561,070</u>	<u>20,696,361</u>	<u>(3,135,291)</u>		<u>16,105,717</u>
Surplus as Regards Policyholders	<u>\$21,636,424</u>	<u>\$24,771,715</u>	<u>(3,135,291)</u>	9	<u>\$20,181,071</u>
Total Liabilities, Surplus and Other Funds	<u>\$76,003,025</u>	<u>\$79,113,132</u>	<u>(\$3,110,107)</u>		<u>\$48,249,099</u>

** - Net Deferred Tax Asset and Current Federal and Foreign Income Tax Payable combined on 2002 Annual Statement - Separated for Purposes of 2006 Exhibit A Schedule.

CUMBERLAND INSURANCE COMPANY, INC.
SUMMARY OF OPERATIONS FOR THE
FOUR-YEAR PERIOD ENDING DECEMBER 31, 2006

<u>UNDERWRITING INCOME</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Premiums Earned	\$26,455,623	\$23,405,016	\$19,287,431	\$19,656,469
Deductions:				
Losses Incurred	\$13,303,107	\$13,783,561	\$11,232,207	\$8,896,533
Loss Expenses Incurred	3,415,893	3,749,447	2,801,192	2,268,277
Other Underwriting Expenses Incurred	9,897,942	8,577,838	7,280,734	7,322,828
Aggregate Write-ins for Underwriting Deductions	0	(7)	0	(1)
Total Underwriting Deductions	<u>\$26,616,942</u>	<u>\$26,110,839</u>	<u>\$21,314,133</u>	<u>\$18,487,637</u>
Net Underwriting Gain or (Loss)	<u>(\$161,319)</u>	<u>(\$2,705,823)</u>	<u>(\$2,026,702)</u>	<u>\$1,168,832</u>
 <u>INVESTMENT INCOME</u>				
Net Investment Income Earned	\$2,428,451	\$1,968,086	\$1,570,025	\$1,635,386
Net Realized Capital Gains or (Losses)	(35,546)	421,851	302,532	(24,347)
Net Investment Gain or (Loss)	<u>\$2,392,905</u>	<u>\$2,389,937</u>	<u>\$1,872,557</u>	<u>\$1,611,039</u>
 <u>OTHER INCOME</u>				
Net Gain or (Loss) from Agents' Balances Charged Off	\$57,524	(\$84,758)	(\$401,482)	(\$134,701)
Finance and Service Charges not Included in Premium	106,469	90,227	85,224	95,895
Miscellaneous Income	0	0	0	0
Total Other Income	<u>\$163,993</u>	<u>\$5,469</u>	<u>(\$316,258)</u>	<u>(\$38,806)</u>
Net Income Before Dividends to Policyholders and before Federal & Foreign Income Taxes	<u>\$2,395,579</u>	<u>(\$310,417)</u>	<u>(\$470,403)</u>	<u>\$2,741,065</u>
Dividends to Policyholders	0	0	0	0
Net Income Before Federal Income Taxes	<u>\$2,395,579</u>	<u>(\$310,417)</u>	<u>(\$470,403)</u>	<u>\$2,741,065</u>
Federal Income Taxes Incurred	975,000	90,000	210,000	1,110,000
Net Income	<u><u>\$1,420,579</u></u>	<u><u>(\$400,417)</u></u>	<u><u>(\$680,403)</u></u>	<u><u>\$1,631,065</u></u>

CUMBERLAND INSURANCE COMPANY, INC.
 CAPITAL AND SURPLUS ACCOUNT FOR
 THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
NET INCOME	\$1,421,579	(\$400,417)	(\$680,403)	\$1,631,065
<u>OTHER SURPLUS GAINS OR (-) LOSSES</u>				
Net Unrealized Capital Gains or (-) Losses	\$1,005,267	(\$391,652)	\$544,830	\$1,163,046
Change in Net Deferred Income Tax	184,658	(85,956)	950,769	(982,223)
Change in Nonadmitted Assets	(3,163,773) *	26,794	(39,000)	296,153
Change in Provision for Reinsurance	(25,184) **	0	0	0
Cumulative Effect change in Accounting Principles	0	0	0	0
Capital Changes:				
Paid In	0	0	0	0
Surplus Adjustments:				
Paid In	0	0	0	0
Dividends to Stockholders	0	0	0	0
Extraordinary Amounts of Taxes for Prior Years	0	0	0	0
Aggregate Write-in Gain or Loss in Surplus:				
Prior Period Adjustment	0	0	0	0
Total Other Surplus Gains or (-) Losses	(\$1,999,032)	(\$450,814)	\$1,456,599	\$476,976
Change in Surplus as Regards				
Policyholders for the Year	(\$577,453)	(\$851,231)	\$776,196	\$2,108,041
Surplus as Regards Policyholders				
December 31, Previous Year	<u>\$22,213,877</u>	<u>\$23,065,108</u>	<u>\$22,288,912</u>	<u>\$20,180,871</u>
Surplus as Regards Policyholders				
December 31, Current Year	<u>\$21,636,424</u>	<u>\$22,213,877</u>	<u>\$23,065,108</u>	<u>\$22,288,912</u>

* - Examination changes of \$3,110,107

** - Examination change of \$25,184

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: BONDS AND STOCKS

Cumberland Insurance Company, Inc. reported an admitted assets for bonds, preferred stocks and common stocks of \$53,501,647, \$1,031,016 and \$4,849,687, respectively at December 31, 2006.

A review of the Company's custodial agreement with Wachovia Bank noted that the Company no longer held their securities with Wachovia Bank. US Bank in Philadelphia, PA assumed the contracts of Wachovia Bank. US Bank is not a bank within the geographic limits of the State of New Jersey and also is not a New Jersey Qualified Bank.

In reviewing Cumberland Insurance Company, Inc., it was noted by this examination that the Company did not have their bonds in a bank within the geographic limits of the State of New Jersey and not in a New Jersey Qualified Bank as per N.J.S.A. 17:24-12(g) which states that the Company “g. As long as there are held for safekeeping within the geographical limits of this State securities having a value of not less than \$50,000,000.00, any other debt securities which are publicly traded.”

It is recommended that the Company relocate their Bonds to a New Jersey Qualified Bank or a bank within the geographical limits of the State of New Jersey as per N.J.S.A. 17:24-12(g).

It is also recommended by this examination that the Company obtain a custodian agreement with this New Jersey Qualified Bank or a bank within the geographical limits of the State of New Jersey. This custodian agreement should contain the appropriate safeguards and controls, including the proper indemnification clauses, to replace any securities lost by the custodian as per the NAIC Financial Condition Handbook guidelines on Custodian and Safekeeping Agreements.

It was determined by this examination that investments in foreign securities and common stocks that did not have a five year dividend history would not be allowed as an admitted asset. However these items qualify as admitted assets under the basket clause. For further information please see the subsection titled Investment Basket Clause Provision under the asset titled Other Invested Assets.

It was determined by this examination after calculating the Company's Investment Basket Clause Provision that the Company should non-admit those securities classified as foreign investments and common stock investments not having a five-year dividend history under the basket clause provision in the amount of \$2,372,414 for Bonds and Stocks. Please see the subsection titled Investment Basket Clause Provision under the asset titled Other Invested Assets.

It is the recommendation of this examination that the Company comply with N.J.S.A. 17:24-1(g) and non-admit those assets that exceed the basket clause limit at year-end.

NOTE 2: OTHER INVESTED ASSETS

At December 31, 2006 the Company reported an asset for Other Invested Assets of \$1,777,439 which was \$864,174 more than the amount determined by this examination of \$913,265. Upon review, and in accordance with N.J.S.A. 17:24-1(g), it was determined by this examination that a portion of this asset will not qualify as admitted assets under the basket clause. An explanation of this qualification is summarized below:

Basket Clause Provision:

At December 31, 2006 the Company's basket clause assets and the respective limits under this clause are summarized below:

Basket Clause Limit (2005 Admitted Assets of 68,408,909 * .05) \$ 3,420,445

Basket Clause assets at December 31, 2006

Bonds and Stocks:

Investments in Foreign Securities	4,139,504
Stocks without a five year dividend history	<u>740,091</u>
Sub-total	<u>4,879,595</u>

Other Invested Assets:

Other Invested Assets per Schedule BA	1,777,439
Total	<u>6,657,034</u>

Total basket clause non-admitted assets at
December 31, 2006 \$3,236,589

Total basket clause non-admitted asset for Bonds and Stocks (73%)	2,372,414
Total basket clause non-admitted asset for Other Invested Assets (27%)	864,174

The basket clause non-admitted asset of \$3,236,589 was allocated between the assets Bonds and Stocks and Other Invested Assets. The 73% allocation for Bonds and Stocks was based on Investments in Foreign Securities and Stocks without a five year dividend history totaling \$4,879,595 divided by the Sub-total of basket clause assets of \$6,657,034. The 27% allocation for Other Invested Assets was based on Other Invested Assets per Schedule BA totaling \$1,777,539 divided by the Sub-total of basket clause assets of \$6,657,034.

At December 31, 2006 the Company exceeded its basket clause limits in the amount of \$3,236,589. The Company reported 12 foreign bonds, 1 foreign preferred stock and 1 foreign common stock that had an admitted asset value of \$4,139,504. If the Company chooses to invest in securities of foreign countries where the Company is not licensed to transact business, then these foreign securities are included as part of the "basket clause provision" in order to be in compliance with the provisions of N.J.S.A. 17:24-10.

The Company reported 4 stocks that did not have a five-year history of dividend payments. Accordingly, the Company was not in compliance with N.J.S.A. 17:24-1(e). The total fair value of this stock was \$740,091. Additionally, all investments reported in Schedule BA will also be included in the basket clause calculation.

It is the recommendation of this examination that the Company comply with N.J.S.A. 17:24-1(g) and non-admit those assets that exceed the basket clause limit at year-end.

NOTE 3: PREMIUMS AND CONSIDERATIONS

At December 31, 2006 the Company reported an asset for Premiums and Considerations of \$10,299,658 which was accepted for purposes of this examination.

Upon review of the premium data it was determined that the Company was unable to provide a detail listing of the aging of premium receivables on a policy by policy basis. To calculate its uncollected premiums, the Company subtracted from premiums written, amounts received from insureds and other adjustments, such as cancellations. It is recommended that the Company devise a system to track the aging of premiums receivable on a year to date policy by policy basis.

In the review of this asset, it was noted that the Company did not report accrued retrospective premiums under the Asset Line 13.3 – Accrued Retrospective Premiums.

It is recommended by this examination that the Company report accrued retrospective premiums under the Asset Line 13.3 – Accrued Retrospective Premiums in future annual statements.

NOTE 4: AMOUNTS RECOVERABLE FROM REINSURERS

At December 31, 2006, the Company reported an asset for amounts recoverable from reinsurers of \$11,962 which was \$126,481 less than the amount determined by this examination of \$138,443.

The examination difference was attributed to the Company reporting overdue reinsurance recoverable as a non-admitted asset instead of part of the liability – Provision for Reinsurance as per SSAP No. 62 – Property and Casualty Reinsurance, bullet No. 19. – Accounting for Reinsurance.

Upon recalculation of the amounts recoverable from reinsurers, it was determined by this examination that the Company has an amounts recoverable from reinsurer of \$138,443 and a liability for Provision from Reinsurance of \$25,184. Please see Note 9: Provision for Reinsurance.

It is recommended by this examination that the Company report overdue reinsurance as part of the liability account – Provision for Reinsurance in future annual statements.

NOTE 5: LOSS AND LOSS ADJUSTMENT EXPENSES

At December 31, 2006 the Company reported a net liability for Losses and Loss Adjustment Expenses of \$ 33,310,868. A review of the reserves for losses and loss adjustment expenses was completed under the direction of the Property and Casualty Actuarial Division of the New Jersey Department of Banking and Insurance. On the basis of this review, the Company's reserves were determined to be reasonable and the balance will be accepted as stated.

Net loss reserves, as reported by the Company and as determined by this examination, totaled \$ 26,871,868.

Net loss adjustment expense reserves, as reported by the Company and as determined by this examination, totaled \$6,439,868.

The examination performed reconciliations of case reserves and paid loss totals from annual statement page 9 "Losses Paid and Incurred" and page 10 "Unpaid Losses and Loss Adjustment Expenses" to Schedule P of the Company's annual statement.

NOTE 6: COMMISSIONS PAYABLE, CONTINGENT COMMISSIONS AND OTHER SIMILAR CHARGES

At December 31, 2006 the Company reported a liability for commissions payable, contingent commission and other similar charges of \$1,281,746 which was accepted for examination purposes.

In the review of this liability, it was noted that the Company does not record and establish a liability for Commission and Brokerage Contingents in a manner consistent with the calculation of the Contingent Commission liability of the Cumberland Insurance Group, though consistent with practice established within the Company for the past twenty years.

It is recommended by this examination that the Company in future annual statements calculate the liability of Commission and Brokerage Contingents by individual Company (Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc.) and disburse this liability separately by individual Company.

NOTE 7: TAXES, LICENSES AND FEES

At December 31, 2006 the Company reported a liability for Taxes, Licenses and Fees of \$311,757 which was accepted for purposes of this examination.

It was determined by this examination that the Company did not include Finance and Services Charges not Included in Premiums with World Wide Premiums on their New Jersey Premium Tax form. It is recommended that the Company report their New Jersey Premium Tax form to include Finance and Service Charges not Included in Premiums on a World Wide Premiums basis in future filings.

NOTE 8: PROVISION FOR REINSURANCE

At December 31, 2006, the Company reported a balance of \$0 for Provision for Reinsurance which was \$25,184 less than the amount of \$25,184 as determined by this examination.

In the review of this liability, it was noted that the Company reported overdue reinsurance as a non-admitted asset under the asset account titled Amounts Recoverable for Reinsurance. After reclassifying the overdue amounts recoverable to the proper annual statement Schedule F exhibits, it was determined by this examination that the Company under-reserved for Provision for Reinsurance in the amount of \$25,184 for year end 2006.

It is recommended by this examination that the Company report overdue amounts recoverable from reinsurers under Schedule F – Part 3 and Part 4 by reinsurer and calculate the proper penalty for overdue reinsurance in Schedule F – Part 5, Part 6 and Part 7 and record this penalty under the Liability Line 16 – Provision for Reinsurance.

NOTE 9: SURPLUS AS REGARDS POLICYHOLDERS

Unassigned Funds (Surplus)

The Company reported surplus as regards to policyholders at December 31, 2006 of \$24,771,715 which consisted of common capital stock of \$2,900,000, gross paid in and contributed surplus of \$1,175,354 and unassigned funds of \$20,696,361. The examination reported surplus as regards to policyholders of \$21,636,424 which was \$3,135,291 less than the amount reported by the Company. This decrease is due to examination changes to the Company's various assets and liability accounts, which ultimately affect the unassigned funds (surplus) account as follows:

Unassigned Funds (Surplus) at December 31, 2006 (per Company) \$ 24,771,715

Decreases in Surplus:

Bonds and Stocks	\$2,372,414
Other Invested Assets	864,174
Provision for Reinsurance	<u>25,184</u>
Total Decreases in Surplus	3,261,772

Increases in Surplus:

Amounts Recoverable for Reinsurers	<u>126,481</u>
Total Increases in Surplus	126,481

Net Decrease in Unassigned Funds (Surplus) 3,135,291

Unassigned Funds (Surplus) at December 31, 2006 (per Examination) \$21,636,424

SUMMARY OF RECOMMENDATIONS

Territory and Plan of Operation (pg. 7)

It is recommended that the Company execute a signed contract with "Alliance Claims Solutions" for the services which are provided to the Company by Alliance Claims Solutions.

Reinsurance (pg. 14)

It is recommended by this examination that the Company file a Form D with the New Jersey Department of Banking and Insurance creating a Reinsurance Allocation Inter-Company Agreement with its ultimate parent, Cumberland Mutual Fire Insurance Company on each reinsurance contract in which they are collectively referred to as the "Company" or collectively referred to as the "Cumberland Insurance Group" on the agreements. The contract should state that various allocations be fair and equitable in dividing reinsurance recoveries and the allocation of premiums among the two companies by line of business.

Bonds and Stocks (pg. 23)

It is recommended that the Company relocate their Bonds to a New Jersey Qualified Bank or a bank within the geographical limits of the State of New Jersey as per N.J.S.A. 17:24-12(g).

It is also recommended by this examination that the Company obtain a custodian agreement with this New Jersey Qualified Bank or a bank within the geographical limits of the State of New Jersey.

It is the recommendation of this examination that the Company comply with N.J.S.A. 17:24-1(g) and non-admit those assets that exceed the basket clause limit at year-end.

Other Invested Assets (pg. 25)

It is the recommendation of this examination that the Company comply with N.J.S.A. 17:24-1(g) and non-admit those assets that exceed the basket clause limit at year-end.

Premiums and Considerations (pg. 25)

It is recommended that the Company devise a system to track the aging of premiums receivable on a year to date policy by policy basis.

It is recommended by this examination that the Company report accrued retrospective premiums under the Asset Line 13.3 – Accrued Retrospective Premiums in future annual statements.

Amounts Recoverable for Reinsurers (pg. 25)

It is recommended by this examination that the Company report overdue reinsurance as part of the liability account – Provision for Reinsurance in future annual statements.

Commissions Payable, Contingent Commissions and Other Similar Charges (pg. 26)

It is recommended by this examination that the Company in future annual statements calculate the liability of Commission and Brokerage Contingents by individual Company (Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc.) and disburse this liability separately by individual Company.

Taxes, Licenses and Fees (pg. 26)

It is recommended that the Company report their New Jersey Premium Tax form with Finance and Service Charges not included in Premiums on a World Wide Premiums basis in future filings.

Provision for Reinsurance (pg. 27)

It is recommended by this examination that the Company report overdue amounts recoverable from reinsurers under Schedule F – Part 3 and Part 4 by reinsurer and calculate the proper penalty for overdue reinsurance in Schedule F – Part 5, Part 6 and Part 7 and record this penalty under the Liability Line 16 – Provision for Reinsurance.

SUBSEQUENT EVENTS

Effective April 1, 2007, Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, (the Companies) withdrew from the Garden State Reinsurance Association (GSRA) Claims Service Center. GSRA handles the Workers Compensation Claims for New Jersey only. The Companies have no intent of withdrawing from the following GSRA services: reinsurance costs, unit state reporting, share of Guy Carpenter costs and other items that come before GSRA.

Effective February 14, 2007, the Companies entered into a Third Party Claims Administrative Services Agreement by and between PMA Management Corp. (PMA), incorporated under the laws of the Commonwealth of Pennsylvania and Cumberland Mutual Fire Insurance Company trading as "The Cumberland Insurance Group". PMA is a duly authorized provider of TPA services for the State of New Jersey. PMA shall provide customary and appropriate Workers' Compensation claims handling services for all qualified New Jersey claims. Such services include but are not limited to: investigation of each claim, adjusting, settling or litigation subrogation setting claim reserves and necessary and customary administrative tasks. The Company shall pay PMA the following fees on a quarterly basis: claims services fees, takeover claim fees, annual administrative fees, managed care fees, risk control service fees, data conversion fee and risk management information system fees. This Agreement is for a term of one (1) year until February 13, 2008 and shall remain in full force and effect unless otherwise amended or terminated. The Agreement shall be terminated upon ninety (90) days advance written notice by either party with or without cause.

Effective February 14, 2008, the Company entered into a Third Party Claims Administrative Services Agreement by and between PMA Management Corp. (PMA), incorporated under the laws of the Commonwealth of Pennsylvania and Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc. trading as "the Cumberland Insurance Group". PMA is duly authorized provider of TPA services for the State of New Jersey and for the Commonwealth of Pennsylvania. PMA shall provide customary and appropriate Workers' Compensation claims handling services for all qualified New Jersey and Pennsylvania claims. Such services include, but are not limited to: investigation of each claim, adjusting, settling or litigation subrogation setting claim reserves and necessary and customary administrative tasks. The Company shall pay PMA the following fees on a quarterly basis: claims services fees, takeover claim fees, annual administrative fees, managed care fees, risk control service fees, data conversion fee and risk management information system fees. This Agreement is for a term of one (1) year until February 13, 2009 and shall remain in full force and effect unless otherwise amended or terminated. The Agreement shall be terminated upon ninety (90) days advance written notice by either party with or without cause. The Agreement between PMA and the Cumberland Insurance Group, dated April 19, 2002, shall be superseded by the terms and conditions of this Agreement.

Effective October 29, 2007, the Company is licensed to write the following lines of business in the State of Ohio: commercial auto and private passenger auto for liability other, no-fault

and physical damage, also multiple peril – commercial and other liability. They are also offering personal auto insurance in the State of Maryland.

CUMBERLAND INSURANCE COMPANY, INC.

I, Vincent Kaighn, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2006 to the best of my information, knowledge and belief.

Respectfully Submitted,

Respectfully Submitted,

/S/

Vincent Kaighn

Supervising Insurance Examiner

New Jersey Department of Banking & Insurance

State of New Jersey

County of Mercer

Subscribed and sworn to before me, on this 18th day of June, 2008.

/S/

Catherine M. Liptak

Notary Public of New Jersey

My commission expires: January 21, 2013