

REPORT ON EXAMINATION

OF THE

NORTH COUNTRY INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

DATE OF REPORT

JANUARY 23, 2009

EXAMINER

NYANTAKYI AKUOKO

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STATE OF NEW YORK
INSURANCE DEPARTMENT
ONE COMMERCE PLAZA
ALBANY, NEW YORK 12257

January 23, 2009

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22777 dated June 27, 2008 attached hereto, I have made an examination into the condition and affairs of North Country Insurance Company as of December 31, 2007, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate North Country Insurance Company.

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

The examination was conducted at the Company’s home office located at 21170 NYS Route 232, Watertown, New York 13601.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of North Country Insurance Company. The previous examination was conducted as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions and insurance plans
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

This examination report also includes a summary of significant findings regarding market conduct activities.

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

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

2. DESCRIPTION OF COMPANY

North Country Insurance Company was organized on May 27, 1877 as the Jefferson County Patron's Fire Relief Association, for the purpose of transacting business as an assessment cooperative fire insurance association in the Counties of Jefferson and Lewis, in New York State.

On March 6, 1958, this Department issued a certificate changing the Association's corporate title to the North Country Co-operative Insurance Company.

The North Country Co-operative Insurance Company merged with the Oneida County Grange Co-operative Fire Insurance Company as approved by this Department on February 2, 1961 to be effective November 30, 1960.

Effective January 1, 1984, the North Country Co-operative Insurance Company merged with the Adirondack Co-operative Insurance Company under a new corporate name, the North Country Adirondack Cooperative Insurance Company ("NCACIC"). On January 1, 1985, NCACIC merged with The Farmers' Fire and Lightning Insurance Company of Oneida County, New York. On January 1, 1987, NCACIC merged with the Westmoreland Co-operative Insurance Association.

Effective October 1, 1991, NCACIC merged with the St. Lawrence County Farmers' Insurance Company and adopted its current corporate name, North Country Insurance Company.

Effective September 1, 1996, the Company converted from an assessment co-operative company to an advance premium company.

Effective January 1, 1997, the Company merged with Chenango Mutual Insurance Company, A Cooperative. Effective January 1, 1998, the Company merged with Heritage Mutual Insurance Company. In both cases North Country Insurance Company was the surviving corporation.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than nine nor more than twenty-one members. The board meets at least four times during each calendar year. At December 31, 2007, the board of directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Neil Raymond Bartle Oxford, NY	President and Chief Executive Officer, Blue Ox Oil; Director of Rices Road Corporation
Stephen James Duflo Adams, NY	President, Chief Executive Officer and Treasurer of North Country Insurance Company; Director and President of Rices Road Corporation
William Ronald Jesmore Evans Mills, NY	Proprietor, Jesmore and Associates, CPA; Director of Rices Road Corporation
Marc Edgar Ladouceur Watertown, NY	Vice President and Chief Operating Officer of North Country Insurance Company; Director and Vice President of Rices Road Corporation
Charles Thomas Langdon Wellesley Island, NY	Retired; Director of Rices Road Corporation
Michelle Danine Pfaff Dexter, NY	Assistant Treasurer of North Country Insurance Company; Vice President and Commercial Loan Manager of Community Bank; Director of Rices Road Corporation
Robert James Sharlow Wellesley Island, NY	President and Chief Executive Office of Redwood Bank; Director of Rices Road Corporation
Arthur Chapman Stever, III Watertown, NY	Attorney at Law; Director of Rices Road Corporation

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John James Wheeler Watertown, NY	Comptroller of Climax Manufacturing Company; Director of Rices Road Corporation
John Martin Wicke Massena, NY	General Manager of Penski, Inc., Director of Rices Road Corporation

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Stephen James Duflo	President, CEO & Treasurer
Marc Edgar Ladouceur	Vice President & COO
Cora Arlinda Donahue	Secretary
Michelle Danine Pfaff	Assistant Treasurer

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in New York only.

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

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland marine only)

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

<u>Calendar Year</u>	<u>Direct Premium Written (000's)</u>
2003	\$16,413
2004	14,733
2005	12,327
2006	10,720
2007	9,889

Based on the lines of business for which the Company is licensed, and pursuant to the requirements of Articles 13, 41 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$511,984.

The Company's predominant lines of business are homeowners multiple peril, commercial multiple peril and farmowners multiple peril, which accounted for 44.97%, 28.62% and 15.27% respectively, of the Company's 2007 direct written business. The Company writes mainly through independent agents.

C. Reinsurance

During the period covered by this examination, the Company reported no assumed reinsurance business.

As of December 31, 2007, the Company had the following property and casualty excess of loss ceded reinsurance program in place:

Property (3 layers)	\$925,000 in excess of \$75,000, each loss, each risk, subject to a limit of \$550,000, \$800,000 and \$500,000 for each respective layer, each loss occurrence.
Casualty (3 layers)	\$925,000 in excess of \$75,000 ultimate net loss each loss occurrence.
Combined Property and Casualty	\$75,000 in excess of \$75,000 each loss occurrence involving at least one property policy and at least one casualty policy.

Casualty clash	\$2,000,000 in excess of \$1,000,000 ultimate net loss in any one occurrence.
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As of December 31, 2007, the Company also maintained catastrophe excess of loss coverage on a per occurrence basis:

Property (3 Layers)	95% of \$11,687,500 in excess of \$312,500, subject to a limit on each separate layer during the term of the agreement as follows: First-\$1,603,125, Second-\$2,850,000 and Third-\$6,650,000.
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In addition to its treaty reinsurance program, the Company obtained property pro rata facultative reinsurance coverage providing for a maximum cession of \$1,500,000 on any one risk covered and a minimum retention of \$250,000. The Company also had available casualty excess of loss facultative reinsurance coverage of \$1,000,000 in excess of \$1,000,000 each loss occurrence, each policy.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulation 133. No exceptions were noted.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain all of the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

The Schedule F data as reported in the Company's 2007 filed annual statement did not accurately reflect its reinsurance transactions. The Company did not correctly categorize reinsurers as authorized or unauthorized in some instances on Schedule F Part 3 of the 2007 filed annual statement. In addition, the Company did not complete Schedule F Part 5, Provision for unauthorized reinsurance. In Schedule F Part 3 of the 2007 filed annual statement, the percentages used in the allocation of ceded premiums under the Property Catastrophe Excess of Loss contract, were not consistent with the provisions of the executed Interest and Liability agreement. It is however, noted that the total ceded amount under the contract was correct.

Management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in Statements of Statutory Accounting Principles (“SSAP”) No. 62. Representations were supported by an attestation from the Company’s Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, the examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements reviewed were accounted for utilizing reinsurance accounting as set forth in paragraphs 17 and 19 of SSAP No. 62.

D. Holding Company System

The Company is a not member of any holding company system; however, as of December 31, 2007, the Company had a wholly owned subsidiary, Rices Road Corporation. The subsidiary owns the Company’s home office building in Watertown, New York and another adjacent building that it leases to a third party.

The examiners reviewed the transactions between the insurer and its subsidiary to determine whether they were fair and equitable and that charges or fees for services performed were reasonable as required by Section 1608(b) of the New York Insurance Law. The review revealed that the Company did not maintain adequate documentation to support the reasonableness of the charges or fees to the respective parties as required by Section 1608(c). Thus, the Company’s compliance with Section 1608(b) of the New York Insurance Law could not be determined.

It is recommended that the Company maintain adequate documentation as required by Section 1608(c) of the New York Insurance Law in order to demonstrate that transactions between it and its subsidiary were fair and equitable and that charges or fees for services performed were reasonable as required by Section 1608(b) of the New York Insurance Law. It is noted that a similar recommendation was included in the two previous reports on examination.

Circular Letter No. 33 (1979) states in part, that “...Every domestic insurer which is a party to a consolidated federal income tax filing must have a definitive written agreement, approved by its Board of Directors, governing its participation therein...” The circular letter further requires that an insurer electing to file a consolidated federal income tax return to file a copy of its tax allocation agreement with the Department within thirty days of electing to do so.

On examination, it was determined that the Company filed consolidated federal tax returns with its subsidiary, Rices Road Corporation in each of the years under examination without a definitive written agreement. During the course of the examination, the Company's board approved a draft agreement which was later filed with the Department for approval; nevertheless, it is recommended that the Company obtain a tax allocation agreement approved by its board of directors and the Department to comply with Circular Letter No. 33 (1979).

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to Surplus as regards policyholders	88.0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	57.0%
Premiums in course of collection to Surplus as regards policyholders	2.0%
Investment Yield	2.6%

The above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners, except for the Company's investment yield ratio. Unusual values for the investment yield ratio are equal to or over 6.5% and equal to or under 3%. Management has indicated that the investment yield ratios for the years 2003 - 2007 were impacted by interest paid on the Company's Section 1307 surplus notes, which is applied against interest income.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$23,631,167	56.58%
Other underwriting expenses incurred	14,893,344	35.66%
Net underwriting gain	<u>3,242,333</u>	<u>7.76%</u>
Premiums earned	<u>\$41,766,844</u>	<u>100.00%</u>

F. Accounts and Records

i. Management expense ratio

Section 6613(a) of the New York Insurance Law states, in part, “The expenses of management of any co-operative property/casualty insurance company shall not exceed in any one calendar year forty-two and one-half percent of its net premiums written for such year...” On examination, it was found that the Company’s management expense ratios for 2006 and 2007 were 45% and 44.7% of its net premium written for the respective years.

It is recommended that the Company comply with Section 6613(a) of the New York Insurance Law and maintain a management expense ratio within the limitation of forty-two and one-half percent of its net premium written for each year.

ii. Compliance with the Annual Statement Instructions

The review of the Company’s 2007 filed annual statement noted that it did not completely adhere to the property and casualty annual statement instructions. It improperly completed Schedule F, as referenced in Section 2 C of this report. Additionally, the examiners determined that the designations assigned to some securities as reported in Schedule D Part 1 could not be supported by the Company as meeting the requirements of the NAIC Security Valuation Office Purposes and Procedures Manual and the annual statement instructions. Further, a few of the Company’s securities found to be callable prior to the maturity date were not reported as such in the Bond Characteristics column of Schedule D Part 1 nor were the bonds amortized in accordance with the NAIC Statements of Statutory Accounting Principles (“SSAP”) No. 26, paragraph 6.

Thus, it is recommended that the Company complete all financial statements filed with this Department in accordance with such statement’s instructions and the applicable SSAP, henceforth. It is noted that a similar recommendation was included in the two previous reports on examination.

The Company has acknowledged that in these instances it did not adhere to the annual statement instructions and SSAP No. 26 and that it would be more diligent in complying with the annual statement instructions and the applicable SSAP in the future, when completing annual statement schedules.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company. The total assets amount differs slightly from the total liabilities and surplus amount due to rounding.

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$14,108,784	\$ 0	\$14,108,784
Common stocks	2,713,974	0	2,713,974
Cash, cash equivalents and short-term investments	1,023,430	0	1,023,430
Investment income due and accrued	135,419	0	135,419
Uncollected premiums and agents' balances in the course of collection	184,305	10,263	174,042
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,236,044	0	1,236,044
Amounts recoverable from reinsurers	13,466	0	13,466
Current federal and foreign income tax recoverable and interest thereon	2,470	0	2,470
Net deferred tax asset	296,100	0	296,100
Electronic data processing equipment and software	72,348	23,323	49,025
Furniture and equipment, including health care delivery assets	17,901	17,901	0
Aggregate write-ins for other than invested assets	<u>134,318</u>	<u>0</u>	<u>134,318</u>
Total assets	<u>\$19,938,559</u>	<u>\$51,487</u>	<u>\$19,887,072</u>

Liabilities, surplus and other funds

Losses and loss adjustment expenses		\$ 5,164,175
Commissions payable, contingent commissions and other similar charges		165,499
Other expenses (excluding taxes, licenses and fees)		204,075
Current federal and foreign income taxes		269,132
Unearned premiums		5,209,624
Advance premium		68,499
Ceded reinsurance premiums payable (net of ceding commissions)		11,273
Amounts withheld or retained by company for account of others		38,694
Remittances and items not allocated		2,329
Aggregate write-ins for liabilities		<u>2,660</u>
Total liabilities		\$11,135,960
Aggregate write-ins for special surplus funds	\$ 511,984	
Surplus notes	800,000	
Unassigned funds (surplus)	<u>7,439,130</u>	
Surplus as regards policyholders		<u>8,751,114</u>
Total liabilities, surplus and other funds		<u>\$19,887,074</u>

Note: The Company issued a \$2,000,000 surplus note dated October 20, 2000 to Holyoke Mutual Insurance Company in Salem, a mutual insurance company incorporated pursuant to the laws of Massachusetts. The note has a maturity date of November 1, 2010. The interest rate is 9%. The terms of the surplus note were approved by the Department on October 6, 2000.

In conjunction with the surplus note the two parties entered into a loan agreement and memorandum of understanding also dated October 20, 2000. The memorandum of understanding was not objected to by the New York Insurance Department.

The surplus note is subject to the provisions of Section 1307 of the New York Insurance Law and as such the payment of principal and interest under the note requires the prior approval of the Superintendent of the New York Insurance Department. The amount of the surplus note shall not be part of the legal liabilities of the Company.

The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2003 through 2007. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$5,367,618 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$41,766,844
Deductions:		
Losses and loss adjustment expenses incurred	\$23,631,167	
Other underwriting expenses incurred	<u>14,893,344</u>	
Total underwriting deductions		<u>38,524,511</u>
Net underwriting gain or (loss)		\$3,242,333

Investment Income

Net investment income earned	\$1,325,519	
Net realized capital gain	<u>465,751</u>	
Net investment gain or (loss)		1,791,270

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 14,950	
Finance and service charges not included in premiums	931,000	
Aggregate write-ins for miscellaneous income	<u>485,873</u>	
Total other income		<u>1,431,823</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$6,465,426
Federal and foreign income taxes incurred		<u>476,210</u>
Net Income		<u>\$5,989,216</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2002			\$3,383,496
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$5,989,216	\$ 0	
Net unrealized capital gains or losses	642,576		
Change in net deferred income tax	542,200		
Change in nonadmitted assets	24,089		
Change in provision for reinsurance	4,200		
Change in surplus notes		1,200,000	
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>634,663</u>	
Total gains and losses in surplus	<u>\$7,202,281</u>	<u>\$1,834,663</u>	
Net increase (decrease) in surplus			<u>5,367,618</u>
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$8,751,114</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$5,164,175 is the same as reported by the Company as of December 31, 2007.

The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements. Based upon such analysis, it appears that the Company's reserves pertaining to adjusting and other expenses ("A&O") were not adequate as of December 31, 2007. The examination analysis of the booked unpaid A&O compared to the paid A&O indicated that Company has been overstating the reinsurance to be recovered on unpaid A&O reserves; thus, understating the aggregate net reserves for losses and LAE reported in its filed financial statements. Nevertheless, the Company's reported amount for losses and LAE as of December 31, 2007 is accepted without change for the purposes of this report.

Section 1303 of the New York Insurance Law, states, in part,

“Every insurer shall...maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims.”

Therefore, it is recommended that the Company maintain adequate reserves for unpaid losses and loss adjustment expenses, especially adjusting and other expenses, in all future financial statements pursuant to Section 1303 of the New York Insurance Law. It is noted that a similar recommendation was included in the two previous reports on examination.

5. MARKET CONDUCT ACTIVITIES

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

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

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

Except as noted below, no unfair practices were encountered.

Department Regulation 90

The Company's procedures for terminating agents' agreements were reviewed whereupon it was determined that the Company was not following all of the requirements of Department Regulation 90.

Part 218.4 of Department Regulation 90 requires that all notices to agents or brokers that their contract or account is to be terminated shall be mailed or delivered to the affected agents or brokers at least 30 days prior to the effective date of such termination.

Part 218.5 of Regulation 90 requires all notices to agents or brokers that their contract or account is to be terminated contain the prescribed redlining wording, clearly and prominently set out in boldface type, on the front so that it draws the reader's attention.

It was found during the examination that some of the termination notices issued by the Company were not mailed or delivered to the affected agent or broker at least 30 days prior to the effective date of such termination. In addition, it was found that the redlining notice was not set out so that it draws the reader's attention on the notices of termination of agents' contracts as required by Part 218.5 of Department Regulation 90.

It is recommended that when sending out notices of termination of agents' or brokers' contracts or accounts, the Company ensure that all of the requirements of this Department's Regulation 90 are complied with, henceforth. It is noted that a similar recommendation was included in the two prior reports on examination.

Non-renewal notices on commercial policies

Section 3426(e)(2) indicates that a nonrenewal notice shall contain the specific reason or reasons for nonrenewal. On examination, it was found that some nonrenewal notices of commercial policies contained a reason that was an unsupported general statement.

It is recommended that the Company comply with Section 3426(e) of the New York Insurance Law and provide a specific reason or reasons for the nonrenewal of the policy on the notice of nonrenewal.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	5
It was recommended that the Company adhere to all the provisions of its charter and by-laws, henceforth.	
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
<p>B. <u>Holding Company System</u></p> <p>It was recommended that the Company maintain and provide upon examination the records required by Section 1608(c) of the New York Insurance Law in order for the Company's compliance with Section 1608(b) of the New York Insurance Law to be determined.</p> <p>The Company has not complied with this recommendation. A similar recommendation is made in this report.</p>	9
<p>C. <u>Significant Operating Ratios</u></p> <p>It was noted that the Company had four ratios beyond the benchmark ranges set forth in the Insurance Regulation Information System of the National Association of Insurance Commissioners, as of December 31, 2002.</p> <p>As of December 31, 2007, only one ratio, the Investment Yield was outside the acceptable range; thus, no comment is being made in this report.</p>	10
<p>D. <u>Loans to Officers and Directors – Section 1411(f)(1)</u></p> <p>It was recommended that the Company comply with the requirements of Section 1411(f)(1) of the New York Insurance Law and not make loans to officers or directors.</p> <p>The Company has complied with this recommendation.</p>	11
<p>E. <u>Accounts and Records</u></p>	
<p>i. It was recommended that the Company develop a standard operations procedures manual and a documentation standards manual in order to strengthen its electronic data processing function controls.</p> <p>The Company has complied with this recommendation.</p>	12
<p>ii. It was recommended that the Company comply with the requirements of Section 1411(a) of the New York Insurance Law by having all of its investments authorized or approved as indicated in such section.</p> <p>The Company has complied with this recommendation.</p>	12
<p>iii. It was recommended that the Company ensure that its contracts with its CPA firm covering all future audit years meet the requirements of Department Regulation 118.</p> <p>The Company complied with this recommendation during the course of this examination.</p>	13

<u>ITEM</u>	<u>PAGE NO.</u>
iv. a. Management was directed to establish and maintain written documentation supporting the allocation of each expense category to the major expense groups as required by this Department's Regulation No. 30.	13
The Company has complied with this recommendation.	
b. It was recommended that the Company allocate its expenses to each expense category in accordance with Department Regulation 30. The Company has complied with this recommendation.	14
The Company has complied with this recommendation.	
v. It was recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance Law with regard to having the required number of officers' signatures on all Company checks.	14
The Company has complied with this recommendation.	
vi. It was recommended that the Company comply fully with SSAP No. 63 paragraph 8 and record premiums, losses, expenses and other operations of pools and associations separately in the financial statements and not net them against each other.	15
The Company has complied with this recommendation.	
vii. It was recommended that the Company comply with Department Circular Letter No. 2 (1977) and only allow its investments to be held under custodial arrangements that meet the requirements put forth in the circular letter.	16
The Company has complied with this recommendation.	
viii. It was recommended that the Company complete all financial statements filed with this Department in accordance with such statement's instructions, henceforth.	17
The Company has not complied with this recommendation. A similar recommendation is made in this report.	
F. <u>Cash</u>	23
It was recommended that the Company classify cash, cash equivalents and short-term investments in accordance with Statement of Statutory Accounting Principles No. 2, Issue Paper No. 28 and the annual statement instructions.	

ITEMPAGE NO.

The Company has complied with this recommendation.

G. Receivable for Securities 24

It was recommended that the Company follow the requirements of SSAP No. 21 and the annual statement instructions relative to recording proceeds from the sale of investments that have not been received.

The Company has complied with this recommendation.

H. Agents' Balances or Uncollected Premiums 25

It was recommended that the Company comply with Sections 1301(a)(11) and (12) of the New York Insurance Law and with SSAP No. 6 paragraph 9 by not admitting agents' balances or uncollected premiums that are over 90 days past due.

The Company has complied with this recommendation.

I. Losses and Loss Adjustment Expenses 26

It was recommended that the Company increase its carried loss and loss adjustment reserves by the amount of the deficiency noted in the report and reflect such increase in future financial statements filed with this Department. In addition, it was recommended that the Company provide an adequate reserve for unpaid losses and loss adjustment expenses in all future financial statements filed with this Department in order to comply with the requirements of Section 1303 of the New York Insurance Law.

The Company has complied with the recommendation regarding increasing its carried reserves by the amount of the deficiency noted in the prior report. However, the Company did not comply with the requirements of Section 1303. A similar recommendation is made in this report regarding compliance with Section 1303 of the New York Insurance Law.

J. Other Expenses (excluding taxes, licenses and fees) 27

It was recommended that the Company not take admitted asset credit for pre-paid expenses as required by Section 1302(a)(2) of the New York Insurance Law.

The Company has complied with this recommendation.

<u>ITEM</u>	<u>PAGE NO.</u>
<p>K. <u>Unearned Premiums</u></p> <p>It was recommended that the Company comply with Section 1305(a) of the New York Insurance Law by maintaining reserves equal to the unearned portions of gross premiums charged on unexpired or unexpired risks and policies. It was also recommended that the Company comply with SSAP No. 53 by recording written premiums on the effective date of the contracts.</p> <p>The Company has complied with these recommendations.</p>	29
<p>L. <u>Advance Premiums</u></p> <p>It was recommended that the Company comply with SSAP No. 53 paragraph 13 and the annual statement instructions and show premiums received prior to the effective date of the contract as a liability and not as an offset to agents' balances or uncollected premiums.</p> <p>The Company has complied with this recommendation.</p>	30
<p>M. <u>Remittances and items not allocated</u></p> <p>It was recommended that the Company comply with SSAP No. 67 paragraph 9 and the annual statement instructions and show cash receipts that cannot be identified for a specific purpose or, for other reasons, applied to a specific account when received under the liability caption Remittances and items not allocated instead of as a write-in liability.</p> <p>The Company has complied with this recommendation.</p>	31
<p>N. <u>Market Conduct Activities</u></p> <p>i. It was recommended that when sending out notices of termination of agents' or brokers' contracts or accounts, the Company ensure that all of the requirements of this Department's Regulation No. 90 are complied with.</p> <p>The Company did not comply with this recommendation. A similar recommendation is made in this report.</p>	32
<p>ii. It was recommended that the Company comply with Section 2314 of the New York Insurance Law by charging rates that do not depart from the rates, rating plans, classifications, schedules, rules and standards it has in effect.</p> <p>The Company has complied with this recommendation.</p>	33

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It was recommended that the Company ensure that the reports it files to comply with the requirements of Department Regulation 154 are accurate in the future and that it maintains the data necessary to reconstruct and correct future reports if inaccuracies are discovered in such reports.

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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B.	<u>Accounts and records</u>
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C.	<u>Losses and loss adjustment expenses</u>
	15

It is recommended that the Company maintain adequate documentation as required by Section 1608(c) of the New York Insurance Law in order to demonstrate that transactions between it and its subsidiary were fair and equitable and that charges or fees for services performed were reasonable as required by Section 1608(b) of the New York Insurance Law. It is noted that a similar recommendation was included in the two previous reports on examination.

It is recommended that the Company obtain a tax allocation agreement approved by its board of directors and the Department to comply with Circular Letter No. 33 (1979).

It is recommended that the Company comply with Section 6613(a) of the New York Insurance Law and maintain a management expense ratio within the limitation of forty-two and one-half percent of its net premium written for each year.

It is recommended that the Company complete all financial statements filed with this Department in accordance with such statement's instructions and the applicable SSAP, henceforth. It is noted that a similar recommendation was included in the two previous reports on examination.

It is recommended that the Company maintain adequate reserves for unpaid losses and loss adjustment expenses, especially adjusting and other expenses, in all future financial statements pursuant to Section 1303 of the New York Insurance Law. It is noted that a similar

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recommendation was included in the two previous reports on examination.

D. Market conduct activities

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|-----|--|----|
| i. | It is recommended that when sending out notices of termination of agents' or brokers' contracts or accounts, the Company ensure that all of the requirements of this Department's Regulation 90 are complied with, henceforth. It is noted that a similar recommendation was included in the two prior reports on examination. | 16 |
| ii. | It is recommended that the Company comply with Section 3426(e) of the New York Insurance Law and provide a specific reason or reasons for the nonrenewal of the policy on the notice of nonrenewal. | 16 |

Respectfully submitted,

Nyantakyi Akuoko,
Senior Insurance Examiner

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

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

Nyantakyi Akuoko

Subscribed and sworn to before me

this _____ day of _____, 2010

Appointment No 22777

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, ERIC DINALLO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Nyantakyi Akuoko

as proper person to examine into the affairs of the

North Country Insurance Company

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

Company

with such other information as he shall deem requisite.

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

this 27th day of June 2008



Eric Dinallo

ERIC DINALLO
Superintendent of Insurance