Paul R. LePage
GOVERNOR

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF INSURANCE
34 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0034

Eric A. Cioppa
SUPERINTENDENT

June 1, 2015

Eric A. Cioppa
Superintendent of Insurance
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

NORTH EAST INSURANCE COMPANY

at its main administrative office in New York, New York. The following report is respectfully submitted.

REPORT OF EXAMINATION

NORTH EAST INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified report of examination of North East Insurance Company dated June 1, 2015, was delivered to that insurer on July 31, 2015, 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 and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S.A. §226 (3).

This report has been reviewed.

Dated: 8/5/15

Eric A. Cioppa
Superintendent

TABLE OF CONTENTS

SCOPE OF EXAMINATION **1**

SUMMARY OF SIGNIFICANT FINDINGS **1**

PRIOR EXAMINATION 1
CURRENT EXAMINATION 2

THE COMPANY **2**

HISTORY 2
MANAGEMENT AND CONTROL 3
CORPORATE RECORDS 3
CORPORATE GOVERNANCE 3
TRANSACTIONS WITH AFFILIATES 3
TERRITORY & PLAN OF OPERATION 4
REINSURANCE 4

FINANCIAL STATEMENTS **4**

STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS 5
STATEMENT OF OPERATIONS 6
STATEMENT OF CAPITAL AND SURPLUS 7

COMMENTS ON FINANCIAL STATEMENTS **8**

SUBSEQUENT EVENTS **9**

SUMMARY OF RECOMMENDATIONS **11**

SCOPE OF EXAMINATION

North East Insurance Company ("Company") was last examined as of December 31, 2009 by the Maine Bureau of Insurance ("MBOI"). The December 31, 2009 examination was coordinated with the examination of Tower Group, Inc. ("TG") with the lead state regulator, the New York Department of Financial Services ("NYDFS").

This examination covers the period from January 1, 2010, to the close of business on December 31, 2013. This examination, performed by Risk and Regulatory Consulting, LLC, was coordinated with the NYDFS.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners ("NAIC"). The examination consisted of a review of the Company's operations, controls, and corporate governance, assessment of current and prospective risk, valuation of assets, and determination of liabilities at December 31, 2013, in conformity with statutory accounting practices, NAIC guidelines, the Financial Condition Examiners Handbook and the laws, rules, and regulations prescribed or permitted by the State of Maine.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination does not attest to the fair presentation of the financial statements included herein. Comments on various balance sheet items, for purposes of this report, may be limited to matters involving clarification, departures from laws, rules and regulations, and/or significant changes in amounts. To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed.

This examination report includes significant findings of fact, pursuant to 24-A M.R.S.A. §225 (1), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included herein, and are instead separately reported to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Prior Examination

1. Comment:

The MBOI relied on the NYDFS to review the net loss reserves as carried by the TG pool. The NYDFS determined that, as of December 31, 2009, the TG pool carried loss & loss adjustment expense reserves of $693,000,000. The NYDFS 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.

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 the 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).

Current Examination

1. Losses and Loss Adjustment Expenses
The MBOI relied on the NYDFS' contracted independent actuarial consulting firm ("consulting actuary") to review the net loss reserves as carried by the TG pool. As of December 31, 2013, the reported net TG pool carried loss and loss adjustment expense reserves of $1,077,833,000 were $165,429,000 less than the consulting actuary's central estimate. The Company's participation in the TG pool is 4%. The liability for loss and loss adjustment expense reserves of $49,730,000 as determined by this examination is based on the consulting actuary's central estimate and is $6,616,681 more than the $43,113,319 reported by the Company in its December 31, 2013 filed annual statement.

The Company reported an authorized control level Risk-Based Capital ("RBC") ratio of 272.3% in its December 31, 2013 filed annual statement. Recognition of the $6,618,681 adjustment described above lowers the RBC ratio to 144.1% at December 31, 2013. Pursuant to 24-A M.R.S.A. §6454, an RBC ratio of 144.1% indicates a regulatory action level event.

See Note 1 to the financial statements for an analysis of the impact on surplus.

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 Preserver Group, Inc. ("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.

On December 13, 2013, the MBOI issued a Corrective Order that imposed certain conditions on the Company. The Corrective Order increased reporting obligations with respect to business operations and financial condition, and restricted payments or other transfers of assets from the Company outside the ordinary course of business.

Management and Control
As of December 31, 2013, the Company was a member of the TG. TG consisted of approximately thirty-three affiliated companies operating under common management and control. Specifically, the Company was 100% owned by Tower Insurance Company of New York ("TICNY") ultimately owned by Tower Group International, Ltd. ("TGIL").

Corporate Records
The Company's articles of incorporation, bylaws, and minutes of the board of directors' meetings held during the period under examination were reviewed.

Corporate Governance
The Company was governed and overseen by its board of directors and its management team.

As of December 31, 2013, the Company's board of directors consisted of the following individuals:

William Franklin Dove
William Edward Hitselberger
Elliot Scott Orol
Christian Kirby Pechmann
Laurie Ann Ranegar
Bruce Wesley Sanderson
Catherine Mary Wragg

As of December 31, 2013, the Company's officers consisted of the following individuals:

Name	Title
Bruce Wesley Sanderson	President
William Edward Hitselberger	Executive Vice President and Chief Financial Officer
Elliot Scott Orol	Senior Vice President, General Counsel and Secretary
William Franklin Dove	Senior Vice President and Chief Actuary
Vito Nigro	Treasurer

Transactions with Affiliates
The Company is party to a service and expense sharing agreement with TICNY. The service and expense sharing agreement is in place for services other than claims and underwriting performed by TICNY's employees on behalf of the Company. Claims and underwriting expenses are handled through the intercompany pooling agreement.

The Company is party to a service and expense sharing agreement with York Insurance Company of Maine ("YICM") effective July 1, 2010. Under the agreement, the Company provides any necessary services for YICM not covered under the 100% quota share reinsurance agreement.

The Company is party to an income tax allocation agreement between TG and subsidiaries dated September 12, 2008. At the end of each consolidated return year, each entity must

compute and pay to the holding company its share of the federal income tax liability based on separate return calculations.

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 and Texas.

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

Reinsurance

Effective July 1, 2010, the Company entered into a 100% quota share reinsurance agreement with YICM. Pursuant to the agreement the Company assumes 100% of the premium written by YICM. The business assumed from YICM is ceded to TICNY under the amended and restated pooling agreement.

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. The Company's participation percentage as of December 31, 2013 was 4%.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Maine Bureau of Insurance and present the financial condition of the Company for the period ending December 31, 2013. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS
as of December 31, 2013

Assets		
Bonds	$	44,819,782
Preferred stocks		1,723,201
Cash and short term investments		2,221,894
Other invested assets		5,366,278
Investment income due and accrued		358,232
Uncollected premiums and agents' balances in the course of collection		3,396,626
Deferred premiums, agents' balances and installments booked but deferred and not due		6,246,063
Accrued retrospective premiums		40,845
Amounts recoverable from reinsurers		1,069,812
Funds held by or deposited with reinsured companies		1,198,887
Current federal and foreign income tax recoverable		599,544
Receivables from parent, subsidiaries and affiliates		7,762,540
Aggregate write-ins for other than invested assets		3,783,899
Total assets	$	78,587,603
Liabilities and Surplus		
Losses *(see Note 1)*	$	36,540,142
Reinsurance payable on paid losses and loss adjustment expenses		85,634
Loss adjustment expenses *(see Note 1)*		6,573,177
Commissions payable, contingent commissions and other similar charges		166,567
Other expenses		1,884,572
Taxes, licenses and fees		30,091
Unearned premiums		11,513,044
Advance premium		469,482
Ceded reinsurance premiums payable		7,093,510
Funds held by company under reinsurance treaties		4,136,877
Amounts withheld or retained by company for account of others		41,370
Aggregate write-ins for liabilities		(4,007,700)
Total liabilities		64,526,766
Aggregate write-ins for special surplus funds		642,801
Common capital stock		3,049,089
Gross paid in and contributed surplus		18,810,005
Unassigned funds (surplus)		(8,441,058)
Surplus as regards policyholders *(see Notes 1 & 2)*		14,060,837
Total liabilities and surplus	$	78,587,603

STATEMENT OF OPERATIONS
Year Ended December 31, 2013

Premiums Earned	$ 33,087,272
Losses incurred	27,440,676
Loss adjustment expenses incurred	7,579,764
Other underwriting expenses incurred	12,632,945
Total underwriting deductions	47,653,385
Net underwriting gain or (loss)	(14,566,113)
Net investment income earned	2,325,738
Net realized capital gains; net of taxes	1,189,787
Net investment gain	3,515,525
Net gain (loss) from agents' or premium balances charged off	(210,271)
Finance and service charges not included in premiums	393,086
Aggregate write-ins for miscellaneous income	(2,300,808)
Total other income	(2,117,993)
Net income (loss) before taxes	(13,168,581)
Federal and foreign income taxes incurred	(12,446)
Net income (loss)	$ (13,156,135)

STATEMENT OF CAPITAL AND SURPLUS
Year Ended December 31, 2013

Surplus as regards policyholders December 31, 2012	$ 29,899,503
Net income (loss)	(13,156,135)
Change in net unrealized capital gains or (losses) net of capital gains tax	1,117,281
Change in net deferred income tax	(4,030,232)
Change in non admitted assets	(143,059)
Paid in surplus	502,874
Aggregate write-ins for gains and losses in surplus	(129,395)
Surplus as regards policyholders December 31, 2013 *(see Notes 1 & 2)*	$ 14,060,837

COMMENTS ON FINANCIAL STATEMENTS

Note 1 - Reserves

The MBOI relied on the NYDFS' contracted independent actuarial consulting firm ("consulting actuary") to review the net loss reserves as carried by the TG pool. As of December 31, 2013, the reported net TG pool carried loss and loss adjustment expense reserves of $1,077,833,000 were $165,429,000 less than the consulting actuary's central estimate. The Company's participation in the TG pool is 4%. The liability for loss and loss adjustment expense reserves of $49,730,000 as determined by this examination is based on the consulting actuary's central estimate and is $6,616,681 more than the $43,113,319 reported by the Company in its December 31, 2013 filed annual statement.

The Company reported an authorized control level Risk-Based Capital ("RBC") ratio of 272.3% in its December 31, 2013 filed annual statement. Recognition of the $6,618,681 adjustment described above lowers the RBC ratio to 144.1% at December 31, 2013. Pursuant to 24-A M.R.S.A. §6454, an RBC ratio of 144.1% indicates a regulatory action level event.

The table below describes the impact on the balance sheet:

Analysis of Changes to Surplus			
Surplus at December 31, 2013 per Annual Financial Statements			$ 14,060,837
	Increase	Decrease	
Losses and Loss Adjustment Expenses		$ 6,616,681	
Net increase (decrease)			$ (6,616,681)
Surplus at December 31, 2013, after adjustment			$ 7,444,156

Note 2 - Capital and Surplus

The following table describes the capital and surplus changes for the four year period since the MBOI's last examination of the Company, dated December 31, 2009:

Surplus, December 31, 2009	$	22,376,712
Net income		(10,690,578)
Change in net unrealized capital gains or (losses), net of capital gains tax		1,196,580
Change in net deferred income tax		(4,032,033)
Change in nonadmitted assets		335,381
Surplus adjustments: Paid in		10,402,874
Dividends to stockholders		(4,700,000)
Aggregate write-ins for gains or (losses) in surplus		(828,099)
Capital and surplus, December 31, 2013, as reported by the Company	$	14,060,837
Less examination adjustment	$	(6,616,681)
Surplus, December 31, 2013 as examined	$	7,444,156

SUBSEQUENT EVENTS

On January 3, 2014, TGIL, the ultimate parent of the Company, entered into an Agreement and Plan of Merger ("the Merger Agreement") with ACP Re, Ltd. ("ACP Re") and London Acquisition Company, Ltd. ("LACL"), a wholly owned subsidiary of ACP Re. ACP Re is a Bermuda-based reinsurance company which historically reinsured a portion of the property and casualty business of National General Holdings Corporation ("NGHC"). The controlling shareholder of ACP Re is a trust established by one of the founders of AmTrust Financial Services, Inc. ("AmTrust"), NGHC, and Maiden Holdings, Ltd.

The terms of the Merger Agreement indicate that TGIL would be merged with LACL and TGIL would be the surviving corporation and become a wholly owned subsidiary of ACP Re. Additionally, AmTrust would acquire the renewal rights and assets of TGIL's commercial lines insurance operations, and specialty personal lines insurer NGHC would acquire the renewal rights and assets of TGIL's personal lines insurance operations.

On January 3, 2014, TG pool members entered into a commercial lines cut-through quota share reinsurance agreement with Technology Insurance Company, Inc. ("TIC") in connection with the Merger Agreement. TIC is a New Hampshire domiciled affiliate of ACP Re and a subsidiary of AmTrust. The agreement requires the ceding companies to use the reinsurer's underwriting standards on all new and renewed policies. The reinsurer will assume 100% of all losses on non-excluded policies. The ceding companies will transfer the unearned premium of reinsured policies less a ceding commission and 100% of all premiums on new and renewed policies less a ceding commission.

On January 3, 2014, TG pool members entered into a personal lines cut-through quota share reinsurance agreement with Integon National Insurance Company ("INIC") in connection with

the Merger Agreement. INIC is a North Carolina domiciled authorized insurance company that is a subsidiary of NGHC and an affiliate of ACP Re. The terms of the personal lines cut-through reinsurance agreement are the same as the commercial lines described above.

On September 12, 2014, the application of ACP Re. to acquire control of the Company was approved through MBOI Hearing Decision INS-14-400.

On September 15, 2014, the MBOI dissolved the Corrective Order issued on December 13, 2013.

On September 15, 2014, the Merger Agreement of TGIL was completed. It is noted that as part of the merger, the Company entered into the following agreements effective September 15, 2014:

1. A loss portfolio transfer agreement ("LPT agreement") with CastlePoint Reinsurance Company, Ltd of Bermuda ('CP Re'), pursuant to which CP Re assumed all of the insurance liabilities of the Company as well as cash and invested assets equal to the assumed liabilities. Once the LPT agreement becomes effective, the Company will have no net claim liabilities. CP Re is an unauthorized Bermuda reinsurer that was part of the pre-merger TG holding company system.

2. A quota share reinsurance agreement with TIC, under which the Company prospectively cedes 100% of its commercial lines business issued pursuant to a managing general agent agreement between the Company and AmTrust North America, Inc.

3. A quota share reinsurance agreement with INIC under which the Company prospectively cedes 100% of its personal lines business issued pursuant to a managing general agent agreement between the Company and National General Insurance Marketing, Inc.

The two quota share reinsurance agreements and cut-through endorsements related to the commercial and personal lines dated January 3, 2014, were terminated on a run-off basis effective the September 15, 2014 merger agreement.

CP Re in turn entered into an aggregate stop loss reinsurance contract under which it is indemnified with respect to the liability that may accrue to it as a result of losses reinsured by CP Re under the loss portfolio agreement that it entered into with the Company, identified above. The coverage attaches at the first dollar of adverse development, based on the TGIL U.S. insurers' liabilities as of the closing of the Tower transactions.

There are two participating reinsurers, each with a 50% interest, in the aggregate stop loss reinsurance contract which is several only. The two participating reinsurers are AmTrust International Insurance, Ltd. and National General Re, Ltd. which are subsidiaries of AmTrust and NGHC, respectively. The aggregate limit of liability of the reinsurers under this contract is $250 million with each reinsurer having a liability limited to $125 million. CP Re will pay $56 million dollars for this coverage on the fifth anniversary of the effective date of the contract.

Accordingly, based on the above agreements, as of September 15, 2014, the Company retains no net insurance risk.

SUMMARY OF RECOMMENDATIONS

There are no report level recommendations.

STATE OF MAINE
COUNTY OF KENNEBEC, SS

Vanessa J. Leon, being duly sworn according to law deposes and says that, in accordance with authority vested in her by Eric A. Cioppa, Superintendent, pursuant to the Insurance Laws of the State of Maine, an examination of the condition and affairs of the

NORTH EAST INSURANCE COMPANY

has been made as of December 31, 2013, and that the foregoing report of examination subscribed to by her is true to the best of her knowledge and belief. Risk and Regulatory Consulting, LLC, under contract with the Maine Bureau of Insurance, performed the examination.

Vanessa J. Leon, CFE

Subscribed and sworn to before me
This 5th day of August, 2015

Notary Public
My Commission Expires: June 12, 2016

KARMA Y. LOMBARD
Notary Public, Maine
My Commission Expires June 12, 2016