



## STATE OF MAINE

### BUREAU OF INSURANCE

**IT IS HEREBY CERTIFIED THAT THE ANNEXED REPORT OF  
EXAMINATION FOR**

**North East Insurance Company**

**has been compared with the original on file in this bureau and that it is a correct transcript  
therefrom and of the whole of said original.**

**IN WITNESS WHEREOF,**

**I have hereunto set my hand and affixed the official seal of this Office at the City of  
Gardiner this**

**twenty-ninth day of November, 2011.**

  
**Eric A. Cioppa**  
**Superintendent**

**REPORT OF EXAMINATION**  
**NORTH EAST INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2009**



Paul R. LePage  
GOVERNOR

STATE OF MAINE  
DEPARTMENT OF PROFESSIONAL  
AND FINANCIAL REGULATION  
BUREAU OF INSURANCE  
34 STATE HOUSE STATION  
AUGUSTA, MAINE  
04333-0035

Eric A. Cioppa  
SUPERINTENDENT

September 23, 2011

Eric A. Cioppa  
Superintendent  
Maine Bureau of Insurance  
34 State House Station  
Augusta, ME 04333-0034

Dear Superintendent:

Pursuant to the provisions of 24-A M.R.S.A. §221, and in conformity with your instructions, a financial examination has been made of the

**NORTH EAST INSURANCE COMPANY**

at its statutory administrative office in South Portland, Maine. The following report is respectfully submitted.



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OFFICES LOCATED AT: 76 NORTHERN AVENUE, GARDINER, MAINE 04345

## ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified Report of Examination of North East Insurance Company dated September 23, 2011 was delivered to that insurer on November 7, 2011, and

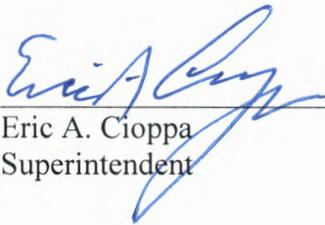
WHEREAS North East Insurance Company and Maine Bureau of Insurance staff have agreed to certain modifications with respect to the report of examination, and

WHEREAS I find such modifications proper, and

WHEREAS no hearing with respect to the report of examination has been requested by North East Insurance Company,

NOW THEREFORE, I accept the report of examination as modified and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S.A. §226(3).

Dated: 11/29/2011

  
Eric A. Cioppa  
Superintendent

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## SCOPE OF EXAMINATION

North East Insurance Company (hereinafter, "Company") was last examined as of December 31, 2004, by the State of Maine Bureau of Insurance (hereinafter, "MBOI"). This examination considers the period from January 1, 2005, to the close of business on December 31, 2009.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (hereinafter, "NAIC"). This examination consisted of a review of the Company's operations, administrative practices, valuation of assets, and determination of liabilities at December 31, 2009. This examination was performed in accordance with NAIC guidelines, the 2009 NAIC Financial Condition Examiners Handbook, (hereinafter, "FCEH"), the 2009 Accounting Practices & Procedures Manual, and the laws, rules, and regulations prescribed or permitted by the State of Maine. To the extent deemed appropriate, this examination utilized the work-papers of the Company's independent accountants for the year ending December 31, 2009. This examination was, to the extent possible, coordinated with the examination of the Tower Insurance Company of New York (hereinafter, "TICNY"), Hermitage Insurance Company, and CastlePoint Insurance Company performed by the New York Insurance Department (hereinafter, "NYID"). In addition to the State of Maine, other states participating in this examination included Illinois, Massachusetts, New Hampshire and New Jersey.

The NYID examination included an actuarial review of the Tower Group, Inc. (hereinafter, "TG") pool of which TICNY is the lead. NYID review of the TG pool included reviews of underwriting, premium collection, loss reserves, claims handling, and reinsurance. NYID contracted with Noble Consulting Services, Inc. to review general controls of TG's information technology processes in accordance with the risk-focused examination standards. Areas reviewed in the NYID examination included a review of corporate minutes, business policies, underwriting practices, reinsurance and aggregate loss and loss expense reserves.

In addition to the NYID examination, the MBOI conducted an examination of the Company for state compliance. Areas reviewed, specific to the Company, included corporate minutes, business policies, policy issuance, claims handling, and investments.

To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed.

The results of this examination present fairly the financial condition of the Company as of December 31, 2009. Comments, for purposes of this report, may be limited to matters involving clarification, departures from laws, rules and regulations, and/or significant changes in amounts.

## SUMMARY OF SIGNIFICANT FINDINGS

### **PRIOR EXAMINATION**

The comments and recommendations included in the report of examination as of December 31, 2004, follow this paragraph. The status of the issues identified in the previous report of examination have been included as well.

#### **1. Comment:**

There is no formal written tax sharing agreement between Preserver Group, Inc. (hereinafter, "PGI") and the Company.

#### **Recommendation:**

The Company and its parent, PGI should execute a formal written tax sharing agreement.

#### **Status:**

Closed. Effective April 10, 2007, TG and TICNY acquired PGI (including the Company). TG executed a formal tax sharing agreement with its affiliates, including the Company, dated September 12, 2008.

#### **2. Comment:**

The catastrophe reinsurance contracts provided for 2003 and 2004 did not include all of the interests and liability agreements for all of the reinsurers. Additionally, several of the reinsurance contracts were not executed timely. None of the reinsurance contracts contained an "entire contract clause" as required by SSAP No. 62 ¶8.

#### **Recommendation:**

It is recommended that the Company maintain complete timely executed copies of all reinsurance agreements to ensure compliance with SSAP No. 62 ¶23, and that all contracts contain an "entire contract clause" as required by SSAP No. 62 ¶8.

#### **Status:**

Closed. The Company provided the missing interest and liability agreements and indicated that it would try to execute reinsurance contracts as quickly as possible noting that the drafting of such agreements by reinsurers takes time. The Company further stated that it would ensure that all future agreements include an "entire contract clause".

#### **3. Comment:**

One of the custodial agreements did not include an indemnification clause as required by the FECH, Part I, §IV (J). Custodial agreements should at least contain an indemnification of the Company by the custodian in the event that securities are lost. Additionally, custodial agreements should provide for the prompt replacement of any lost securities.

#### **Recommendation:**

The Company should execute a revised custodial agreement including the indemnification clause, and ensure that all custodial agreements are in compliance with the FECH.

**Status:**

Closed. A new custodial agreement, executed July 17, 2007, in place during 2009 was in compliance with the FECH.

**4. Comment:**

The bank reconciliation of the Company's primary checking account listed approximately 690 old outstanding checks issued before June 30, 2001, that should have been escheated to the State of Maine as required by 33 M.R.S.A. §1953. This requirement is also published in the Office of the Treasurer "Unclaimed Property 2005-2006 Holder Report Forms & Instructions".

**Recommendation:**

The Company should submit unclaimed property timely to the State of Maine to be in compliance with state statutes.

**Status:**

Closed. The Company filed unclaimed property reports during the period of this examination.

**5. Comment:**

The Company is not accounting for advance premiums in the 2004 Annual Statement, which causes both the premium receivable and the liabilities to be understated. Not reporting the advance premium as a liability is not in compliance with SSAP No. 53 ¶13. Receivables over 90 days old were noted during the testing of premiums receivable. As they were not written off and appeared on the receivable report, they should have been identified and reported as non-admitted on the annual statement. The Company was unable to provide an aged receivable report and could not quantify the amount of receivables over 90 days which should be reported as non-admitted. This is not in compliance with SSAP No. 6 ¶9.

**Recommendation:**

The Company should ensure that the annual statement reporting is accurate and that the annual statements include advance premium as a liability in compliance with SSAP No. 53. Also, the Company needs to develop an aged receivable report from which it can report admitted and non-admitted assets on the annual statement in compliance with SSAP No. 6 ¶9.

**Status:**

Closed. The Company has reported an advance premium liability in all subsequent annual statements.

**6. Comment:**

The Company is reporting deferred tax assets and deferred tax liabilities as separate items on the annual statement, which is not in compliance with SSAP No. 10 ¶7.

**Recommendation:**

The Company needs to review the presentation on the annual statement to ensure compliance with presentation requirements pursuant to SSAP No. 10 ¶7, which requires deferred tax assets and deferred tax liabilities to be offset and presented as a single amount.

**Status:**

Closed. The Company has reported deferred taxes in all subsequent annual statements pursuant to SSAP No.10 ¶7.

**CURRENT EXAMINATION**

The significant comments and recommendations related to the current examination follow:

**1. Comment**

The MBOI relied on the NYID to review the net loss reserves as carried by the TG pool. The NYID determined that, as of December 31, 2009, the TG pool carried loss & loss adjustment expense reserves of \$693,000,000. The NYID determined that the reserves carried by the TG pool were deficient by \$43,100,000. The deficiency represented 6.2% of the pooled carried reserves. Based on this evaluation, the Company's carried loss & loss adjustment expense reserves of \$27,000,000 were deficient by \$1,700,000.

**Recommendation:**

The Company should review its claim reserving methodology.

**2. Comment:**

Pursuant to the amended and restated pooling agreement dated January 1, 2009, the Company became a participating member of the pooled business. The pooling agreement was further amended effective February 5, 2009, April 1, 2009, and December 31, 2009. None of aforementioned amendments reference the inclusion of the added participants retroactive to January 1, 2009; however, based on the financial statements of all pool participants the pooling was recorded as if these amendments were retroactive to January 1, 2009, and not in accordance with the agreement(s).

**Recommendation:**

Amendments to pooling agreements should include the effective date and retroactive date when applicable.

**SUBSEQUENT EVENTS**

Effective July 1, 2009, TG and its 100% owned subsidiaries, CastlePoint National Insurance Company, formerly known as SUA Insurance Company, and TICNY, announced the acquisition of the personal lines division of OneBeacon Insurance Group. The transaction, completed in 2010, included the acquisition of Massachusetts Homeland Insurance Company, York Insurance Company of Maine (hereinafter, "York"), and two management companies. Effective that same day, the Company entered into a 100% intercompany quota share

reinsurance agreement with York. The Company assumed York's net in-force, new and renewal premium and net loss and loss adjustment expense reserves for personal lines business.

Effective March 19, 2010, the Company paid a \$4,700,000 extraordinary dividend to its stockholder.

During 2010, the Company began writing surplus lines in California.

## **THE COMPANY**

### **HISTORY**

The Company was organized as a Maine corporation on August 9, 1965, and began writing property and casualty insurance in Maine in June 1966. The Company became a wholly-owned subsidiary of PGI as a result of the September 24, 1999, acquisition by PGI. PGI, formerly known as Motor Club of America, is a New Jersey insurance holding company. The Company's wholly-owned subsidiary, American Colonial Insurance Company, a New York insurance company, was merged into the Company in June 2003. Effective April 10, 2007, PGI and its subsidiaries were acquired by TG.

The Company's statutory home office is in South Portland, Maine with main administrative offices in New York, New York.

### **CORPORATE RECORDS**

The Company's articles of incorporation, by-laws, and minutes of the board of directors' meetings held during the period under examination were reviewed.

### **CORPORATE OWNERSHIP**

The Company owns 100% of the stock of North Atlantic Underwriters, Inc., a Maine licensed insurance agency. North Atlantic Underwriters, Inc. became licensed in California on November 12, 2009, as a surplus lines agency.

At December 31, 2009 the Company was 100% owned by PGI. At December 31, 2009, PGI was 62.5% owned by TG and 37.5% TICNY.

The organizational structure of TG at December 31, 2009, follows:

### Holding Company Structure

Tower Group, Inc. (DE)	
Tower Insurance Company of New York (NY)	100.00%
Preserver Group, Inc. (NJ) a b	37.50%
Preserver Insurance Company (NJ)	100.00%
North East Insurance Company (ME) b	100.00%
North Atlantic Underwriters, Inc. (ME)	100.00%
Mountain Valley Indemnity Company (NH)	100.00%
Tower Risk Management Corp. (NY)	100.00%
Tower National Insurance Company (MA)	100.00%
Speciality Underwriters Alliance, Inc. (DE)	100.00%
SUA Insurance Agency, Inc. (DE)	100.00%
SUA Insurance Company (IL) c	100.00%
Ocean II (DE)	100.00%
Ocean I (DE)	100.00%
CastlePoint Bermuda Holdings Ltd. (Bermuda)	100.00%
CastlePoint Reinsurance Company, Ltd. (Bermuda)	100.00%
HIG, Inc. (DE)	100.00%
American Resources Insurance Consultants, LLC (AL)	100.00%
Hermitage Insurance Company (NY)	100.00%
Kodiak Insurance Company (NJ)	100.00%
CastlePoint Management Corp. (DE)	100.00%
AequiCap CP Services Group, Inc. (FL) d	100.00%
CastlePoint Insurance Company (NY) e	50.00%
CastlePoint Florida Insurance Company (FL)	100.00%

a. TG owns the remaining 62.5%

b. Effective December 2010, ownership of the Company was transferred to TICNY in exchange for TICNY's 37.5% ownership of PGI.

c. Renamed CastlePoint National Insurance Company.

d. Renamed CastlePoint Risk management of Florida Corp.

e. CastlePoint Reinsurance Company, LTD owns the remaining 50%.

## **CORPORATE GOVERNANCE**

The Company has a board of directors comprised of TG management. The board of directors approves the strategic direction of the Company's business and financial objectives, monitors the effectiveness of management's implementation of policies and plans, and provides oversight and support in achieving corporate objectives.

At December 31, 2009, the Company's board of directors, listed in the 2009 statutory annual statements, consisted of seven individuals.

### **Board of Directors**

<b><u>Name</u></b>	<b><u>Title</u></b>
Francis M. Colalucci *	Senior Vice President, Chief Financial Officer, Tower Group, Inc.
Michael H. Lee	Chairman of the Board, President and Chief Executive Officer, Tower Group, Inc.
Gary S. Maier	Senior Vice President, Chief Underwriting Officer, Tower Group, Inc.
Elliot S. Orol	Senior Vice President, General Counsel and Secretary, Tower Group, Inc.
Christian K. Pechmann	Senior Vice President Marketing, Tower Group, Inc.
Laurie A. Ranegar	Senior Vice President Operations, Tower Group, Inc.
Joel S. Weiner	Senior Vice President, Chief Actuary, Tower Group, Inc.

\*Retired in 2010 and was replaced by Mr. William E. Hitselberger, the current Senior Vice President and Chief Financial Officer, TG.

At December 31, 2009, the Company's officers, listed in the 2009 statutory annual statements, consisted of four individuals.

### **Officers**

<b><u>Name</u></b>	<b><u>Title</u></b>
Michael H. Lee	CEO
Ronald A. Libby	President & COO
Michael C. Haines	Treasurer & CFO
Elliot S. Orol	Secretary

## **CODE OF CONDUCT AND CONFLICT OF INTEREST**

Title 24-A M.R.S.A. §3413 identifies certain areas of potential conflicts of interest including prohibited pecuniary interests of officials and others and prohibited use of confidential information. The Company requires that each employee, officer and director read and understand its code of business conduct and ethics (hereinafter, "Code"). All employees sign an acknowledgement which states that they have read a copy of the Code as a condition of employment.

## **FIDELITY BOND AND OTHER INSURANCE**

A blanket fidelity bond protects the Company. The \$5,000,000 fidelity bond maintained by the Company satisfies the NAIC suggested amount of \$500,000. The Company maintains other insurance policies including directors' and officers' liability, commercial package, business auto, workers compensation, employed lawyers, agents errors and omissions, court bond and license, and permit bond coverage.

**TERRITORY & PLAN OF OPERATION**

The Company is licensed to write business in the District of Columbia, Louisiana, Maine, Nevada, New York, Rhode Island, and Utah. The Company is also licensed to write surplus and excess lines in the state of North Dakota.

The Company primarily provides personal and commercial automobile, liability and physical damage, and commercial multi-peril in the states of Maine and New York.

**TRANSACTIONS WITH AFFILIATES**

The Company entered a management and cost sharing agreement with PGI effective January 1, 2002. Pursuant to the agreement, PGI provided management services and personnel to the Company for certain business purposes. Management services included, but were not limited to, the issuance of policies of insurance, the collection of premiums, the payment of commissions, the adjustment of claims, the establishment and management of bank accounts, the supervision of the investment portfolio, and the general performance of acts incidental to the Company's business activities. The Company reimbursed PGI for amounts disbursed on its behalf pursuant to commissions, claims, and return premiums. The Company also reimbursed PGI for 105% of expenses allocated to the Company.

Effective May 1, 2009, the Company entered a service and expense sharing agreement with TICNY. Pursuant to the agreement, TICNY performs all the functions related to the conduct of property and casualty business on behalf of the Company. Fees for services provided are allocated in accordance with NY Department's Regulation 30 and in accordance with the Company's allocated percentage participation in the Pooling Agreement then in effect.

Effective September 12, 2008, the Company entered an income tax allocation agreement with TG and each of its subsidiaries. Tax allocations are based upon separate return calculations with current credit for any net operating losses or other items utilized in the consolidated return.

Effective January 1, 2008, the Company became a party to an amended and restated pooling agreement with TICNY. Pursuant to the agreement, all business written directly or assumed is ceded to TICNY. TICNY is required as part of this agreement to establish a pool for all business assumed from all affiliated companies subject to this agreement. As part of such cession, TICNY negotiates, obtains, and maintains such reinsurance as it deems appropriate with respect to the insurance liability under all of the policies written or assumed by TICNY (including business assumed pursuant to this agreement). The pooled business, net of the aforementioned reinsurance, is ceded to the participating companies based on a pre-determined participation percentage. The agreement allows for a change in the participation percentage from time to time. Effective January 1, 2008, through December 31, 2009, the Company's participation percentage was 5%. Effective December 31, 2009, the Company's participation percentage was changed to 4%.

## GROWTH OF COMPANY

The period of examination covers the period commencing January 1, 2005, through December 31, 2009. Direct, assumed, ceded, and net written premiums for the period are illustrated in the table below:

	<b>Premiums Written</b>				
	<b>(000's omitted)</b>				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Direct business	\$ 18,291	\$ 20,361	\$ 22,323	\$ 24,172	\$ 22,969
From affiliates	35,282	17,202	-	-	-
From non-affiliates	3	7	(19)	-	16
To affiliates	18,294	20,368	7,038	-	-
To non-affiliates	-	-	878	1,442	1,163
Net Premiums Written	<u>\$ 35,282</u>	<u>\$ 17,202</u>	<u>\$ 14,388</u>	<u>\$ 22,730</u>	<u>\$ 21,822</u>

During the period of January 1, 2005, through April 10, 2007, the Company was 100% owned by PGI and was operating as an independent subsidiary. Effective April 10, 2007 PGI (including the Company) was acquired by TG.

Direct premiums written have declined each year except 2006. "Assumed affiliates" represents reinsurance assumed from affiliates as a result of the Company's participation in the TG pool which commenced January 1, 2008. "Ceded affiliates" represents reinsurance ceded to affiliates as a result of the TG pool participation. "Ceded affiliates" also includes a quota share cession to CastlePoint Reinsurance Company, Ltd. which commenced in 2007. The significant growth in net written premium during 2009 is attributable to the additions of Hermitage Insurance Company and SUA Insurance Company (subsequently renamed CastlePoint National Insurance Company) to the TG pool during the year.

## ACCOUNTS AND RECORDS

As described under the "Scope of Examination" section, this examination was a coordinated examination with the NYID. The NYID, the lead state, performed an examination of TICNY. NYID contracted with Noble Consulting Services, Inc. to perform a review general controls of the TICNY's information technology in accordance with the risk-focused examination process. Reliance was placed on the Noble Consulting Services, Inc. review of management, organizational controls, logical and physical security controls, changes to applications and program development, contingency planning, and operations and processing controls.

## STATUTORY DEPOSITS

The Company reported the following security deposits as of December 31, 2009:

<u>State</u>	<u>Purpose</u>	<u>Asset Description</u>	<u>Fair Value</u>
Maine	General	Federal Home Loan Bank 06/14/2013	872,320
			<u>\$ 872,320</u>

## REINSURANCE

The Company is a participant in an intercompany pooling agreement. As such, the Company cedes 100% of its gross premiums written and losses to the pool manager, TICNY. As stated in the annual statement, TICNY is responsible for the cession to non-affiliated reinsurers. TICNY retrocedes the net liability under all business written or assumed by the pool to the pool participants pursuant to the pool agreement.

The following table shows participants' pool percentages based on the effective dates of the amended agreements:

	<u>Pool Percentages</u>			
	Effective January 1 <u>2009</u>	Effective February 5 <u>2009</u>	Effective April 1 <u>2009</u>	Effective December 31 <u>2009</u>
CastlePoint Insurance Co. (NY)	-	25%	21%	16%
Tower Insurance Company of New York (NY)	79%	54%	44%	37%
Tower National Insurance Company (MA)	4%	3%	3%	2%
Preserver Insurance Company (NJ)	9%	10%	8%	7%
Mountain Valley Indemnity Company (NH)	3%	3%	3%	3%
North East Insurance Company (ME)	5%	5%	4%	4%
Hermitage Insurance Company (NY)	-	-	17%	13%
SUA Insurance Company (IL)*	-	-	-	18%

\*renamed CastlePoint National Insurance Company

## FINANCIAL STATEMENTS

The accompanying financial statements present fairly, in all material respects, the Company's statutory financial position as of December 31, 2009, and statutory results of operations for the period then ended. The financial statements as of December 31, 2008, 2007, 2006, and 2005 are unexamined and are presented for comparative purposes only.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS**  
**as of December 31, 2009, 2008, 2007, 2006, and 2005**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>		(unexamined)	(unexamined)	(unexamined)	(unexamined)
Bonds	\$ 38,797,107	\$ 20,155,437	\$ 19,137,770	\$ 22,298,675	\$ 25,463,114
Preferred stocks	\$ 751,375				
Common stocks	88,821	2,841,468	88,659	973,050	973,050
Cash & cash equivalents	(136,376)	7,391,789	8,057,939	217,214	1,508,032
Receivable for securities	5,078	2,240,037	-		
Accrued investment income	435,971	350,424	218,816	213,035	234,768
Premiums receivable	11,327,452	7,868,679	7,845,006	8,322,572	7,676,825
Reinsurance recoverable	10,454,902	3,363,327	1,099,399	745,448	304,335
Other reinsurance receivables	8,238,876	3,922,350	4,342	5,785	8,479
Federal income tax recoverable	771,831				
Net deferred tax asset	2,408,205	1,103,027	1,305,732	1,496,270	1,816,680
Receivables from affiliates		5,897,855	3,785,479	5,649,934	
Aggregate write-ins	646,800	170,480	18,745	2,181	-
<b>Total assets</b>	<u>\$ 73,790,042</u>	<u>\$ 55,304,873</u>	<u>\$ 41,561,887</u>	<u>\$ 39,924,164</u>	<u>\$ 37,985,283</u>
<b>Liabilities</b>					
Losses	\$ 22,494,554	\$ 11,950,710	\$ 9,272,405	\$ 8,656,722	\$ 7,402,287
Reinsurance payable on losses	6,278,859	2,276,261			
Loss adjustment expenses	5,238,440	3,699,070	1,743,291	1,360,000	1,325,000
Commissions payable	287,960	114,897			
Other expenses	651,921	349,155	2,368	10,643	38,052
Taxes, licenses and fees	57,280	7,502	45,006	57,398	87,135
Federal income tax payable	839,264	138,206	839,264	1,072,157	630,160
Unearned premiums	13,539,284	8,876,718	6,590,418	12,032,343	11,539,061
Advance premium	339,262	292,369	46,569	66,308	55,776
Ceded reinsurance payable	(4,061,605)	4,531,557	4,314,668	(298,335)	(173,645)
Funds held under reinsurance	549,486				
Amounts withheld for others	184,802		10,463	8,990	8,991
Provision for reinsurance			112,573	170,300	32,000
Payable to affiliates	3,552,745				548,325
Aggregate write-ins	1,461,078	2,436,007	-	-	-
<b>Total liabilities</b>	51,413,330	34,672,452	22,977,025	23,136,526	21,493,142
<b>Surplus</b>					
Special surplus funds	812,379				
Common capital stock	3,049,089	3,049,089	3,049,089	3,049,089	3,049,089
Paid in Capital	8,407,132	8,407,132	8,407,132	8,407,132	8,407,132
Unassigned funds	10,108,112	9,176,200	7,128,641	5,331,417	5,035,920
<b>Total surplus</b>	<u>22,376,712</u>	<u>20,632,421</u>	<u>18,584,862</u>	<u>16,787,638</u>	<u>16,492,141</u>
<b>Liabilities and surplus</b>	<u>\$ 73,790,042</u>	<u>\$ 55,304,873</u>	<u>\$ 41,561,887</u>	<u>\$ 39,924,164</u>	<u>\$ 37,985,283</u>

**STATEMENT OF OPERATIONS**  
**Years Ended December 31, 2009, 2008, 2007, 2006, and 2005**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
		(unexamined)	(unexamined)	(unexamined)	(unexamined)
Net premium income	\$ 30,619,820	\$ 15,727,549	\$ 19,837,447	\$ 22,237,151	\$ 22,097,755
Underwriting deductions:					
Losses incurred	15,479,840	6,013,592	10,193,593	10,565,816	9,157,061
Loss adjustment expenses	3,743,627	2,123,324	1,887,806	2,152,894	2,025,947
Other underwriting expenses	<u>11,088,306</u>	<u>5,597,538</u>	<u>5,922,199</u>	<u>9,968,579</u>	<u>9,369,721</u>
Total underwriting deductions	<u>30,311,773</u>	<u>13,734,454</u>	<u>18,003,598</u>	<u>22,687,289</u>	<u>20,552,729</u>
Net underwriting gain (loss)	308,047	1,993,095	1,833,849	(450,138)	1,545,026
Net investment income earned	1,389,988	1,134,187	930,453	949,160	913,631
Net realized capital gains (losses)	<u>182,430</u>	<u>302,080</u>	<u>1,000,087</u>	-	-
Net investment gain (loss)	<u>1,572,418</u>	<u>1,436,267</u>	<u>1,930,540</u>	<u>949,160</u>	<u>913,631</u>
Net gain/(loss) - premium write-offs	(138,563)	(3,424)	(42,272)	(22,562)	(44,050)
Finance charges	115,337	100,207	638,554	699,217	723,566
Aggregate write-ins misc income	<u>(36,486)</u>	-	-	-	-
Total other income	<u>(59,712)</u>	<u>96,783</u>	<u>596,282</u>	<u>676,655</u>	<u>679,516</u>
Income before federal income taxes	1,820,753	3,526,145	4,360,671	1,175,677	3,138,173
Federal income taxes	<u>1,021,995</u>	<u>1,224,943</u>	<u>300,610</u>	<u>441,997</u>	<u>630,192</u>
Net income (loss)	<u>\$ 798,758</u>	<u>\$ 2,301,202</u>	<u>\$ 4,060,061</u>	<u>\$ 733,680</u>	<u>\$ 2,507,981</u>

**STATEMENT OF CAPITAL AND SURPLUS**  
**Years Ended December 31, 2009, 2008, 2007, 2006, and 2005**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
		(unexamined)	(unexamined)	(unexamined)	(unexamined)
Surplus, December 31 prior year	\$ 20,632,421	\$ 18,584,862	\$ 16,787,638	\$ 16,492,141	\$ 14,379,689
Net income	798,758	2,301,202	4,060,061	733,680	2,507,981
Net unrealized capital gain/(loss)	(333,844)	155,908	(800,817)	24,707	326,140
Change in net deferred income tax	665,211	251,985	(310,151)	(312,045)	(243,875)
Change in nonadmitted assets	(198,214)	(776,096)	123,101	(12,544)	703,573
Change in provision for reinsurance		112,573	57,727	(138,300)	(6,000)
Dividends to stockholders					(500,000)
Aggregate write-ins to surplus	812,380	1,987	(1,332,697)	(1)	(675,367)
Net change in surplus	<u>1,744,291</u>	<u>2,047,559</u>	<u>1,797,224</u>	<u>295,497</u>	<u>2,112,452</u>
Surplus, December 31 current year	<u>\$ 22,376,712</u>	<u>\$ 20,632,421</u>	<u>\$ 18,584,862</u>	<u>\$ 16,787,638</u>	<u>\$ 16,492,141</u>

## CONCLUSION

The Company's financial condition, as reported by management, is reflected in the statements and supporting exhibits contained in this report.

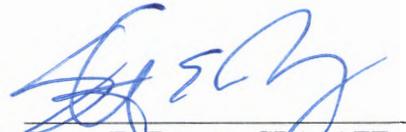
**STATE OF MAINE  
COUNTY OF KENNEBEC, SS**

Stuart E. Turney, being duly sworn according to law deposes and says that, in accordance with authority vested in him by Eric A. Cioppa, Superintendent, pursuant to the Insurance Laws of the State of Maine, he has made an examination of the condition and affairs of the

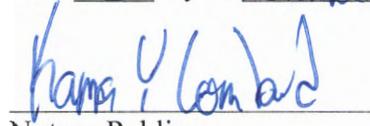
**NORTH EAST INSURANCE COMPANY**

located in South Portland, Maine as of December 31, 2009, and that the foregoing report of examination subscribed to by him is true to the best of his knowledge and belief. The following examiners from the Bureau of Insurance assisted:

Graham S. Payne  
Debra L. Blaisdell, AFE  
Margaret S. Boghosian, CPA, CFE  
Vanessa J. Leon, AFE  
Audrey L. Wade, CFE, AIE  
Arias Wan, AFE

  
\_\_\_\_\_  
Stuart E. Turney, CPA, AFE

Subscribed and sworn to before me  
This 30 day of November, 2011

  
\_\_\_\_\_  
Notary Public  
My Commission Expires:

**KARMA Y. LOMBARD**  
Notary Public, Maine  
My Commission Expires June 12, 2018