Financial

Audited Statements

MEMIC

Maine Employers' Mutual Insurance Company
Index
December 31, 2010 and 2009

Report of Independent Auditors

To the Board of Directors of
Maine Employers' Mutual Insurance Company

We have audited the accompanying statutory basis statements of admitted assets, liabilities and capital and surplus of Maine Employers' Mutual Insurance Company (the "Company") as of December 31, 2010 and 2009, and the related statutory basis statements of income, changes in capital and surplus, and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Maine Bureau of Insurance, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2010 and 2009, or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

PricewaterhouseCoopers, 125 High Street, Boston MA 02110 1707

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Summary Investment Schedule and Supplemental Investment Risks Interrogatories of the Company as of December 31, 2010 and for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. The effects on the Summary Investment Schedule and Supplemental Investment Risks Interrogatories of the variances between the statutory basis of accounting and accounting principles generally accepted in the Untied States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Summary Investment Schedule and Supplemental Investment Risks Interrogatories do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2010 and for the year then ended. The Summary Investment Schedule and Supplemental Investment Risks Interrogatories have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 25, 2011

Maine Employers' Mutual Insurance Company
Statements of Admitted Assets, Liabilities and Capital and Surplus (Statutory Basis)
December 31, 2010 and 2009

	2010	2009
Admitted Assets		
Invested assets		
Bonds, at carrying value (NAIC fair value: $498,825,521 and $502,745,963 at December 31, 2010 and 2009, respectively)	$ 476,667,467	$ 487,210,027
Common stocks, at NAIC fair value (cost: $44,036,049 and $34,125,349 at December 31, 2010 and 2009, respectively)	66,927,004	49,825,291
Common stocks of affiliates	57,135,014	51,346,839
Other invested assets	11,472,665	5,245,019
Investment in real estate	-	5,294,269
Cash	21,131,855	16,431,801
Total cash and invested assets	633,334,005	615,353,246
Premium balances receivable	36,442,124	38,576,449
Equities and deposits in pools and associations	4,830	63,971
Investment income due and accrued	5,514,227	5,673,632
EDP equipment (net of accumulated depreciation of $2,918,038 and $2,639,271 in 2010 and 2009, respectively)	290,494	468,606
Reinsurance recoverable on paid loss and loss adjustment expenses	1,301,293	661,788
Federal income tax recoverable	1,476,051	154,081
Net deferred income taxes	14,597,985	9,678,819
Due from affiliates	1,367,152	937,666
Total admitted assets	$ 694,328,161	$ 671,568,258
Liabilities		
Loss reserves	$ 294,844,482	$ 309,752,661
Loss adjustment expense reserves	32,195,606	38,486,960
Unearned premium reserves	58,434,910	60,361,350
Reinsurance premiums payable	695,255	798,902
Commissions payable	3,690,464	3,819,844
Advance premium	1,216,254	981,520
Workers' compensation board and other assessments	1,257,722	1,237,973
Supplemental benefit fund assessment	1,060,638	1,110,149
Other liabilities	15,035,890	13,900,983
Total liabilities	408,431,221	430,450,342
Commitments and contingencies (Note 13)		
Capital and Surplus		
Capital contributions	3,222,136	3,222,136
Special surplus funds	5,580,518	-
Unassigned surplus	277,094,286	237,895,780
Total capital and surplus	285,896,940	241,117,916
Total liabilities and capital and surplus	$ 694,328,161	$ 671,568,258

The accompanying notes are an integral part of these financial statements.

Maine Employers' Mutual Insurance Company
Statements of Income
(Statutory Basis)
Years Ended December 31, 2010 and 2009

	2010	2009
Underwriting income		
Premiums earned, net	$ 119,398,247	$ 130,036,979
Loss and underwriting expenses		
Losses incurred, net	63,611,326	86,080,302
Loss adjustment expenses incurred, net	4,791,987	10,989,392
Underwriting expenses	25,433,495	28,246,650
Total loss and underwriting expenses	93,836,808	125,316,344
Net underwriting income	25,561,439	4,720,635
Investment income		
Net investment income	21,253,928	21,027,187
Net realized capital (losses) gains, net of taxes	(333,923)	2,519,377
Total investment income	20,920,005	23,546,564
Other expense		
Bad debt expense	(488,677)	(467,719)
Service fee income	91,208	76,589
Other expense	(10,948)	(142,290)
Net other expense	(408,417)	(533,420)
Income before dividends and federal income taxes	46,073,027	27,733,779
Dividends to policyholders	10,999,955	10,000,000
Income after dividends, before federal income taxes	35,073,072	17,733,779
Provision for federal income taxes	9,140,019	3,065,319
Net income	$ 25,933,053	$ 14,668,460

The accompanying notes are an integral part of these financial statements.

Maine Employers' Mutual Insurance Company
Statements of Changes in Capital and Surplus
(Statutory Basis)
Years Ended December 31, 2010 and 2009

	2010	2009
Capital and surplus, beginning of year	$ 241,117,916	$ 216,876,252
Capital contributions (returned) made	-	(739)
Net income	25,933,053	14,668,460
Decrease in net deferred income taxes	(189,415)	(27,800)
Decrease in nonadmitted assets	2,735,010	3,609,623
Decrease in nonadmitted assets from change in special surplus funds	5,580,518	-
Increase in net unrealized appreciation of invested assets (net of deferred taxes of $2,569,346 and $3,428,061 at December 31, 2010 and 2009, respectively)	10,719,858	5,992,120
Change in capital and surplus	44,779,024	24,241,664
Capital and surplus, end of year	$ 285,896,940	$ 241,117,916

The accompanying notes are an integral part of these financial statements.

Maine Employers' Mutual Insurance Company
Statements of Cash Flows
(Statutory Basis)
Years Ended December 31, 2010 and 2009

	2010	2009
Cash from operations		
Premiums collected, net	$ 120,301,124	$ 127,928,925
Investment income received, net	23,597,544	22,829,641
Other expense	(408,418)	(533,421)
Cash provided from operations	143,490,250	150,225,145
Benefit and loss related payments	(79,159,011)	(76,891,615)
Commissions and expenses paid	(35,831,703)	(38,363,380)
Dividends paid to policyholders	(10,999,955)	(10,000,000)
Federal income taxes paid	(10,667,852)	(5,367,727)
Cash used in operations	(136,658,521)	(130,622,722)
Net cash provided from operations	6,831,729	19,602,423
Cash from investments		
Proceeds from investments sold, matured or repaid		
Bonds	87,174,461	111,361,212
Common and preferred stocks	419,033	813,189
Total investment proceeds	87,593,494	112,174,401
Costs of investments acquired		
Bonds	(79,085,351)	(133,166,107)
Common and preferred stocks	(10,276,760)	(516,906)
Real Estate	-	(969,430)
Other invested assets	(500,000)	-
Total cost of investments acquired	(89,862,111)	(134,652,443)
Net cash used in investments	(2,268,617)	(22,478,042)
Cash from financing and miscellaneous sources		
Capital contributions made (returned)	-	(739)
Other (applications) sources	136,942	(148,424)
Net cash provided from (used in) financing and miscellaneous sources	136,942	(149,163)
Net change in cash	4,700,054	(3,024,782)
Cash, beginning of year	16,431,801	19,456,583
Cash, end of year	$ 21,131,855	$ 16,431,801

The accompanying notes are an integral part of these financial statements.

1. Organization

Maine Employers' Mutual Insurance Company (the "Company") was established through a legislative action by the State of Maine on November 13, 1992 and commenced business effective January 1, 1993. The Company was established to replace the State of Maine's Workers' Compensation Residual Market Pool. The Company is a mutual insurance company and is not a state agency or instrument of the State of Maine for any purpose. The Company is licensed in fourteen states and writes workers' compensation insurance and employers' liability insurance incidental to and written in connection with workers' compensation coverage for employers in six New England states. The Company writes its business primarily through independent agents and brokers. Approximately 98% of premium written during 2010 was for Maine policies.

In 1996, the Company obtained approval from the Maine Bureau of Insurance (the "Insurance Department") and established a wholly-owned subsidiary, MEMIC Services Inc. ("MEMIC Services"), which sells loss control and managed care services to the Company and to other unrelated companies.

In 1998, the Company obtained approval from the Insurance Department to assume business from other insurance carriers. This business could only be assumed when the Company wrote a policy for the insured in Maine. Assumed business related to this contract occurred between the 1998 and 2005 policy years.

In 1999, the Company obtained approval from the Insurance Department of the State of New Hampshire to form a subsidiary, MEMIC Indemnity Company ("MEMIC Indemnity") to write workers' compensation insurance in New Hampshire. MEMIC Indemnity commenced writing business September 1, 2000 and is licensed in 47 states and the District of Columbia with approximately 90% of premium written in the States of Connecticut, Massachusetts, New Hampshire, New York and Vermont.

During 2007, the Company obtained approval from the Insurance Department to write employment practices liability insurance for State of Maine policies only. The Company wrote premium for this new line of business beginning in 2008.

On October 19, 2009, the Company formed Casco View Holdings, LLC, ("CVH"), a Maine limited liability company for the management and ownership of future investments in real estate. On January 4, 2010, MEMIC transferred its entire interest in the property located at 245-253 Commercial Street, Portland, Maine, which comprises certain income producing property along with a capital contribution of $500,000 and related tenant security deposits of $86,485 to CVH. As consideration for the said transfer of real estate, MEMIC received all of the membership interests of the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation
The financial statements are prepared in conformity with statutory accounting practices of the National Association of Insurance Commissioners ("NAIC") as prescribed or permitted by the Maine Bureau of Insurance.

The Maine Bureau of Insurance recognizes only statutory accounting practices prescribed or permitted by the State of Maine for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the Maine Insurance Laws. The NAIC Accounting Practices and Procedures Manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of Maine. Prescribed Maine

Laws can and do deviate from NAIC SAP and, further, the Commissioner of Insurance has the right to permit other specific practices which deviate from prescribed practices.

Statutory accounting practices differ in certain respects from accounting principles generally accepted in the United States of America ("GAAP"). The effects of such differences on the accompanying financial statements, which could be significant, have not been determined. The most significant differences generally include the following:

a. Statutory accounting requires that policy acquisition costs such as commissions, premium taxes and other items be charged to current operations as incurred. Under GAAP, policy acquisition costs would be deferred and then amortized ratably over the periods covered by the policies;

b. The statutory provision for federal income taxes represents estimated amounts currently payable based on taxable income or loss reported in the current accounting period. Deferred income taxes are provided in accordance with SSAP 10R, *Income Taxes - Revised, A Temporary Replacement of SSAP No. 10* ("SSAP 10R") and changes in deferred income taxes are recorded through surplus. The realization of any resulting deferred tax asset is limited based on certain criteria in accordance with SSAP 10R. The GAAP provision would include a provision for taxes currently payable, as well as deferred taxes, both of which would be recorded in the income statement;

c. Under statutory accounting, certain assets designated as "nonadmitted assets" (principally premiums receivable over 90 days past due, deferred income taxes, prepaid assets, miscellaneous receivables and office furniture and equipment) are charged directly to surplus. GAAP would require the Company to maintain a reserve for doubtful accounts based on amounts deemed to be uncollectible. Office furniture and equipment would be capitalized and depreciated over the estimated useful lives;

d. Statutory results of MEMIC Indemnity are reflected on the statutory equity method. Investment in MEMIC Services is accounted for under GAAP equity adjusted to a statutory basis which resulted in a net liability on the Company's statements of admitted assets, liabilities, capital and surplus. Adjustments include nonadmitted deferred tax assets, receivables over 90 days past due and furniture and equipment. The results of operations of these subsidiaries are recorded directly in surplus. Under GAAP, the subsidiary would be consolidated and such amounts would be reported in the financial statements on a consolidated basis;

e. Under statutory accounting, investments in debt securities are generally carried at amortized cost. Under GAAP, debt securities classified as trading or available-for-sale are valued at fair value, and debt securities classified as held-to-maturity are valued at amortized cost;

f. Reinsurance balances relating to unpaid loss and loss adjustment expenses are presented as offsets to reserves; under GAAP, such amounts would be presented as reinsurance recoverable; moreover, under statutory accounting, a liability is established for recoverable balances from reinsurers which are not authorized and for overdue paid loss recoverables;

g. Under GAAP, the inclusion of a statement of comprehensive income, detailing the income effects of unrealized gains and losses, foreign exchange transactions, and pension liability adjustments is required;

h. For statutory cash flow purposes, included as cash and cash equivalents are short-term investments which mature within one year as opposed to three months;

i. A reconciliation of cash flows to the indirect method is not provided under statutory accounting.

Management Estimates
The preparation of financial statements in conformity with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Invested Assets
Invested assets are valued in accordance with the statutory basis of valuation prescribed by the NAIC. Cash includes cash and cash equivalents, which are short-term investments which mature within one year; the carrying value of these investments approximate fair value.

Bonds are generally stated at amortized cost. Bonds with an NAIC SVO rating of "three" or higher are carried at the lower of amortized cost or fair value. The fair values of these securities are based on quoted prices for similar assets in active markets. The Company utilizes the prospective adjustment methodology to value mortgage-back bonds.

Unaffiliated common and preferred stocks are generally stated at the NAIC fair value. The fair values of bonds and common and preferred stocks are based on quoted market prices in active markets. Where declines in the value of marketable securities are deemed other than temporary, the loss is reported as a component of net realized capital losses. The net unrealized gains and losses on these marketable securities, after deductions of applicable deferred income taxes, are credited or charged directly to policyholders' surplus.

Other invested assets consist of actively traded mutual funds, nonmarketable alternative equity investments and an investment in a wholly owned real estate subsidiary, CVH. The fair values of the mutual funds are based on quoted market prices in active markets. Nonmarketable alternative equity investments consist of venture capital funds that are also included in other invested assets and are carried at fair value based upon the Company's proportionate interest in the underlying fund's net asset value, which is deemed to approximate fair value. This venture capital fund was written down to a fair market value of $0 during 2010 as the Company determined that the impairment was other than temporary. The investments are not publicly traded and, accordingly, quoted market prices are not available. The investment in CVH is measured on the equity basis under GAAP.

The investments in the affiliate MEMIC Indemnity Company at December 31, 2010 and 2009 are stated at the net asset value of the affiliate determined on a statutory basis excluding surplus notes issued (Note 10). Changes in net asset value of this affiliate are charged or credited directly to unassigned policyholder surplus.

Real estate and related building improvements and equipment are carried at cost less accumulated depreciation and amortization during 2009. The Company provides for depreciation and amortization principally on the straight-line method over the estimated useful lives or the applicable lease terms.

Investment income is recorded on an accrual basis. Realized capital gains and losses are reported in operating results based on the specific identification of investments sold. Unrealized capital gains and losses from the valuation of investments at fair value are credited or charged directly to unassigned surplus, net of federal income taxes, unless determined to be other than temporary and included as a component of net realized capital losses.

Realized gains or losses on the sale of investments are determined on the specific identification method and are included in the results of operations. Declines in values of securities that are other-than-temporary are written down with a corresponding charge to net realized losses. Specific impairments are determined based on a continual review of investment portfolio valuations.

Effective July 1, 2009 SSAP 43R, Loan-Backed and Structured Securities ("SSAP 43R") was adopted by the Company. SSAP 43R introduces revised statutory accounting guidance for loan-backed and structured securities, including the recognition of other-than-temporary impairments. Credit related declines in the fair value of loan-backed or structured securities are to be reflected as a realized loss in the income statement. Refer to Note 18 for the Company's evaluation of SSAP 43R on these financial statements.

Premiums and Unearned Premium Reserves
Direct and assumed premiums, net of amounts ceded to other insurance companies, are earned on a monthly pro rata basis over the in-force period. Accordingly, unearned premium reserves are established for the pro rata portion of premiums written which are applicable to the unexpired terms of the policies in force, net of reinsurance. Premium adjustments resulting from retrospective rating plans and/or audit adjustments are immediately recorded as written and earned premiums once such amounts can be reasonably estimated.

Equities and Deposits in Pools
The Company is required to participate in involuntary pools in several states where it writes workers' compensation business. The Company participates in underwriting results, including premiums, losses, expenses and other operations of involuntary pools, based on the Company's proportionate share of similar business written in the state. Underwriting results are accounted for on a gross basis whereby the Company's portion of premiums, losses, expenses and other operations of the pool are recorded separately in the financial statements rather than netted against each other.

Loss and Loss Adjustment Expense Reserves
Losses and loss adjustment expenses are recorded as incurred so as to match such costs with premiums over the contract periods. Loss reserves are established for losses and loss adjustment expenses based upon claim evaluations and include an estimated provision for both reported and unreported claims incurred and related expenses. The assumptions used in determining loss and loss adjustment expense reserves have been developed after considering the experience of the Company, industry experience and projections by independent actuaries. The ultimate loss and loss adjustment expense reserves may vary from the amounts reflected in the accompanying financial statements. The methods utilized in estimating and establishing the reserves are continually reviewed and updated and any adjustments are reflected in current operating results. Allowances for subrogation recoveries are included in the Company's estimate of loss reserves. See the summary of reserve development in Note 6.

Nonadmitted Assets
The following nonadmitted assets were excluded from the balance sheet as of December 31, 2010 and 2009:

	2010	2009
Premium balances receivable over 90 days past due	$ 1,444,932	$ 1,990,888
Deferred income taxes	11,993,703	19,671,630
Accrued retrospective premiums	41	15
Bonds	285,000	-
Intercompany receivable	117,788	-
Fixed assets, net of accumulated depreciation	1,121,137	1,614,406
Other assets	506,844	508,034
Total nonadmitted assets	$ 15,469,445	$ 23,784,973

Depreciation expense on nonadmitted fixed assets was $634,580 and $797,746 in 2010 and 2009, respectively.

Federal Income Taxes
The Company files a consolidated tax return with MEMIC Indemnity, MEMIC Services and CVH. Under this tax sharing agreement, the provision for federal income taxes is recorded based upon amounts expected to be reported as if the Company filed a separate federal income tax return. Additionally, under this agreement, the Company will be reimbursed for the utilization of tax operating losses, tax credits and capital loss carryforwards to the extent the Companies would have utilized these tax attributes on a separate return basis.

The provision for federal income taxes includes amounts currently payable or recoverable and deferred income taxes, computed under the asset/liability method, which results from temporary differences between the tax basis and the book basis of assets and liabilities.

Effective December 31, 2009 SSAP 10R was issued. The statement allows the recognition and admission of deferred tax assets that will reverse over a three year period as compared to the one year period allowed under the original guidance of SSAP 10. The expanded admissibility provisions within SSAP 10R are optional provided companies meet certain risk-based capital thresholds. The Company did not elect to expand the admissibility of deferred tax assets pursuant to SSAP 10R, paragraph 10.e. during 2009. Rather, the Company adopted those provisions for the year ended December 31, 2010. Refer to Accounting Changes noted herein. The statement also requires a statutory valuation allowance to be established against gross deferred tax assets to the extent it is more likely than not that a portion of the deferred tax assets will not be realized in the future. Refer to Note 5 - Income Taxes.

Effective January 1, 2009 the Financial Accounting Standards Board ("FASB") concluded that FIN 48, *Accounting for Uncertain Tax Positions,* ("FIN 48"), subsequently codified within ASC 740, *Income Taxes*, ("ASC 740") would be effective for nonpublic entities. ASC 740 clarifies how a company should recognize, measure, present, and disclose certain uncertain tax positions that it has taken or expects to take on a tax return. The Company files federal income tax returns and therefore the disclosures required by ASC 740 pursuant to uncertain tax positions are included in these statutory financial statements. Refer to Note 5 Income Taxes.

Accounting Changes
During 2010, the Company elected to admit deferred tax assets (DTAs) pursuant to paragraph 10.e. of SSAP No. 10R, *Income Taxes – A Temporary Replacement of SSAP No. 10*. In 2009, while the option to elect to admit DTAs under SSAP No. 10R was available, the Company did not choose that election and therefore admitted DTAs under the original SSAP No. 10 pronouncement. The Company elected to admit DTAs pursuant to paragraph 10.e. of SSAP No. 10R during 2010 as the current regulatory environment suggests that the election may become a permanent component of statutory surplus. The Company recorded an increase in deferred tax assets and surplus of $5,580,518 as a result of the election in 2010. The increase in admitted DTAs was driven primarily by the one to three year reversal components of fixed assets, non-admitted agent balances and loss and loss adjustment expense reserves.

SSAP 10R Election Impact of the Change on:

		2010		2009
Net Income	$	-	$	-
Surplus		5,580,518		5,435,214
Total Admitted Assets		5,580,518		5,435,214
Total Liabilities	$	-	$	-

EDP Equipment
EDP equipment is stated at cost, net of accumulated depreciation. Depreciation is computed principally using the straight-line method based on the estimated useful lives of assets, which is generally three years. Depreciation expense for the years ended December 31, 2010 and 2009 was $323,049 and $361,715, respectively. Expenditures for maintenance and repairs relating to EDP equipment and certain fixed assets which are nonadmitted are charged to expense as incurred. When property is sold or retired, the cost of the property and the related accumulated depreciation are removed from the statement of admitted assets, liabilities and capital and surplus and any gain or loss on the transaction is reflected in current operating results.

3. Capital Contributions

As authorized by specific provisions of Maine state law, the Company was established as a special purpose workers' compensation insurer without any initial capital or surplus. To provide capital, the Company's policyholders were required to make capital contributions based upon a percentage of their final audited premiums for policies with effective dates prior to January 1, 1996. Capital contributions were based on the estimated annual premium and are subsequently adjusted, as necessary, based upon cancellations and premium audits. In 1998, the Company received approval from the Insurance Department to return capital contributions to the extent authorized by the Board of Directors and the Insurance Department. The Company returned $0 and $739, of capital contributions in 2010 and 2009, respectively, net of related write-offs. Cumulative capital contributions remaining as of December 31, 2010 and 2009 amounted to $3,222,136 and $3,222,136, respectively.

4. Dividend Restrictions

The Company is subject to regulatory limitations with respect to statutory surplus levels and dividends. Under these regulations, annual dividends cannot exceed the greater of 10% of the insurer's surplus as of the prior year end or the net gain from operations for the twelve month period ended in the prior year. The maximum amount of dividends which can be paid by the

Company to policyholders without prior approval of the Superintendent of Insurance during 2010 and 2009 was $24,111,792 and $21,687,625, respectively. Dividends to policyholders amounted to $10,999,995 and $10,000,000 in 2010 and 2009, respectively.

5. Income Taxes

The components of the net deferred tax asset /(liability) at December 31 are as follows:

	December 31, 2010		
	Ordinary	Capital	Total
(a) Total of deferred tax assets	$ 26,833,686	$ 7,984,193	$ 34,817,879
(b) Statutory valuation allowance adjustment	-	-	-
(c) Adjusted gross deferred taxes	26,833,686	7,984,193	34,817,879
(d) Deferred tax liabilities	214,356	8,011,834	8,226,190
(e) Subtotal (Net Deferred Tax Assets) (1c - 1d)	26,619,330	(27,641)	26,591,689
(f) Deferred Tax Assets Nonadmitted	12,021,345	(27,641)	11,993,704
(g) Net Admitted Deferred Tax Assets (1e - 1f)	$ 14,597,985	$ -	$ 14,597,985

	December 31, 2009		
	Ordinary	Capital	Total
(a) Total of deferred tax assets	$ 28,080,910	$ 7,488,147	$ 35,569,057
(b) Statutory valuation allowance adjustment	-	-	-
(c) Adjusted gross deferred taxes	28,080,910	7,488,147	35,569,057
(d) Deferred tax liabilities	723,628	5,494,980	6,218,608
(e) Subtotal (Net Deferred Tax Assets) (1c - 1d)	27,357,282	1,993,167	29,350,449
(f) Deferred Tax Assets Nonadmitted	19,490,096	181,534	19,671,630
(g) Net Admitted Deferred Tax Assets (1e - 1f)	$ 7,867,186	$ 1,811,633	$ 9,678,819

	Change		
	Ordinary	Capital	Total
(a) Total of deferred tax assets	$ (1,247,224)	$ 496,046	$ (751,178)
(b) Statutory valuation allowance adjustment	-	-	-
(c) Adjusted gross deferred taxes	(1,247,224)	496,046	(751,178)
(d) Deferred tax liabilities	(509,272)	2,516,854	2,007,582
(e) Subtotal (Net Deferred Tax Assets) (1c - 1d)	(737,952)	(2,020,808)	(2,758,760)
(f) Deferred Tax Assets Nonadmitted	(7,468,751)	(209,175)	(7,677,926)
(g) Net Admitted Deferred Tax Assets (1e - 1f)	$ 6,730,799	$(1,811,633)	$ 4,919,166

The Company has elected to admit DTAs pursuant to paragraph 10.e. of SSAP No. 10R, *Income Taxes – A Temporary Replacement of SSAP No. 10.* for the calendar year ending December 31, 2010. The current year election of SSAP 10R differs from the Company's prior year DTAs in that the Company previously reported DTAs under the original SSAP 10.

As a result of the Company's election in 2010 to admit DTAs pursuant to paragraph 10.e. SSAP No. 10R, the Company has additional DTAs of $5,580,518 above the amount that would have been reported under the original pronouncement.

The table below discusses the results of the application of SSAP No. 10 for 2009 and SSAP No. 10R for 2010. In 2009, the Company did not elect to admit the higher amount of admitted DTAs although the election was permitted.

	December 31, 2010		
	Ordinary	Capital	Total
Admission Calculation Components SSAP No. 10R, Paragraphs 10.a., 10.b., & 10.c:			
(a) SSAP No. 10R, Paragraph 10.a.	$ 9,017,468	$ -	$ 9,017,468
(b) SSAP No. 10R, Paragraph 10.b. (the lesser of paragraph 10.b.i and 10.b.ii below)	9,017,468	-	9,017,468
(c) SSAP No. 10R, Paragraph 10.b.i	9,017,468	-	9,017,468
(d) SSAP No. 10R, Paragraph 10.b.ii	27,472,271	-	27,472,271
(e) SSAP No. 10R, Paragraph 10.c.	214,356	8,011,834	8,226,190
(f) Total (4a + 4b + 4e)	$ 18,249,292	$ 8,011,834	$ 26,261,126

	December 31, 2009		
	Ordinary	Capital	Total
(a) SSAP No. 10R, Paragraph 10.a.	$ 9,103,524	$ -	$ 9,103,524
(b) SSAP No. 10R, Paragraph 10.b. (the lesser of paragraph 10.b.i and 10.b.ii below)	575,295	-	575,295
(c) SSAP No. 10R, Paragraph 10.b.i	575,295	-	575,295
(d) SSAP No. 10R, Paragraph 10.b.ii	20,669,798	-	20,669,798
(e) SSAP No. 10R, Paragraph 10.c.	723,628	5,494,980	6,218,608
(f) Total (4a + 4b + 4e)	$ 10,402,447	$ 5,494,980	$ 15,897,427

	Change		
	Ordinary	Capital	Total
(a) SSAP No. 10R, Paragraph 10.a.	$ (86,056)	$ -	$ (86,056)
(b) SSAP No. 10R, Paragraph 10.b. (the lesser of paragraph 10.b.i and 10.b.ii below)	8,442,173	-	8,442,173
(c) SSAP No. 10R, Paragraph 10.b.i	8,442,173	-	8,442,173
(d) SSAP No. 10R, Paragraph 10.b.ii	6,802,473	-	6,802,473
(e) SSAP No. 10R, Paragraph 10.c.	(509,272)	2,516,854	2,007,582
(f) Total (4a + 4b + 4e)	$ 7,846,845	$ 2,516,854	$ 10,363,699

	December 31, 2010		
	Ordinary	Capital	Total
Admission Calculation Components SSAP No. 10R, Paragraphs 10.e			
(g) SSAP No. 10R, Paragraph 10.e.i	$ 11,567,140	$ -	$ 11,567,140
(h) SSAP No. 10R, Paragraph 10.e.ii (the lesser of paragraph 10.e.ii.a and 10.e.ii.b below)	3,030,845	-	3,030,845
(i) SSAP No. 10R, Paragraph 10.e.ii.a	3,030,845	-	3,030,845
(j) SSAP No. 10R, Paragraph 10.e.ii.b	38,494,355	-	38,494,355
(k) SSAP No. 10R, Paragraph 10.e.iii	214,356	8,011,834	8,226,190
(l) Total (4g + 4h + 4k)	$ 14,812,341	$ 8,011,834	$ 22,824,175

	December 31, 2009		
	Ordinary	Capital	Total
(g) SSAP No. 10R, Paragraph 10.e.i	$ -	$ -	$ -
(h) SSAP No. 10R, Paragraph 10.e.ii (the lesser of paragraph 10.e.ii.a and 10.e.ii.b below)	-	-	-
(i) SSAP No. 10R, Paragraph 10.e.ii.a	-	-	-
(j) SSAP No. 10R, Paragraph 10.e.ii.b	-	-	-
(k) SSAP No. 10R, Paragraph 10.e.iii	-	-	-
(l) Total (4g + 4h + 4k)	$ -	$ -	$ -

	Change		
	Ordinary	Capital	Total
(g) SSAP No. 10R, Paragraph 10.e.i	$ 11,567,140	$ -	$ 11,567,140
(h) SSAP No. 10R, Paragraph 10.e.ii (the lesser of paragraph 10.e.ii.a and 10.e.ii.b below)	3,030,845	-	3,030,845
(i) SSAP No. 10R, Paragraph 10.e.ii.a	3,030,845	-	3,030,845
(j) SSAP No. 10R, Paragraph 10.e.ii.b	38,494,355	-	38,494,355
(k) SSAP No. 10R, Paragraph 10.e.iii	214,356	8,011,834	8,226,190
(l) Total (4g + 4h + 4k)	$ 14,812,341	$ 8,011,834	$ 22,824,175

Used in SSAP no. 10R, Paragraph 10.d	December 31, 2010	December 31, 2009	Change
(m) Total Adjusted Capital	$ 285,896,940	$ 227,888,881	$ 58,008,059
(n) Authorized Control Level	$ 20,578,512	$ 20,384,500	$ 194,012

	December 31, 2010		
	Ordinary	Capital	Total
SSAP No. 10R, Paragraphs 10.a., 10.b., & 10.c:			
(a) Admitted Deferred Tax Assets	$ 9,231,823	$ 8,011,834	$ 17,243,657
(b) Admitted Assets			688,747,643
(c) Adjusted Statutory Surplus			280,316,422
(d) Total Adjusted Capital from DTAs			$ 9,017,468

	December 31, 2009		
	Ordinary	Capital	Total
(a) Admitted Deferred Tax Assets	$ 10,402,447	$ 5,494,980	$ 15,897,427
(b) Admitted Assets			671,568,258
(c) Adjusted Statutory Surplus			241,568,258
(d) Total Adjusted Capital from DTAs			$ 9,678,819

	Change		
	Ordinary	Capital	Total
(a) Admitted Deferred Tax Assets	$ (1,170,624)	$ 2,516,854	$ 1,346,230
(b) Admitted Assets			
(c) Adjusted Statutory Surplus			
(d) Total Adjusted Capital from DTAs			

	December 31, 2010		
	Ordinary	Capital	Total
Increases due to SSAP No. 10R, Paragraph 10.e			
(e) Admitted Deferred Tax Assets	$ 5,580,518	$ -	$ 5,580,518
(f) Admitted Assets			$ 694,328,561
(g) Statutory Surplus			$ 285,896,940

	December 31, 2009		
	Ordinary	Capital	Total
(e) Admitted Deferred Tax Assets	$ -	$ -	$ -
(f) Admitted Assets			$ 671,568,258
(g) Statutory Surplus			$ 241,568,258

	Change		
	Ordinary	Capital	Total
(e) Admitted Deferred Tax Assets	$ 5,580,518	$ -	$ 5,580,518
(f) Admitted Assets			$ 22,760,303
(g) Statutory Surplus			$ 44,328,682

	(1) Ordinary %	(2) Capital %	(3) Total % col (1) + (2)
Impact of Tax Planning Strategies			
Adjusted Gross DTAs			
(% of Total Adjusted Gross DTAs)	77.07%	22.93%	100.00%
Net Admitted Adjusted Gross DTAs			
(% of Total Net Admitted Adjusted Gross	64.90%	35.10%	100.00%

There are no deferred tax liabilities that have not been recognized in the Company's financial statements.

Current and deferred income taxes incurred consist of the following major components:

Current Income Tax:

	December 31, 2010	December 31, 2009	Change
Federal	$ 9,140,019	$ 3,065,319	$ 6,074,700
Foreign	-	-	-
Subtotal	9,140,019	3,065,319	6,074,700
Federal income tax on net capital gains	205,863	817,378	(611,515)
Federal and foreign income taxes incurred	$ 9,345,882	$ 3,882,697	$ 5,463,185

Deferred Tax Assets:

	December 31, 2010	December 31, 2009	Change
Ordinary			
Discount of unpaid losses	$ 17,756,935	$ 19,186,304	$ (1,429,369)
Unearned premium reserve	4,090,444	4,224,039	(133,595)
Compensation and benefits accrual	3,312,997	2,720,741	592,256
Other	1,673,310	1,949,826	(276,516)
Subtotal	26,833,686	28,080,910	(1,247,224)
Statutory valuation allowance adjustment	-	-	-
Nonadmitted	12,021,345	19,490,096	(7,468,751)
Admitted ordinary deferred tax assets	$ 14,812,341	$ 8,590,814	$ 6,221,527
Capital			
Investments	$ 7,984,193	$ 7,488,147	$ 496,046
Subtotal	7,984,193	7,488,147	496,046
Statutory valuation allowance adjustment	-	-	-
Nonadmitted	(27,641)	181,534	(209,175)
Admitted capital deferred tax assets	8,011,834	7,306,613	705,221
Admitted deferred tax assets	$ 22,824,175	$ 15,897,427	$ 6,926,748

Deferred Tax Liabilities:

	December 31, 2010	December 31, 2009	Change
Ordinary			
Investments	$ 163,987	$ 235,525	$ (71,538)
Other (including items <5% of total ordinary tax liabilities)	50,369	488,103	(437,734)
Subtotal	$ 214,356	$ 723,628	$ (509,272)
Capital			
Investments	$ 8,011,834	$ 5,494,980	$ 2,516,854
Subtotal	8,011,834	5,494,980	2,516,854
Deferred tax liabilities	8,226,190	6,218,608	2,007,582
Net deferred tax assets/liabilities	$ 14,597,985	$ 9,678,819	$ 4,919,166

Reconciliation of Federal Income Tax Rate to Actual Effective Rate:

Among the more significant book to tax adjustments were the following:

	Amount	Tax Effect	Effective
Tax provision before capital gains tax at statutory rate	$ 35,278,934	$ 12,347,627	35%
Dividend received deduction	(590,480)	(206,668)	-1%
Tax-exempt interest	(7,135,281)	(2,497,348)	-7%
Change in deferred tax on nonadmitted assets	1,179,879	412,958	1%
Nondeductible expenses	188,891	66,112	0%
Cumulative adjustment to prior year deferred tax	(1,381,208)	(483,410)	-1%
Provision to prior year return	(289,866)	(101,453)	0%
Other	(7,202)	(2,521)	0%
	$ 27,243,667	$ 9,535,297	27%
Federal income tax expense		9,345,882	26%
Change in deferred income taxes		189,415	1%
Total statutory income taxes		$ 9,535,297	27%

As of December 31, 2010 and 2009 the Company does not have any investment tax credits, net operating loss or capital loss carry forwards available to offset against future taxable income. The amount of federal income taxes incurred in the current year and each proceeding year available for recoupment in the event of future net losses is $9,162,648 for 2010 and $3,573,333 for 2009. The aggregate amount of deposits admitted under Section 6603 of the Internal Revenue Code is $2,114,248.

As of December 31, 2010 and 2009 the Company has no uncertain tax positions requiring disclosure in these financial statements. Had the Company identified such positions, these amounts would be evaluated and disclosed or accrued. Liabilities would be reflected on the statement of financial position and the related interest and penalties would be included on the statement of income as underwriting expenses.

As of December 31, 2009 the Company did not incur any AMT on a standalone basis however the Company benefited from $284,687 of incurred AMT from its wholly owned subsidiary MEMIC Indemnity in 2009 on a consolidated basis under the tax sharing agreement. The consolidated AMT provision is expected to reverse in 2010, resulting in the Company recognizing additional tax in 2010 as a result of the AMT recovery on a consolidated basis.

The tax years that remain subject to examination by major tax jurisdictions for the Company are 2006, 2007, 2008, 2009 & 2010.

The Company is included in a consolidated federal income tax return with the following entities:

Casco View Holdings, LLC, a 100% owned non-insurance entity,
MEMIC Indemnity Company, a 100% owned Property/Casualty insurance subsidiary, and
MEMIC Services, Inc., a 100% owned insurance services subsidiary.

The Company has a written agreement which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidation. Pursuant to this agreement, the Company has a right to recoup federal income taxes paid in prior years in the event of future net losses, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

6. Liabilities for Loss Reserves and Loss Adjustment Expense Reserves

Activity in the liabilities for loss reserves and loss adjustment expense reserves for the years ended December 31, 2010 and 2009 is summarized as follows:

	2010	2009
Balance at January 1	$ 378,565,035	$ 367,922,090
Less reinsurance recoverables	30,325,414	28,145,013
Net balance at January 1	348,239,621	339,777,077
Incurred related to		
Current year	93,250,992	99,502,360
Prior years	(24,848,677)	(2,432,666)
Total incurred	68,402,315	97,069,694
Paid related to		
Current year	23,970,403	23,641,194
Prior years	65,632,444	64,965,956
Total paid	89,602,847	88,607,150
Net balance at December 31	327,039,089	348,239,621
Plus reinsurance recoverables	32,972,439	30,325,414
Balance at December 31	$ 360,011,528	$ 378,565,035

The liabilities for loss and loss adjustment expense reserves are based upon assumptions which consider the experience of the Company, industry experience, and projections by independent actuaries. However, the reserve process is inherently subjective, and the ultimate loss and loss adjustment expense reserves may vary from the amounts recorded in the financial statements.

During 2010, the Company's incurred losses related to prior years decreased by $24,848,677 due to favorable loss development on the 1993 through 2009 accident years. During 2010 the results of the independent actuarial study determined there was redundancy in accident years prior to 2009 in outstanding losses, direct cost containment expenses, adjusting and other expenses and in ceded reserves. During 2009, the Company's incurred losses related to prior years decreased by $2,432,666 due to favorable loss development on the 1993 through 2008 accident years.

7. Reinsurance

The Company assumed risks from another insurance company through a quota share reinsurance agreement for workers' compensation which was terminated effective for 2005 policy years. Amounts added to loss reserves and loss adjustment expenses for reinsurance assumed are as follows:

	2010	2009
Loss and loss adjustment expenses incurred	$ 24,023	$ -
Loss and loss adjustment expense reserves	1,951,828	1,987,451

The Company pledged securities with a fair value in the amount of $2,817,594 as collateral for a letter of credit provided to an insurance company for assumed risks as of December 31, 2009. There is no current requirement under this letter of credit.

In 2010 and 2009, the Company wrote policies in the States of Connecticut, Vermont, New Hampshire and Massachusetts and is required to participate in the National Workers' compensation Reinsurance pool and the Massachusetts Reinsurance Pool (the "Pools") as it relates to those states. Participation requires that the Company share in the losses and expenses of the Pool. Pool results are accounted for on a gross basis whereby the company's portion of premium, losses, expenses and other operations of the Pool are recorded separately in the financial statements. All amounts are recorded as assumed business. Amounts added to premiums, reserves and expense for reinsurance assumed from pools are as follows:

	2010	2009
Premiums earned	$ 218,170	$ 154,709
Loss and loss adjustment expenses incurred	179,627	99,359
Unearned premiums	50,917	82,606
Loss and loss adjustment expense reserves	217,872	199,142
Premiums payable	50,916	82,606
Underwriting expenses incurred	46,944	56,324

The Company reinsures portions of risks with other insurance companies through excess of loss reinsurance agreements. Such agreements serve to limit the Company's maximum loss on catastrophes and large losses. To the extent that any reinsurer might be unable to meet its obligations, the Company would be liable for such defaulted amounts.

Under the Company's excess of loss agreement, the Company's net retention for losses on a per occurrence basis is $5,000,000 for 2010 and 2009 with reinsurance coverage up to $50,000,000 subject to its net retention. In addition the Company maintains additional coverage up to $75,000,000 on a per occurrence basis, for 50% of the losses occurring in excess of $50,000,000.

The Company also has aggregate excess of loss coverage for policies effective 1998 to 2002 whereby the Company can recover losses exceeding 71% of direct workers' compensation premiums earned but not exceeding 86% of direct workers' compensation premiums earned.

Amounts deducted from premiums, reserves and expenses for reinsurance ceded to other companies for workers compensation and employers' liability were as follows:

	2010	2009
Premiums earned	$ 2,095,515	$ 2,268,870
Loss and loss adjustment expenses incurred	(1,496,606)	(6,312)
Loss and loss adjustment expense reserves	21,998,202	26,009,784
Premiums payable	342,833	402,893

The Company cedes risk to another insurance company through a 100% quota share reinsurance agreement for its employment practices liability insurance (EPLI) line of business. During 2010 the Company wrote $2,023,751 and earned $1,975,257 which was 100% ceded, net of commissions to the other insurance company. As a result of the reinsurance contract, on a net basis, there were no outstanding loss, loss adjustment reserves and no loss and loss adjustment expenses incurred during 2010. Premiums payable as of December 31, 2010 were $352,422.

Of the 2010 and 2009 ceded loss and loss adjustment expense reserves above, 100% of the balances are comprised of amounts with five reinsurance carriers.

The Company had unsecured reinsurance recoverables from reinsurers that exceeded 3% of capital and surplus at December 31, 2010 as follows:

General Reinsurance Corp.	$ 21,650,000

The Company has no reinsurance contracts that contain the following features (a) a contract term longer than two years and that is noncancelable by the reporting entity during the contract term; (b) a limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer; (c) aggregate stop loss reinsurance coverage; (d) an unconditional or unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party; (e) a provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or (f) payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. The Company has neither ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards to policyholders or it report calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year end surplus as regards to policyholders nor has the

Company ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement and accounted for that contract as reinsurance (either prospective or retroactive) under statutory account principles. Additionally, the Company has not ceded any risk under any reinsurance contract where (a) the written premiums ceded to the reinsurer represents 50% or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statements or (b) 25% or more of the written premium ceded to the reinsurer has been retroceded back to the Company. Accordingly, the Company has not included the supplemental schedule of reinsurance disclosures.

8. Premiums Written and Earned

During the years ended December 31, 2010 and 2009, direct, assumed and ceded premiums were as follows:

	2010		2009	
	Written	**Earned**	**Written**	**Earned**
Direct	$ 121,406,696	$ 123,253,215	$ 128,957,541	$ 133,704,577
Assumed	186,481	218,170	214,939	154,709
Ceded	(4,121,632)	(4,073,138)	(4,094,729)	(3,822,307)
Net premiums	$ 117,471,545	$ 119,398,247	$ 125,077,751	$ 130,036,979

9. Statutory Deposits

Various regulatory authorities require that securities be placed on deposit. At December 31, 2010 and 2009, the Company had fixed income securities on deposit with a carrying value of $3,599,064 and $2,072,420, respectively.

10. Investments

The cost and NAIC fair value, of investments in equity securities, including investments in affiliates, were as follows:

		Gross Unrealized		NAIC
	Cost	**Gains**	**Losses**	**Fair Value**
At December 31, 2010				
Common stocks	$ 44,036,049	$ 23,333,193	$ (442,238)	$ 66,927,004
Common stocks of affiliates	46,223,529	11,135,014	(223,529)	57,135,014
Other invested assets	11,402,447	71,999	(1,781)	11,472,665
At December 31, 2009				
Common stocks	$ 34,125,349	$ 16,291,499	$ (591,557)	$ 49,825,291
Common stocks of affiliates	46,223,529	5,123,310	-	51,346,839
Other invested assets	5,043,385	554,280	(352,646)	5,245,019

The Company owns 100% of the common stock of MEMIC Services at a cost of $223,529. As a result of the guarantee between the Company and MEMIC Services the Company recorded a liability of $937,674 and $1,082,263 as of December 31, 2010 and 2009, respectively. Such amounts have been charged directly to unassigned surplus and are included in other liabilities on the balance sheet.

The Company owns 100% of the common stock of MEMIC Indemnity at a cost of $46,000,000 as of December 31, 2010 and 2009, respectively.

During 2004 MEMIC Indemnity issued $6 million of surplus notes that were recorded as an increase to capital and surplus at December 31, 2004. The Company's common stock investment in MEMIC Indemnity recorded in the December 31, 2010 and 2009 statements of admitted assets, liabilities and capital and surplus excludes the $6 million of surplus notes issued by MEMIC Indemnity during 2004.

Summary financial data for MEMIC Indemnity is as follows:

	2010	2009
Admitted assets	$ 163,605,837	$ 153,297,658
Liabilities	100,470,823	95,950,819
Capital and surplus	63,135,014	57,346,839
Statutory net income	3,637,400	(2,021,075)

The carrying value and NAIC fair values of bonds at December 31, 2010 and 2009 are as follows:

2010	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
U.S. Government and government agencies and authorities	$ 19,002,361	$ 802,751	$ (21,104)	$ 19,784,008
States, territories and possessions	87,237,376	4,268,996	(388,788)	91,117,584
Political subdivisions of states	118,905,610	5,164,007	(330,320)	123,739,297
Industrial and miscellaneous	120,103,495	7,138,401	(67,052)	127,174,844
Asset backed securities	131,418,625	5,730,144	(138,981)	137,009,788
Total bonds	$ 476,667,467	$ 23,104,299	$ (946,245)	$ 498,825,521

2009	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
U.S. Government and government agencies and authorities	$ 18,288,631	$ 643,184	$ (79,570)	$ 18,852,245
States, territories and possessions	91,026,365	4,894,060	(341,405)	95,579,020
Political subdivisions of states	123,918,964	5,850,529	(381,099)	129,388,394
Industrial and miscellaneous	114,717,550	4,823,853	(324,532)	119,216,871
Asset backed securities	139,258,517	3,046,520	(2,595,604)	139,709,433
Total bonds	$ 487,210,027	$ 19,258,146	$ (3,722,210)	$ 502,745,963

Bonds with a NAIC SVO rating of three or higher have been recorded at the lower of cost or fair value in accordance with statutory accounting.

The carrying value and NAIC fair value of bonds by contractual maturity at December 31, 2010 are as follows:

Maturity	Carrying Value	NAIC Fair Value
One year or less	$ 13,799,230	$ 14,057,641
Over one year through five years	113,010,351	120,063,418
Over five years through ten years	154,521,082	162,469,548
Over ten years through twenty years	61,410,900	62,747,517
Over twenty years	2,507,279	2,477,609
Asset backed securities (principally ten through twenty years)	131,418,625	137,009,788
	$ 476,667,467	$ 498,825,521

Bonds subject to early or unscheduled prepayments have been included above based upon their contractual maturity dates. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from the sales of investments in debt and equity securities and the gross realized gains and losses on those sales for the years ended December 31, 2010 and 2009, are summarized as follows:

	2010		
	Proceeds From Sales	Gross Realized Gains	Gross Realized Losses
Bonds	$ 38,985,423	$ 834,563	$ (148,029)
Preferred and common stock	419,033	103,392	(40)
	$ 39,404,456	$ 937,955	$ (148,069)

	2009		
	Proceeds From Sales	Gross Realized Gains	Gross Realized Losses
Bonds	$ 65,569,592	$ 3,316,982	$ (453,068)
Preferred and common stock	748,687	272,137	(9,867)
	$ 66,318,279	$ 3,589,119	$ (462,935)

At December 31, 2010 and 2009, the Company owned securities that were in an unrealized loss position that management determined was other than temporary and given current market conditions would not recover. The Company recorded impairments of $997,618 and $456,509 in 2010 and 2009, respectively, primarily in the banking and finance sector.

The fair value and gross unrealized loss of investment securities and the amount of time the security has been in an unrealized loss position as of December 31, 2010 is as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds (NAIC 1-2)	$ 12,239,016	$ (160,869)	$ 2,568,373	$ (299,815)	$ 14,807,389	$ (460,684)
Bonds (NAIC 3-6)	-	-	-	-	-	-
Common stocks - unaffiliated	1,252,026	(63,901)	1,292,016	(212,122)	2,544,042	(276,023)
Common stocks - affiliated	-	-	-	-	-	-
	$ 13,491,042	$ (224,770)	$ 3,860,389	$ (511,937)	$ 17,351,431	$ (736,707)

Unrealized losses on investment grade securities (NAIC 1-2) principally relate to changes in interest rates.

The major categories of net investment income are summarized as follows:

	2010	2009
Bonds	$ 21,389,636	$ 21,662,368
Common and preferred stocks	1,030,672	1,005,188
Cash and short-term investments	29,087	49,016
Other income	227,923	415,899
Total investment income	22,677,318	23,132,471
Less: Investment expenses	(1,423,390)	(2,105,284)
Net investment income	$ 21,253,928	$ 21,027,187

11. Fair Value of Financial Instruments

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Valuation techniques used to derive fair value of investment securities are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent resources such as active markets or nationally recognized pricing services. Unobservable inputs reflect comparable securities or valuations received from various broker or dealer quotes.

At December 31, 2010 and 2009, fair value measurements on a recurring basis for our investment securities were as follows:

2010	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
Cash and cash equivalents	$ 21,131,855	$ -	$ -	$ 21,131,855
Bonds (industrial and miscellaneous)	232,195			232,195
Common stocks	66,927,004			66,927,004
Other invested assets	5,680,177			5,680,177
	$ 93,971,231	$ -	$ -	$ 93,971,231

2009	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
Cash and cash equivalents	$ 16,431,801	$ -	$ -	$ 16,431,801
Bonds (industrial and miscellaneous)	-	-	-	-
Common stocks	49,825,291	-	-	49,825,291
Other invested assets	5,097,665	-	147,354	5,245,019
	$ 71,354,757	$ -	$ 147,354	$ 71,502,111

The following table represents a reconciliation of items categorized as significant unobservable inputs during 2010 and 2009, respectively:

Assets at Fair Value	Balance at 12/31/2009	Transfers in Level 3	Transfers out Level 3	Total gains or losses (realized/unrealized Total gains and (losses) included in Net Income	Total gains and (losses) included in Surplus	Purchases, issuances, sales & settlements	Balance at 12/31/2010
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Bonds (industrial and miscellaneous)	-	-	-	-	-	-	-
Common stocks	-	-	-	-	-	-	-
Other invested assets	147,354	-	-	(147,354)	-	-	-
	$ 147,354	$ -	$ -	$ (147,354)	$ -	$ -	$ -

Transfers to and from Level 3 are recognized when a purchase, sale or settlement increases or decreases to an asset previously valued as a Level 3 or when an investment is purchased which is carried at fair market value and does not have an observable input for valuation. During 2010 an impairment was taken on the Level 3 other invested asset that was classified in Level 3 as of December 31, 2009.

As of December 31, 2010, the reported fair value of the reporting entity’s investments in Level 3 is $0. Other invested assets include an investment in a venture capital fund where the determination of the value of the underlying securities has been estimated by the Fund’s management in the absence of readily determinable market values. During 2010, the Company determined that the impairment the venture capital fund has suffered is other than temporary and has written the invested asset down to $0. There are no Level 2 assets carried at fair value as of December 31, 2010, no derivative assets or liabilities and no assets or liabilities carried at fair value on a nonrecurring basis.

12. Employee Benefit Plans

The Company has adopted a qualified defined contribution pension, 401(k) and profit sharing plan (the Plan) covering substantially all full-time employees who meet the plans' eligibility requirements. During 2010, the Plan changed from a non-discretionary Plan to a discretionary Plan where the amount to be contributed is determined by the Board of Directors. If approved by the Board of Directors, the pension component of the defined contribution plan is determined to be 3-6% of the covered employees' annual eligible compensation. Employees become eligible to participate upon completion of three months of service and are fully vested in the Plan after three years of service. The amount expensed for the pension related portion if the Plan was approximately $401,100 and $571,500 in 2010 and 2009, respectively.

The 401(k) and profit sharing portion of the Plan provides for a tax deferred profit sharing contribution by the Company and an employee elective contribution with a matching provision. In 2010 and 2009, with respect to the 401(k) component of the Plan, the Company will contribute an amount up to 100% of the employees’ 401(k) contributions to a maximum of 5% of an employees’ annual compensation. An employee’s contribution may not exceed 60% of their annual salary or the maximum amount allowed as determined by the Internal Revenue Code. The Company's contributions become fully vested after five years. The Company incurred approximately $428,800 and $458,000 of expense related to the 401(k) component of the Plan in 2010 and 2009, respectively. With respect to the profit sharing component of the Plan, each eligible participant may receive a profit sharing contribution in an amount to be determined by the Board of Directors not to exceed 6% plus an additional allocation for employees earning in excess of the taxable wage base. The Company incurred approximately $473,300 and $478,600 of expense related to the profit sharing component of the Plan in 2010 and 2009, respectively.

The Company sponsors a non-qualified, deferred compensation plan (the Compensation Plan) and trust for certain key executives providing for payments upon retirement, death or disability. The Compensation Plan permits eligible officers to defer a portion of their compensation. The Compensation Plan provides that, in the event of liquidation of the Company, all assets of the Compensation Plan will be available to meet the obligations of the Company. Included in both other invested assets and other liabilities are amounts of $5,680,177 and $5,097,664 at December 31, 2010 and 2009, respectively, related to the Compensation Plan. In accordance with NAIC SAP, the increase/(decrease) in market value of the assets of the Plan are recorded into income of the Company. The Company incurred approximately $541,200 and $652,500 of expense related to the Compensation Plan in 2010 and 2009, respectively.

The Company also maintains an Incentive Compensation Plan (the ICP) for certain members of senior management. Under the terms of the ICP, participants are awarded "surplus shares" at the discretion of the Executive Committee of the Board of Directors. Four classes of surplus shares have been awarded under the ICP. The maximum amount of Class A shares that can be awarded is 5,000, spanning a five year period commencing in 1996. At December 31, 2010, a total of 300 Class A shares and 2,400 Class B shares remained unexpired under the Plan. The value of each class of surplus share is determined based on excess capital and surplus as defined in the ICP. Shares become fully vested over a 10 year period or a shorter period, under certain conditions. The Company has incurred approximately $1,434,400 and $1,755,200 of expense related to the ICP in 2010 and 2009, respectively.

A Long Term Incentive Plan (LTIP) was established by the Compensation Committee of the Board of Directors (the Committee) effective January 1, 2007 for certain members of management and highly compensated individuals (Participants). Participants are granted a fixed dollar base award (the "Award") contingent upon the anticipated growth of imputed surplus. The final earned amount of the Award is based on the actual growth levels of imputed surplus and is calculated upon imputed surplus as compared to Target, Threshold and Maximum Growth levels for an applicable performance period, generally three years. The actual earned amount of the Award can range from Zero to 150% of the fixed dollar base Award. Participants vest in the plan over three years, or a shorter period, under certain established conditions. The Company has incurred approximately $1,583,200 and $651,800 of expense related to the LTIP in 2010 and 2009, respectively.

13. Commitments and Contingent Liabilities

The Company leases office space and various office equipment and vehicles under lease arrangements through 2013. Future minimum lease payments under operating leases at December 31, 2010 are as follows:

2011	$ 956,919
2012	852,924
2013	546,503
2014	60,451
2015	5,142
Total future minimum lease payments	$ 2,421,939

Total rent and lease expense was $1,001,094 and $1,021,758 for the years ended December 31, 2010 and 2009, respectively.

Effective January 1, 2010 the Company transferred its commercial real estate building to its wholly owned subsidiary, CVH. CVH assumed all related lessor leases

From time to time the Company may purchase annuities to settle claims. Certain types of annuities provide annuitants with recourse against the Company in the event that the insurer fails to pay under the annuities as agreed. Under these arrangements, the Company remains contingently liable to the annuitant.

The Company is involved in litigation with respect to claims arising in the ordinary course of business, which is taken into account in establishing loss and loss adjustment expense reserves. The Company periodically reviews its overall loss and loss adjustment expense reserve position as well as its provision for reinsurance. The Company's management believes the resolution of such litigation is not expected to have a material adverse effect on the financial position or the operating results of the Company.

The Company is subject to guaranty fund and other assessments in New Hampshire and Massachusetts and Vermont. The Company accrued a liability for guaranty fund and other assessments of approximately $379,601 in 2010 and $143,669 in 2009. This represents management's best estimate based on information received from these three states where the Company writes business and may change due to factors including the Company's share of the ultimate cost of insolvencies.

14. Workers' Compensation Board Assessments

The State of Maine Workers' Compensation Board (the "Board") assesses insurance companies, associations, and self-insured employers amounts based upon their written premium levels. At December 31, 2010 and 2009, the assessment was 2.33% and 2.04%, respectively, of written premium. To fund this amount, the Company is required to assess its policyholders these amounts and submit amounts collected to the Board on a quarterly basis. The balance of $1,239,904 and $1,232,191 represents amounts due to the Board as of December 31, 2010 and 2009, respectively.

15. Supplemental Benefits Fund Assessments

In 2002, the State of Maine created the Supplemental Benefits Fund for the purpose of reimbursing insurance companies and self-insurers for supplemental indemnity benefits not originally provided for in rates covering prior years' premiums. Insurance companies are assessed based upon their written premium levels. To fund these amounts, the Company is required to assess its policyholders and submit amounts collected to the Supplemental Benefits Oversight Committee on a quarterly basis. At January 1, 2010 and 2009, the assessment rate was .57% and .68%, respectively, of standard policy premium. The balance of $1,060,638 and $1,110,149 represents amounts due to the Fund for amounts billed but uncollected as of December 31, 2010 and 2009, respectively.

16. Related Party Transactions

The Company is charged by MEMIC Services for loss control and managed care services. In turn, the Company charges MEMIC Services for certain administrative and overhead expenses. The net of these charges amounted to $5,467,161 and $4,302,370 for 2010 and 2009, respectively and are included in underwriting expenses on the Statement of Income. Under the equity method of accounting the value of this wholly owned subsidiary is included in other liabilities on the statement of financial position as the Company has guaranteed the obligations of this subsidiary. As of December 31, 2010 and 2009, the Company recorded a receivable from MEMIC Services of $0 and $534,913, respectively which is included in due from affiliates on the statement of financial position.

In accordance with a management agreement, the Company charges MEMIC Indemnity Company for certain administrative and overhead expenses incurred on its behalf. These charges amounted to $1,986,285 and $2,036,136 for 2010 and 2009, respectively, and are included in underwriting expenses on the Statement of Income. In addition, the Company pays certain operating expenses on behalf of MEMIC Indemnity and in turn charges MEMIC Indemnity for reimbursement. MEMIC Indemnity also charges MEMIC for certain claims and premium audit services and other services. These charges amounted to $100,533 and $72,269 during 2010 and 2009, respectively. These expenses are also included in other underwriting expenses. The Company recorded a receivable from MEMIC Indemnity of $1,363,652 and $402,753 at December 31, 2010 and 2009, respectively which is included in due from affiliates on the statement of financial position.

The Company provides certain services, principally legal, management and accounting services to CVH. During 2010, CVH paid the Company $24,000 for these services of which $3,500 is payable to MEMIC as of December 31, 2010.

17. Subprime Mortgage Related Risk Exposure

The Company considers its exposure to subprime mortgage risk based on the likelihood of future cash flows, unrealized losses, potential write-downs and the likelihood that an impairment is other than temporary. The Company regularly reviews the ratings of all subprime mortgage risk securities. Differentiation between changes in asset values due to unrealized losses or changes in asset values due to less than anticipated future cash flows are not necessary since the subprime holdings are not material to the overall portfolio. The Company does not rely on investing in subprime mortgages in its overall investment strategy. The Company mitigates its overall exposure with a predominantly fixed income portfolio in other than subprime mortgage based securities.

The Company has the following exposure related to other investments with subprime exposure:

	Actual Cost	Book/ Adj Carrying Value (excluding interest)	Fair Value	Other than Temporary Impairment to Date
Residential mortgage-backed securities	$ 1,947,131	$ 1,744,039	$ 1,860,648	$ (580,993)
Commercial mortgage backed securities	-	-	-	-
	$ 1,947,131	$ 1,744,039	$ 1,860,648	$ (580,993)

As of December 31, 2010, certain subprime mortgage holdings have been written down in accordance with SSAP 43R as discussed in Note 18 below. The Company does not have any underwriting exposure to subprime mortgage risk through mortgage guaranty or financial insurance guaranty coverage.

The Company does not have any investments in collateralized debt obligations, structured securities, equity investments in subsidiary, controlled or affiliated entities with significant subprime mortgage related risk exposure, and subprime mortgage loans. Also, the Company does not provide mortgage guaranty or financial guaranty insurance coverage.

18. Loan Backed Securities

The Company has elected to use the prospective method of determining prepayment assumptions. Prepayment assumptions are derived primarily from projected cash flow information obtained from recognized external sources. Where projected cash flow information is not publicly available the information is obtained from external asset managers or by internal estimates. The Company uses IDC Corporation in determining the market value of its loan-backed securities. There have been no changes from the retrospective to the prospective adjustment methodology due to negative yield on specific securities.

The Company has no loan-backed securities that have a recognized other than temporary impairment (OTTI) where the Company either has the intent to sell; or do not have the ability or intent to retain the investment for a period of time to recover any unadjusted amortized cost basis.

The Company currently holds one security with a recognized OTTI where the present value of future cash flows expected to be collected is less than the amortized cost basis of the security.

CUSIP	Amortized Cost Before Other-Than-Temporary Impairment	Present Value of Projected Cash Flows	Other-Than-Temporary Impairment	Amortized Cost After Other-Than-Temporary Impairment	Fair Value at Time of Other-Than-Temporary Impairment	Date of Finanical Statement Where Reported
68383NCX9	$ 2,209,427	$ 2,012,788	$ 196,639	$ 2,012,788	$ 1,571,028	12/31/2009
68383NCX9	1,737,020	1,600,690	136,330	1,600,690	1,266,695	6/30/2010
68383NCX9	1,462,072	998,214	327,527	1,134,545	1,095,810	12/31/2010
Total	XXX	XXX	$ 660,496	XXX	XXX	XXX

The following table summarizes unrealized losses on loan-backed securities by the length of time that the securities have continuously been in unrealized loss positions.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Single class mortgage backed securities	$ -	$ -	$ -	$ -	$ -	$ -
Multi-class residential mortgage-backed securities	-	-	-	-	-	-
Multi-class commercial mortgage-backed/asset backed securities	997,450	(55)	1,897,355	(333,277)	2,894,805	(333,332)
Total	$ 997,450	$ (55)	$ 1,897,355	$ (333,277)	$ 2,894,805	$ (333,332)

There is no additional information necessary to describe the general categories of information that the Company considered in reaching the conclusion that the impairments are not other-than-temporary. The Company asserts that is has the intent and ability to hold these securities long enough to allow the cost basis of these securities to be recovered.

The Company has no repurchase agreements and/or securities lending transactions or low-income housing tax credits in the current year or prior year. The Company has investments in real estate through its wholly owned subsidiary CVH in the current year.

The cumulative amount of credit losses on loan-backed and structured securities still held as of December 31, 2010 is as follows:

	Period from January 1, 2010 to December 31, 2010
Credit losses as of the beginning of the period	$ 3,620,924
Credit losses for which an OTTI was not previously recognized	546,120
Additional credit losses on securities for which an OTTI was previously recognized	(167,175)
Reductions for securities sold during the period	(98,882)
Reductions for securities reclassified as intend-to-sell	
Credit losses as of December 31, 2010	$ 3,900,987

19. Events Subsequent

Subsequent events have been considered through March 25, 2011 for these statutory financial statements which are available to be issued March 25, 2011. On March 1, 2011, the Company invested an additional $5,100,000 in its wholly owned subsidiary, Casco View Holdings, LLC (CVH). CVH invested 100% of the $5,100,000 in its wholly owned subsidiary, Casco View Holdings II, LLC (CVHII) for the purchase of the home office building of the Company which had previously been under a long-term lease with an unrelated party. The Company records both the current and this additional member contribution in CVH in other invested assets.

MEMIC Indemnity Company

Financial Statements (Statutory Basis)
December 31, 2010 and 2009

MEMIC Indemnity Company
Index
December 31, 2010 and 2009

Report of Independent Auditors

To the Board of Directors of
MEMIC Indemnity Company

We have audited the accompanying statutory basis statements of admitted assets, liabilities and capital and surplus of MEMIC Indemnity Company (the "Company") as of December 31, 2010 and 2009, and the related statutory basis statements of income and changes in capital and surplus, and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the New Hampshire Insurance Department, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2010 and 2009, or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and capital and surplus of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 2.

PricewaterhouseCoopers, 125 High Street, Boston MA 02110 1707
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Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Summary Investment Schedule and Supplemental Investment Risks Interrogatories of the Company as of December 31, 2010 and for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. The effects on the Summary Investment Schedule and Supplemental Investment Risks Interrogatories of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Summary Investment Schedule and Supplemental Investment Risks Interrogatories do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2010 and for the year then ended. The Summary Investment Schedule and Supplemental Investment Risks Interrogatories have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 25, 2011

MEMIC Indemnity Company
Statements of Admitted Assets, Liabilities and Capital and Surplus (Statutory Basis)
Years Ended December 31, 2010 and 2009

	2010	2009
Admitted Assets		
Invested assets		
Bonds, at carrying value (NAIC fair value: $133,858,064 and $124,704,733 at December 31, 2010 and 2009, respectively)	$ 129,140,736	$ 121,459,553
Common stocks, at NAIC fair value (cost: $3,069,384 and $2,868,550 at December 31, 2010 and 2009, respectively)	4,219,912	3,727,026
Other invested assets	-	34,100
Cash	8,609,802	9,873,708
Total cash and invested assets	141,970,450	135,094,387
Premium balances receivable	14,782,773	12,678,875
Equities and deposits in pools and associations	-	434,452
Investment income due and accrued	1,330,456	1,212,867
EDP equipment (net of accumulated depreciation of $250,729 and $189,277 at December 31, 2010 and 2009, respectively)	78,866	139,036
Reinsurance recoverable on paid loss and loss adjustment expenses	15,732	49,390
Income tax receivable	-	138,435
Net deferred income taxes	5,427,560	3,550,216
Total admitted assets	$ 163,605,837	$ 153,297,658
Liabilities		
Loss reserves	$ 60,749,644	$ 60,824,837
Loss adjustment expense reserves	9,532,951	9,422,894
Unearned premium reserves	21,980,005	20,188,842
Reinsurance premiums payable	(250,713)	62,793
Other liabilities	4,467,080	3,504,158
Amounts withheld for others	755,297	551,887
Commissions payable	1,217,255	992,655
Due to parent	1,363,652	402,753
Federal income tax payable	655,652	-
Total liabilities	100,470,823	95,950,819
Commitments and contingencies (Note 13)		
Capital and Surplus		
Surplus notes (Note 15)	6,000,000	6,000,000
Common stock, 1,000,000 shares authorized, 100,000 shares issued and outstanding.	3,000,000	2,000,000
Gross paid-in and contributed surplus	43,000,000	44,000,000
Special surplus funds	1,428,548	-
Unassigned surplus	9,706,466	5,346,839
Total capital and surplus	63,135,014	57,346,839
Total liabilities and capital and surplus	$ 163,605,837	$ 153,297,658

The accompanying notes are an integral part of these financial statements.

MEMIC Indemnity Company
Statements of Income
(Statutory Basis)
Years Ended December 31, 2010 and 2009

	2010	2009
Underwriting income		
Premiums earned, net	$ 42,138,132	$ 46,177,339
Loss and underwriting expenses		
Losses incurred, net	24,350,048	33,776,302
Loss adjustment expenses incurred, net	4,657,887	5,826,903
Underwriting expenses	13,037,611	13,130,296
Total loss and underwriting expenses	42,045,546	52,733,501
Net underwriting income (loss)	92,586	(6,556,162)
Investment income		
Net investment income	4,597,174	4,636,187
Net realized capital (losses) gains, net of taxes	(23,450)	73,311
Total investment income	4,573,724	4,709,498
Other expenses		
Bad debt expense	(262,406)	(43,351)
Finance charges	1,324	-
Other expense	-	(70)
Net other expense	(261,082)	(43,421)
Income (loss) before dividends and federal income taxes	4,405,228	(1,890,085)
Dividends to policyholders	114,088	101,654
Income (loss) income after dividends, before federal income taxes	4,291,140	(1,991,739)
Provision for federal income tax	653,740	29,336
Net income (loss)	$ 3,637,400	$ (2,021,075)

The accompanying notes are an integral part of these financial statements.

MEMIC Indemnity Company
Statements of Changes in Capital and Surplus
(Statutory Basis)
Years Ended December 31, 2010 and 2009

	2010	2009
Capital and surplus, beginning year	$ 57,346,839	$ 57,723,499
Net income (loss)	3,637,400	(2,021,075)
Increase (decrease) in net deferred income taxes	(233,584)	1,292,686
(Increase) decrease in nonadmitted assets	799,285	(547,790)
Decrease in nonadmitted assets from change in special surplus funds	1,428,548	-
Change in net unrealized appreciation of invested assets (net of deferred taxes of $80,872 as of December 31, 2010 and $484,889 as of December 31, 2009)	156,526	899,519
Surplus converted to capital stock	1,000,000	-
Surplus transferred from paid in capital	(1,000,000)	-
Change in capital and surplus	5,788,175	(376,660)
Capital and surplus, end of year	$ 63,135,014	$ 57,346,839

The accompanying notes are an integral part of these financial statements.

MEMIC Indemnity Company
Statements of Cash Flows
(Statutory Basis)
Years Ended December 31, 2010 and 2009

	2010	2009
Cash from operations		
Premiums collected, net	$ 41,442,275	$ 45,144,418
Investment income received, net	5,156,533	5,041,342
Other expense	(261,082)	(43,423)
Cash provided from operations	46,337,726	50,142,337
Benefit and loss related payments	24,391,581	22,351,768
Commissions and expenses paid	16,453,239	17,606,803
Dividends paid to policyholders	58,770	18,497
Federal income taxes paid	(133,318)	2,092,376
Cash used in operations	40,770,272	42,069,444
Net cash provided from operations	5,567,454	8,072,893
Cash from investing activities		
Cash provided by investments		
Proceeds from bonds sold, matured or repaid	14,531,523	34,826,972
Cost of bonds acquired	(22,915,255)	(39,616,410)
Cost of stocks acquired	(200,834)	(188,430)
Net cash used in investing activities	(8,584,566)	(4,977,868)
Cash from financing and miscellaneous sources		
Other cash		
Other sources	1,753,206	109,681
Net cash provided from financing and miscellaneous sources	1,753,206	109,681
Net change in cash	(1,263,906)	3,204,706
Cash, beginning of year	9,873,708	6,669,002
Cash, end of year	$ 8,609,802	$ 9,873,708

The accompanying notes are an integral part of these financial statements.

1. Organization

MEMIC Indemnity Company (the "Company"), a wholly-owned subsidiary of Maine Employers' Mutual Insurance Company ("MEMIC"), was incorporated on February 24, 2000. MEMIC has contributed $46,000,000 to capitalize and fund operations of the Company. The Company is licensed to write workers' compensation insurance in 47 states and the District of Columbia with approximately 90% of premium written in the States of Connecticut, New Hampshire, Massachusetts, New York and Vermont. The Company writes its business primarily through independent agents and brokers in the various states in which it is licensed.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Company are prepared in conformity with statutory accounting practices of the National Association of Insurance Commissioners ("NAIC") as prescribed or permitted by the New Hampshire Insurance Department ("statutory accounting").

The New Hampshire Insurance Department recognizes only statutory accounting practices prescribed or permitted by the State of New Hampshire for determining and reporting the financial condition and results of operations of an insurance company, and for determining its solvency under the New Hampshire Insurance Law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of New Hampshire. There are no differences between the Company's net income, capital and surplus as recognized under NAIC SAP and the practices prescribed and permitted by the State of New Hampshire.

Statutory accounting practices differ in certain respects from accounting principles generally accepted in the United States of America ("GAAP"). The effects of such differences on the accompanying financial statements, which could be significant, have not been determined. The most significant differences generally include the following:

a. Statutory accounting requires that policy acquisition costs such as commissions, premium taxes and other items be charged to current operations as incurred. Under GAAP, policy acquisition costs would be deferred and then amortized ratably over the periods covered by the policies;

b. The statutory provision for federal income taxes represents estimated amounts currently payable based on taxable income or loss reported in the current accounting period. Deferred income taxes are provided in accordance with SSAP 10R, *Income Taxes Revised, A Temporary Replacement of SSAP No. 10* ("SSAP 10R") and changes in deferred income taxes are recorded through surplus. The realization of any resulting deferred tax asset is limited based on certain criteria in accordance with SSAP 10R. The GAAP provision would include a provision for taxes currently payable, as well as deferred taxes, both of which would be recorded in the income statement;

c. Under statutory accounting, certain assets designated as "nonadmitted assets" (principally premiums past due greater than 90 days, deferred income taxes, prepaid assets and office furniture and equipment) are charged directly to surplus. GAAP would require the Company to maintain a reserve for doubtful accounts based on amounts deemed to be uncollectible. Office furniture and equipment would be capitalized and depreciated over the estimated useful lives;

d. Under statutory accounting, investments in debt securities are generally carried at amortized cost. Under GAAP, debt securities classified as trading or available-for-sale are valued at fair value, and debt securities classified as held-to-maturity are valued at amortized cost;

e. Reinsurance balances relating to unpaid loss and loss adjustment expenses are presented as offsets to reserves; under GAAP, such amounts would be presented as reinsurance recoverable; moreover, under statutory accounting, a liability is established for recoverable balances from reinsurers which are not authorized and for overdue paid loss recoverables;

f. Under GAAP, the inclusion of a statement of comprehensive income, detailing the income effects of unrealized gains and losses, foreign exchange transactions, and pension liability adjustments is required;

g. For statutory cash flow purposes, included as cash and cash equivalents are short-term investments which mature within one year as opposed to three months; and

h. A reconciliation of cash flows to the indirect method is not provided under statutory accounting.

Management Estimates
The preparation of financial statements in conformity with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Invested Assets
Invested assets are valued in accordance with the statutory basis of valuation prescribed by the NAIC. Cash includes cash and cash equivalents, which are short-term investments which mature within one year; the carrying value of these investments approximates fair value.

Bonds are generally stated at amortized cost. Bonds with an NAIC SVO rating of "three" or higher are carried at the lower of amortized cost or fair value. The fair values of these securities are based on quoted prices for similar assets in active markets. The Company utilizes the prospective adjustment methodology to value mortgage-backed bonds.

Common and preferred stocks are generally stated at the NAIC fair value. The fair values of bonds and common and preferred stocks are based on quoted market prices in active markets. Where declines in the value of marketable securities are deemed other than temporary, the loss is reported as a component of net realized capital (losses) gains. The net unrealized gains and losses on these marketable securities, after deductions of applicable deferred income taxes, are credited or charged directly to policyholders' surplus.

Other invested assets consist of an investment in a surplus note. These investments are carried pursuant to the valuation method prescribed by the NAIC in SSAP No. 41.

Investment income is recorded on an accrual basis. Realized capital gains and losses are reported in operating results based on the specific identification of investments sold. Unrealized capital gains and losses from the valuation of investments at fair value are credited or charged directly to unassigned surplus, net of federal income taxes, unless determined to be other than temporary and included as a component of net realized capital (losses) gains.

Realized gains or losses on the sale of investments are determined on the specific identification method and are included in the results of operations. Declines in values of securities that are other-than-temporary are written down with a corresponding charge to net realized losses. Specific impairments are determined based on a continual review of investment portfolio valuations.

Effective July 1, 2009 SSAP 43R, Loan-Backed and Structured Securities was adopted by the Company. SSAP 43R introduces revised statutory accounting guidance for loan-backed and structured securities, including the recognition of other-than-temporary impairments. Credit related declines in the fair value of loan-backed or structured securities are to be reflected as a realized loss in the income statement. Refer to Note 17 for the Company's evaluation of SSAP 43R on these financial statements.

Premiums and Unearned Premium Reserves
Direct and assumed premiums, net of amounts ceded to other insurance companies, are earned on a monthly pro rata basis over the in-force period. Accordingly, unearned premium reserves are established for the pro rata portion of premiums written which are applicable to the unexpired terms of the policies in force, net of reinsurance. Premium adjustments resulting from retrospective rating plans and/or audits are immediately recorded as written and earned premiums once such amounts can be reasonably estimated.

Equities and Deposits in Pools
The Company is required to participate in involuntary pools in several states where it writes workers’ compensation business. The Company participates in underwriting results, including premiums, losses, expenses and other operations of involuntary pools, based on the Company’s proportionate share of similar business written in the state. Underwriting results are accounted for on a gross basis whereby the Company’s portion of premiums, losses, expenses and other operations of the pool are recorded separately in the financial statements rather than netted against each other.

Loss and Loss Adjustment Expense Reserves
Losses and loss adjustment expenses are recorded as incurred so as to match such costs and premiums over the contract periods. Loss reserves are established for losses and loss adjustment expenses based upon claim evaluations and include an estimated provision for both reported and unreported claims incurred and related expenses. The assumptions used in determining loss and loss adjustment expense reserves have been developed after considering the experience of the Company, industry experience and projections by independent actuaries. The ultimate loss and loss adjustment expense reserves may vary from the amounts reflected in the accompanying financial statements. The method utilized in estimating and establishing the reserves are continually reviewed and updated and any adjustments are reflected in current operating results. The immaturity of the Company’s book of business may result in an increased level of variability within the historical loss data. Allowances for subrogation recoveries are included in the Company’s estimate of loss reserves. See the summary of reserve development in Note 6.

Nonadmitted Assets
The following nonadmitted assets were excluded from the balance sheet as of December 31, 2010 and 2009:

	2010	2009
Premium balances receivable over 90 days past due	$ 374,055	$ 304,438
Deferred income taxes	1,637,855	3,230,245
Fixed assets, net of accumulated depreciation	238,047	322,897
Other assets	191,790	212,591
Total nonadmitted assets	$ 2,441,747	$ 4,070,171

Depreciation expense on nonadmitted fixed assets was $90,506 and $98,386 in 2010 and 2009, respectively.

Federal Income Taxes
The Company is a party to a tax-sharing agreement with MEMIC and two affiliates, MEMIC Services, Inc. and Casco View Holdings, LLC. Under this tax-sharing agreement, the provision for federal income taxes is recorded based upon amounts expected to be reported as if the Company filed a separate federal income tax return. Additionally, under this agreement, the Company will be reimbursed for the utilization of tax operating losses, tax credits and capital loss carryforwards, to the extent the Company would have utilized these tax attributes on a separate return basis.

The provision for federal income taxes includes amounts currently payable or recoverable and deferred income taxes, computed under the asset/liability method, which results from temporary differences between the tax basis and book basis of assets and liabilities.

Effective December 31, 2009 SSAP 10R was issued. The statement allows the recognition and admission of deferred tax assets that will reverse over a three year period as compared to the one year period allowed under the original guidance of SSAP 10. The expanded admissibility provisions within SSAP 10R are optional provided companies meet certain risk-based capital thresholds. The Company did not elect to expand the admissibility of deferred tax assets pursuant to SSAP 10R, paragraph 10.e. during 2009. Rather, the Company adopted those provisions for the year ended December 31, 2010. Refer to Accounting Changes noted herein. The statement also requires a statutory valuation allowance to be established against gross deferred tax assets to the extent it is more likely than not that a portion of the deferred tax assets will not be realized in the future. Refer to Note 5 - Income Taxes.

Effective January 1, 2009 the Financial Accounting Standards Board ("FASB") concluded that FIN 48, *Accounting for Uncertain Tax Positions*, ("FIN 48"), subsequently codified within ASC 740, *Income Taxes*, ("ASC 740") would be effective for nonpublic entities. ASC 740 clarifies how a company should recognize, measure, present and disclose certain uncertain tax positions that it has taken or expects to take on a tax return. The Company files federal income tax returns and therefore the disclosures required by ASC 740 pursuant to uncertain tax positions are included in these statutory financial statements. Refer to Note 5 - Income Taxes.

Accounting Changes
During 2010, the Company elected to admit deferred tax assets (DTAs) pursuant to paragraph 10.e. of SSAP No. 10R, *Income Taxes – A Temporary Replacement of SSAP No. 10*. In 2009, while the option to elect to admit DTAs under SSAP No. 10R was available, the Company did not choose that election and therefore admitted DTAs under the original SSAP No. 10 pronouncement. The Company elected to admit DTAs pursuant to paragraph 10.e. of SSAP No. 10R during 2010 as the current regulatory environment suggests that the election may become a permanent component of statutory surplus. The Company recorded an increase in deferred tax assets and surplus of $1,428,548 as a result of the election in 2010. The increase in admitted DTAs was driven primarily by the one to three year reversal components of fixed assets, non-admitted agent balances and loss and loss adjustment expense reserves.

EDP Equipment
EDP equipment is stated at cost, net of accumulated depreciation. Depreciation is computed principally by use of the straight-line method based on the estimated useful lives of assets, which is generally three years. Depreciation expense for the years ended December 31, 2010 and 2009 was $68,506 and $68,140, respectively. Expenditures for maintenance and repairs relating to EDP equipment and certain fixed assets which are nonadmitted are charged to expense as incurred. When property is sold or retired, the cost of the property and the related accumulated depreciation are removed from the statement of admitted assets, liabilities and capital and surplus and any gains or loss on the transaction is reflected in current operating results.

3. Capital and Surplus

Total contributions from MEMIC were $46,000,000 as of December 31, 2010 and 2009.

The Company has 1,000,000 shares of stock authorized; 100,000 shares issued and outstanding as of December 31, 2010 and 2009. The stock had a $30 and $20 par value per share as of December 31, 2010 and 2009, respectively. During 2010, the Company increased the par value of capital stock from $20 to $30 per share to fulfill the requirements of an insurance department requirement for capital stock.

4. Dividend Restrictions

The Company may declare a dividend without insurance department approval so long as such dividend is not considered extraordinary. In the case of extraordinary dividends, prior approval is required. An extraordinary dividend or distribution includes any dividend or distribution of cash or other property, whose fair market value together with that of other dividends or distributions made within the preceding 12 months, exceeds 10% of such insurer's capital and surplus as of December 31, limited to the prior year-end's unassigned surplus.

5. Income Taxes

The components of the net deferred tax asset /(liability)at December 31 are as follows:

	December 31, 2010		
	Ordinary	Capital	Total
(a) Total of deferred tax assets	$ 6,829,235	$ 702,127	$ 7,531,362
(b) Statutory valuation allowance adjustment	-	-	-
(c) Adjusted gross deferred taxes	6,829,235	702,127	7,531,362
(d) Deferred tax liabilities	63,262	402,685	465,947
(e) Subtotal (Net Deferred Tax Assets) (1c - 1d)	6,765,973	299,442	7,065,415
(f) Deferred Tax Assets Nonadmitted	1,338,413	299,442	1,637,855
(g) Net Admitted Deferred Tax Assets (1e - 1f)	$ 5,427,560	$ -	$ 5,427,560

	December 31, 2009		
	Ordinary	Capital	Total
(a) Total of deferred tax assets	$ 7,059,193	$ 668,004	$ 7,727,197
(b) Statutory valuation allowance adjustment	-	-	-
(c) Adjusted gross deferred taxes	7,059,193	668,004	7,727,197
(d) Deferred tax liabilities	46,859	300,467	347,326
(e) Subtotal (Net Deferred Tax Assets) (1c - 1d)	7,012,334	367,537	7,379,871
(f) Deferred Tax Assets Nonadmitted	3,462,118	367,537	3,829,655
(g) Net Admitted Deferred Tax Assets (1e - 1f)	$ 3,550,216	$ -	$ 3,550,216

	Change		
	Ordinary	Capital	Total
(a) Total of deferred tax assets	$ (229,958)	$ 34,123	$ (195,835)
(b) Statutory valuation allowance adjustment	-	-	-
(c) Adjusted gross deferred taxes	(229,958)	34,123	(195,835)
(d) Deferred tax liabilities	16,403	102,218	118,621
(e) Subtotal (Net Deferred Tax Assets) (1c - 1d)	(246,361)	(68,095)	(314,456)
(f) Deferred Tax Assets Nonadmitted	(2,123,705)	(68,095)	(2,191,800)
(g) Net Admitted Deferred Tax Assets (1e - 1f)	$ 1,877,344	$ -	$ 1,877,344

The Company has elected to admit DTAs pursuant to paragraph 10.e. of SSAP No. 10R, *Income Taxes – A Temporary Replacement of SSAP No. 10*. for the calendar year ending December 31,

2010. The current year election of SSAP 10R differs from the Company's prior year DTAs in that the Company previously reported DTAs under the original SSAP 10.

As a result of the Company's election in 2010 to admit DTAs pursuant to paragraph 10.e. of SSAP No. 10R, the Company has additional DTAs of $1,428,548 above the amount that would have been reported under the original pronouncement.

The table below discusses the results of the application of SSAP No. 10 for 2009 and SSAP No. 10R for 2010. In 2009, the Company did not elect to admit the higher amount of admitted DTAs although the election was permitted.

	December 31, 2010		
	Ordinary	Capital	Total
Admission Calculation Components SSAP No. 10R, Paragraphs 10.a., 10.b., & 10.c:			
(a) SSAP No. 10R, Paragraph 10.a.	$ 2,352,592	$ -	$ 2,352,592
(b) SSAP No. 10R, Paragraph 10.b. (the lesser of paragraph 10.b.i and 10.b.ii below)	1,646,420	-	1,646,420
(c) SSAP No. 10R, Paragraph 10.b.i	1,646,420	-	1,646,420
(d) SSAP No. 10R, Paragraph 10.b.ii	5,391,648	-	5,391,648
(e) SSAP No. 10R, Paragraph 10.c.	63,262	402,685	465,947
(f) Total (4a + 4b + 4e)	$ 4,062,274	$ 402,685	$ 4,464,959

	December 31, 2009		
	Ordinary	Capital	Total
(a) SSAP No. 10R, Paragraph 10.a.	$ 1,640,634	$ -	$ 1,640,634
(b) SSAP No. 10R, Paragraph 10.b. (the lesser of paragraph 10.b.i and 10.b.ii below)	1,909,582	-	1,909,582
(c) SSAP No. 10R, Paragraph 10.b.i	1,909,582	-	1,909,582
(d) SSAP No. 10R, Paragraph 10.b.ii	5,368,692	-	5,368,692
(e) SSAP No. 10R, Paragraph 10.c.	46,859	300,467	347,326
(f) Total (4a + 4b + 4e)	$ 3,597,075	$ 300,467	$ 3,897,542

	Change		
	Ordinary	Capital	Total
(a) SSAP No. 10R, Paragraph 10.a.	$ 711,958	$ -	$ 711,958
(b) SSAP No. 10R, Paragraph 10.b. (the lesser of paragraph 10.b.i and 10.b.ii below)	(263,162)	-	(263,162)
(c) SSAP No. 10R, Paragraph 10.b.i	(263,162)	-	(263,162)
(d) SSAP No. 10R, Paragraph 10.b.ii			
(e) SSAP No. 10R, Paragraph 10.c.	16,403	102,218	118,621
(f) Total (4a + 4b + 4e)	$ 465,199	$ 102,218	$ 567,417

	December 31, 2010		
	Ordinary	Capital	Total
Admission Calculation Components SSAP No. 10R, Paragraphs 10.e			
(g) SSAP No. 10R, Paragraph 10.e.i	$ 2,352,592	$ -	$ 2,352,592
(h) SSAP No. 10R, Paragraph 10.e.ii (the lesser of paragraph 10.e.ii.a and 10.e.ii.b below)	3,074,968	-	3,074,968
(i) SSAP No. 10R, Paragraph 10.e.ii.a	3,074,968	-	3,074,968
(j) SSAP No. 10R, Paragraph 10.e.ii.b	8,087,471	-	8,087,471
(k) SSAP No. 10R, Paragraph 10.e.iii	63,262	402,685	465,947
(l) Total (4g + 4h + 4k)	$ 5,490,822	$ 402,685	$ 5,893,507

	December 31, 2009		
	Ordinary	Capital	Total
(g) SSAP No. 10R, Paragraph 10.e.i	$ -	$ -	$ -
(h) SSAP No. 10R, Paragraph 10.e.ii below)	-	-	-
(i) SSAP No. 10R, Paragraph 10.e.ii.a	-	-	-
(j) SSAP No. 10R, Paragraph 10.e.ii.b	-	-	-
(k) SSAP No. 10R, Paragraph 10.e.iii	-	-	-
(l) Total (4g + 4h + 4k)	$ -	$ -	$ -

	Change		
	Ordinary	Capital	Total
(g) SSAP No. 10R, Paragraph 10.e.i	2,352,592	$ -	$ 2,352,592
(h) SSAP No. 10R, Paragraph 10.e.ii	-	-	-
below)	3,074,968	-	3,074,968
(i) SSAP No. 10R, Paragraph 10.e.ii.a	3,074,968	-	3,074,968
(j) SSAP No. 10R, Paragraph 10.e.ii.b	8,087,471	-	8,087,471
(k) SSAP No. 10R, Paragraph 10.e.iii	63,262	402,685	465,947
(l) Total (4g + 4h + 4k)	$ 5,490,822	$ 402,685	$ 5,893,507

Used in SSAP no. 10R, Paragraph 10.d	December 31, 2010	December 31, 2009	Change
(m) Total Adjusted Capital	$ 63,135,014	$ 53,796,623	$ 9,338,391
(n) Authorized Control Level	$ 4,499,230	$ 4,462,605	$ 36,625

	December 31, 2010		
	Ordinary	Capital	Total
SSAP No. 10R, Paragraphs 10.a., 10.b., & 10.c:			
(a) Admitted Deferred Tax Assets	$ 4,062,274	$ 402,685	$ 4,464,959
(b) Admitted Assets			162,177,289
(c) Adjusted Statutory Surplus			61,706,466
(d) Total Adjusted Capital from DTAs			$ 3,999,012

	December 31, 2009		
	Ordinary	Capital	Total
(a) Admitted Deferred Tax Assets	$ -	$ -	$ -
(b) Admitted Assets			-
(c) Adjusted Statutory Surplus			-
(d) Total Adjusted Capital from DTAs			$ -

	Change		
	Ordinary	Capital	Total
(a) Admitted Deferred Tax Assets	$ 4,062,274	$ 402,685	$ 4,464,959
(b) Admitted Assets			
(c) Adjusted Statutory Surplus			
(d) Total Adjusted Capital from DTAs			

	December 31, 2010		
	Ordinary	Capital	Total
Increases due to SSAP No. 10R, Paragraph 10.e			
(e) Admitted Deferred Tax Assets	$ 1,428,548	$ -	$ 1,428,548
(f) Admitted Assets	$ 163,605,837	$ -	$ 163,605,837
(g) Statutory Surplus	$ 63,135,014	$ -	$ 63,135,014

	December 31, 2009		
	Ordinary	Capital	Total
(e) Admitted Deferred Tax Assets	$ -	$ -	$ -
(f) Admitted Assets	$ -	$ -	$ -
(g) Statutory Surplus	$ -	$ -	$ -

	Change		
	Ordinary	Capital	Total
(e) Admitted Deferred Tax Assets	$ 1,428,548	$ -	$ 1,428,548
(f) Admitted Assets	$ 163,605,837	$ -	$ 163,605,837
(g) Statutory Surplus	$ 63,135,014	$ -	$ 63,135,014

	(1) Ordinary %	(2) Capital %	(3) Total % col (1) + (2)
Impact of Tax Planning Strategies			
Adjusted Gross DTAs (% of Total Adjusted Gross DTAs)	90.68%	9.32%	100.00%
Net Admitted Adjusted Gross DTAs (% of Total Net Admitted Adjusted Gross DTAs)	93.17%	6.83%	100.00%

There are no deferred tax liabilities that have not been recognized in the Company's financial statements.

Current and deferred income taxes consist of the following major components:

Current Income Tax:

	December 31, 2010	December 31, 2009	Change
Federal	$ 653,740	$ 29,336	$ 624,404
Foreign	-	-	-
Subtotal	653,740	29,336	624,404
Federal income tax on net capital gains	7,029	(75,100)	82,129
Federal and foreign income taxes incurred	$ 660,769	$ (45,764)	$ 706,533

Deferred Tax Assets:

	December 31, 2010	December 31, 2009	Change
Ordinary			
Discount of unpaid losses	$ 3,666,592	$ 3,751,360	$ (84,768)
Unearned premium reserve	1,530,748	1,412,516	118,232
Tax credit carry-forward	-	599,410	(599,410)
Other	1,631,895	1,295,907	335,988
Subtotal	6,829,235	7,059,193	(229,958)
Statutory valuation allowance adjustment	-	-	-
Nonadmitted	1,338,413	3,462,117	(2,123,704)
Admitted ordinary deferred tax assets	$ 5,490,822	$ 3,597,076	$ 1,893,746
Capital			
Investments	$ 702,127	$ 668,004	$ 34,123
Subtotal	702,127	668,004	(1,370,131)
Statutory valuation allowance adjustment	-	-	-
Nonadmitted	299,442	367,537	(68,095)
Admitted capital deferred tax assets	402,685	300,467	102,218
Admitted deferred tax assets	$ 5,893,507	$ 3,897,543	$ 1,995,964

Deferred Tax Liabilities:

	December 31, 2010	December 31, 2009	Change
Ordinary			
Investments	$ 32,786	$ 27,569	$ 5,217
Policyholder reserves	30,476	19,291	11,185
Subtotal	63,262	46,860	16,402
Capital			
Investments	$ 402,685	$ 300,467	$ 102,218
Subtotal	402,685	300,467	102,218
Deferred tax liabilities	465,947	347,327	118,620
Net deferred tax asset/liabilities	$ 5,427,560	$ 3,550,216	$ 1,877,344

Reconciliation of Federal Income Tax Rate to Actual Effective Rate:

Among the more significant book to tax adjustments were the following:

	Amount	Tax Effect	Effective Tax Rate
Tax provision before capital gains tax at statutory rate	$ 4,298,169	$ 1,504,359	35%
Dividend received deduction	(119,496)	(41,824)	-1%
Tax-exempt interest	(1,716,203)	(600,671)	-14%
Change in deferred tax on nonadmitted assets	88,706	31,047	1%
Nondeductible expenses	24,697	8,644	0%
Other	(20,579)	(7,202)	0%
	$ 2,555,294	$ 894,353	21%
Federal income tax expense		660,769	15%
Change in deferred income taxes		233,584	5%
Total statutory income taxes		$ 894,353	21%

As of December 31, 2010 and 2009 the Company does not have any investment tax credits, net operating loss or capital loss carry forwards available to offset against future taxable income. The amount of federal income taxes incurred in the current year and each proceeding year available for recoupment in the event of future net losses is $655,652 for 2010 and $0 for 2009. There are no deposits admitted under Section 6603 of the Internal Revenue Code.

As of December 31, 2010 and December 31, 2009 the Company does not have any uncertain tax positions requiring disclosure in these financial statements. Had the Company identified such positions, these amounts would need to be evaluated and disclosed or accrued. Liabilities would be reflected on the statement of financial position and the related interest and penalties would be included on the statement of income as underwriting expenses.

As of December 31, 2009 the Company incurred AMT of $621,537, however, under the Company's tax sharing agreement it was partially absorbed into the consolidated tax return. The consolidated AMT provision is expected to reverse in 2010, resulting in the Company recognizing a reduction to tax in 2010 as a result of the AMT recovery on a consolidated basis.

The tax years that remain subject to examination by major tax jurisdictions for the Company are 2006, 2007, 2008, 2009 and 2010.

The Company is included in a consolidated federal income tax return with the following entities:

Maine Employers' Mutual Insurance Company, parent company,
Casco View Holdings, LLC, a related party under common ownership,
MEMIC Services, Inc., a related party under common ownership.

The Company has a written agreement which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidation. Pursuant to this agreement, the Company has a right to recoup federal income taxes paid in prior years in the event of future net losses, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

6. Liabilities for Loss Reserves and Loss Adjustment Expense Reserves

Activity in the liabilities for loss reserves and loss adjustment expense reserves for the years ended December 31, 2010 and 2009 is summarized as follows:

	2010	2009
Opening balance	$ 73,878,732	$ 61,798,426
Less reinsurance recoverable	3,631,001	4,053,062
Net balance	70,247,731	57,745,364
Incurred related to		
Current year	34,069,766	38,088,215
Prior year	(5,061,831)	1,514,990
	29,007,935	39,603,205
Paid related to		
Current year	9,733,542	10,323,548
Prior year	19,239,529	16,777,290
	28,973,071	27,100,838
Net balance at December 31	70,282,595	70,247,731
Plus reinsurance recoverable	77,784	3,631,001
Balance at December 31	$ 70,360,379	$ 73,878,732

The liabilities for loss and loss adjustment expense reserves are based upon assumptions which consider the experience of the Company, industry experience, and projections by independent actuaries. However, the reserve process is inherently subjective, and the ultimate loss and loss adjustment expense reserves may vary from the amounts recorded in the financial statements.

During 2010, the Company's incurred losses related to prior years decreased by $5.0 million as a result of favorable loss development principally in the 2002 through 2009 accident years. During 2010 the results of the independent actuarial study determined there was redundancy in accident years prior to 2009 in outstanding losses, direct cost containment expenses and in ceded reserves.

During 2009, the Company's incurred losses related to prior years increased by $1.5 million as a result of unfavorable loss development principally in the 2002 through 2008 accident years.

7. Reinsurance

The Company assumed risks from another insurance company through a 100% quota share reinsurance agreement which was terminated effective for 2005 policy years. Amounts added to loss reserves and loss adjustment expenses for reinsurance assumed from the other company are as follows:

	2010	2009
Loss and loss adjustment expenses incurred	$ -	$ (272,364)
Loss and loss adjustment expense reserves	541,011	563,458

The Company pledged debt securities with a fair value in the amount of $507,441 as collateral for a letter of credit provided to an insurance company for assumed risks as of December 31, 2009. There was no requirement in 2010 under this letter of credit for the Company.

As a condition of writing policies in several states, the Company is required to participate in the National Workers' Compensation Reinsurance Pool and the Massachusetts Reinsurance Pool (the "Pools") as it relates to those states. Participation requires that the Company share in the losses and expenses of the Pool. Pool results are accounted for on a gross basis whereby the Company's portion of premiums, losses, expenses and other operations of the Pool are recorded separately in the financial statements. All amounts are recorded as assumed business. Amounts added to premiums, reserves and expenses for reinsurance assumed from pools are as follows:

	2010	2009
Premiums earned	$ 1,863,171	$ 2,725,628
Loss and loss adjustment expenses incurred	1,913,484	1,578,427
Unearned premiums	667,543	861,133
Loss and loss adjustment expense reserves	6,614,216	6,245,532
Premiums receivable	358,943	434,451
Underwriting expenses incurred	540,137	891,304

The Company reinsures portions of risks with another insurance company through excess of loss reinsurance agreements. Such agreements serve to limit the Company's maximum loss on catastrophes and large losses. To the extent that the reinsurer might be unable to meet its obligations, the Company would be liable for such defaulted amounts.

Under the Company's excess of loss agreement, the Company's net retention for losses on a per occurrence basis is $2,000,000 for 2010 and 2009, $3,000,000 for 2008, $2,000,000 for 2007, $1,000,000 for 2006 and $500,000 for 2005 and 2004 with reinsurance coverage up to $50,000,000 subject to its net retention. For losses incurred prior to 2003, the net retention for losses is $100,000 with coverage up to $50,000,000 subject to its net retention. In addition, the Company maintains additional coverage up to $75,000,000 on a per occurrence basis, for 50% of the losses occurring in excess of $50,000,000.

Amounts deducted from premiums, reserves and expenses for reinsurance ceded were as follows:

	2010	2009
Premiums earned	$ 1,312,238	$ 1,319,877
Loss and loss adjustment expenses incurred	129,000	-
Loss and loss adjustment expense reserves	3,383,537	3,631,001
Premiums (receivable) payable	(250,713)	62,794

The 2010 and 2009 ceded loss and loss adjustment expense reserves above are comprised of amounts with one reinsurance carrier although the Company has contracts with other carriers.

The Company has unsecured reinsurance recoverables from a reinsurer that exceeded 3% of capital and surplus at December 31, 2010 as follows:

General Reinsurance Corp.	$ 3,570,000

The Company's reinsurance program was implemented in accordance with the New Hampshire Insurance Department's Consent Agreement dated March 8, 2000.

The Company has no reinsurance contracts that contain the following features (a) a contract term longer than two years and that is noncancelable by the reporting entity during the contract term; (b) a limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer; (c) aggregate stop loss reinsurance coverage; (d) an unconditional or unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party; (e) a provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or (f) payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. The Company has neither ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards to policyholders or it report calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year end surplus as regards to policyholders nor has the Company ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement and accounted for that contract as reinsurance (either prospective or retroactive) under statutory account principles. Additionally, the Company has not ceded any risk under any reinsurance contract where (a) the written premiums ceded to the reinsurer represents 50% or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statements or (b) 25% or more of the written premium ceded to the reinsurer has been retroceded back to the Company. Accordingly, the Company has not included the supplemental schedule of reinsurance disclosures.

8. Premiums Written and Earned

During the years ended December 31, 2010 and 2009, direct, assumed and ceded premiums were as follows:

	2010		2009	
	Written	Earned	Written	Earned
Direct	$ 43,323,461	$ 41,587,199	$ 42,761,816	$ 44,771,588
Assumed	1,669,581	1,863,171	2,627,694	2,725,628
Ceded	(1,312,238)	(1,312,238)	(1,319,877)	(1,319,877)
Net premiums	$ 43,680,804	$ 42,138,132	$ 44,069,633	$ 46,177,339

9. Statutory Deposits

Various regulatory authorities require that securities be placed on deposit. At December 31, 2010 and 2009, the Company had fixed income securities on deposit with a carrying value of $9,932,696 and $9,999,228, respectively.

10. Investments

The carrying value and NAIC fair values of bonds at December 31, 2010 and 2009 are as follows:

2010	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
U.S. Government and government agencies and authorities	$ 17,491,569	$ 1,178,422	$ (4,842)	$ 18,665,149
States, territories and possessions	20,285,002	712,495	(177,578)	20,819,919
Political subdivisions of states	35,811,414	885,481	(113,210)	36,583,685
Industrial and miscellaneous	30,651,423	1,096,625	(17,001)	31,731,047
Asset backed securities	24,901,328	1,230,779	(73,843)	26,058,264
Total bonds	$ 129,140,736	$ 5,103,802	$ (386,474)	133,858,064
Other invested assets	$ -	$ -	$ -	$ -

2009	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
U.S. Government and government agencies and authorities	$ 17,356,950	$ 605,180	$ (68,298)	$ 17,893,832
States, territories and possessions	16,047,172	780,455	(14,420)	16,813,207
Political subdivisions of states	36,668,921	1,263,141	(137,083)	37,794,979
Industrial and miscellaneous	21,736,421	383,463	(94,458)	22,025,426
Asset backed securities	29,650,089	990,776	(463,576)	30,177,289
Total bonds	$ 121,459,553	$ 4,023,015	$ (777,835)	$ 124,704,733
Other invested assets	$ 34,100	$ 15,141	$ -	$ 49,241

The cost and NAIC fair value of equity securities were as follows:

2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
Common stocks	$ 3,069,384	$ 1,150,528	$ -	$ 4,219,912

2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses	NAIC Fair Value
Common stocks	$ 2,868,550	$ 858,476	$ -	$ 3,727,026

Bonds with an NAIC SVO rating of three or higher have been recorded at the lower of cost or fair value in accordance with statutory accounting.

The carrying value and NAIC fair value of bonds at December 31, 2010 by contractual maturity are as follows:

Maturity	Carrying Value	NAIC Fair Value
One year or less	$ 5,146,043	$ 5,177,839
Over one year through five years	47,577,649	49,262,555
Over five years through ten years	36,446,315	37,871,462
Over ten years through twenty years	13,636,685	14,019,646
Over twenty years	1,432,716	1,468,298
	104,239,408	107,799,800
Asset backed securities (principally ten through twenty years)	24,901,328	26,058,264
	$ 129,140,736	$ 133,858,064

Bonds subject to early or unscheduled prepayments have been included above based upon their contractual maturity dates. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from sales of investments on debt securities and the gross realized gains and losses on those sales for the years ended December 31, 2010 and 2009 are summarized as follows:

	2010		
	Proceeds	Gross Realized	
	From Sales	Gains	Losses
Bonds	$ 3,288,733	$ 20,465	$ (415)
Stocks			
	$ 3,288,733	$ 20,465	$ (415)

	2009		
	Proceeds	Gross Realized	
	From Sales	Gains	Losses
Bonds	$ 25,571,823	$ 847,381	$ (744,974)
Stocks	-	-	-
	$ 25,571,823	$ 847,381	$ (744,974)

At December 31, 2010, the Company owned securities that were in an unrealized loss position that management determined was other than temporary and given current market conditions would not recover. The Company recorded an impairment of $55,618 in 2010 primarily in the banking and finance sector.

At December 31, 2009, the Company owned securities that were in an unrealized loss position that management determined was other than temporary and given current market conditions would not recover. The Company recorded an impairment of $110,022 in 2009 primarily in the banking and finance sector.

The fair value and gross unrealized loss of investment securities and the amount of time the security has been in an unrealized loss position as of December 31, 2010 is as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds (NAIC 1-2)	$ 12,239,016	$ (299,816)	$ 2,833,254	$ (209,469)	$ 15,072,270	$ (509,285)
Bonds (NAIC 3-6)	-	-	-	-	-	-
Common stocks	-	-	-	-	-	-
Preferred stocks	-	-	-	-	-	-
	$ 12,239,016	$ (299,816)	$ 2,833,254	$ (209,469)	$ 15,072,270	$ (509,285)

Unrealized losses on investment grade securities (NAIC 1-2) principally relate to changes in interest rates.

The major categories of net investment income for the years ended December 31, 2010 and 2009 are summarized as follows:

	2010	2009
Bonds	$ 4,937,642	$ 5,038,809
Preferred stock and common	200,834	188,430
Cash and short-term investments	13,199	23,713
Other investment income	7,594	-
Total investment income	5,159,269	5,250,952
Less: Investment expenses	(562,095)	(614,765)
Net investment income	$ 4,597,174	$ 4,636,187

11. Fair Value of Financial Instruments

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Valuation techniques used to derive fair value of investment securities are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent resources such as active markets or nationally recognized pricing services. Unobservable inputs reflect comparable securities or valuations received from various broker or dealer quotes.

At December 31, 2009 and 2008, fair value measurements on a recurring basis for investment securities were as follows:

2010	Quoted Prices in in Active Markets	Significant Other Observable Inputs	Significant Un-Observable Inputs	Total
Cash and cash equivalents	$ 8,609,802	$ -	$ -	$ 8,609,802
Bonds (industrial and miscellaneous)	389,492	-	-	389,492
Preferred stocks	-	-	-	-
Common stocks	4,219,912	-	-	4,219,912
Total fair value	$ 13,219,206	$ -	$ -	$ 13,219,206

2009	Quoted Prices in in Active Markets	Significant Other Observable Inputs	Significant Un-Observable Inputs	Total
Cash and cash equivalents	$ 9,873,708	$ -	$ -	$ 9,873,708
Bonds (industrial and miscellaneous)	-	37,000	-	37,000
Preferred stocks	-	-	-	-
Common stocks	3,727,026	-	-	3,727,026
Total fair value	$ 13,600,734	$ 37,000	$ -	$ 13,637,734

There are no Level 3 fair value assets which were transferred in or out during 2010.

Transfers to and from Level 3 would be recognized when a purchase, sale or settlement increases or decrease an asset previously valued as a Level 3 or when an investment is purchased which is carried at fair market value and does not have an observable input for valuation. There were no Level 2 and Level 3 fair value assets during 2010 or 2009. The Company has no derivative assets or liabilities or assets carried at fair value on a nonrecurring basis.

12. Employee Benefit Plans

The Company has adopted a qualified defined contribution pension, 401(k) and profit sharing plan (the Plan) covering substantially all full-time employees who meet the Plans' eligibility requirements. During 2010, the Plan changed from a non-discretionary Plan to a discretionary Plan where the amount to be contributed is determined by the Board of Directors. If approved by the Board of Directors, the pension component of the defined contribution plan is determined to be 3-6% of the covered employees' annual eligible compensation. Employees become eligible to participate upon completion of three months of service and are fully vested in the Plan after three years of service. The amount expensed for the pension related portion if the Plan was approximately $73,400 and $68,300 in 2010 and 2009, respectively.

The 401(k) and profit sharing portion of the Plan provides for a tax deferred profit sharing contribution by the Company and an employee elective contribution with a matching provision. In 2010 and 2009, with respect to the 401(k) component of the Plan, the Company will contribute an amount up to 100% of the employees’ 401(k) contributions to a maximum of 5% of an employees’ annual compensation. An employee’s contribution may not exceed 60% of their annual salary or the maximum amount allowed as determined by the Internal Revenue Code. The Company's contributions become fully vested after five years. The Company incurred approximately $60,000 and $66,500 of expense related to the 401(k) component of the Plan in 2010 and 2009, respectively. With respect to the profit sharing component of the Plan, each eligible participant may receive a profit sharing contribution in an amount to be determined by the Board of Directors not to exceed 6% plus an additional allocation for employees earning in excess of the taxable wage base. The Company incurred approximately $75,100 and $69,000 of expense related to the profit sharing component of the Plan in 2010 and 2009, respectively.

The Company sponsors a non-qualified, deferred compensation plan (the Compensation Plan) and trust for certain key executives providing for payments upon retirement, death or disability. The Compensation Plan permits eligible officers to defer a portion of their compensation. The Compensation Plan provides that, in the event of liquidation of the Company, all assets of the Compensation Plan will be available to meet the obligations of the Company. There were no key persons participating in the Compensation Plan as of December 31, 2010 or 2009.

The Company also maintains an Incentive Compensation Plan (the ICP) for certain members of senior management. Under the terms of the ICP, participants are awarded "surplus shares" at the discretion of the Executive Committee of the Board of Directors of MEMIC. Four classes of surplus shares have been awarded under the ICP. Shares become fully vested over a 10 year period or a shorter period, under certain conditions. There were no key persons participating in the ICP as of December 31, 2010 or 2009.

A Long Term Incentive Plan (LTIP) was established by the Compensation Committee of the Board of Directors (the Committee) of MEMIC effective January 1, 2007 for certain members of management and highly compensated individuals (participants). Participants are granted a fixed dollar base award (the Award) contingent upon the anticipated growth of imputed surplus. The final earned amount of the Award is based on the actual growth levels of imputed surplus and is calculated upon imputed surplus as compared to Target, Threshold and Maximum Growth levels for an applicable performance period, generally three years. The actual earned amount of the Award can range from Zero to 150% of the fixed dollar base Award. Participants vest in the plan over three years, or a shorter period, under certain established conditions. There were no key persons participating in the LTIP as of December 31, 2010 or 2009.

13. Commitment and Contingent Liabilities

The Company leases office space and various office equipment and vehicles under lease arrangements through 2014. Future minimum lease payments under operating leases at December 31, 2010 are as follows:

2011	$ 384,524
2012	370,506
2013	60,964
2014	32,328
Total future minimum lease payments	$ 848,322

Total rent and lease expense was $351,513 and $350,409 for the years ended December 31, 2010 and 2009, respectively.

The Company is involved in litigation with respect to claims arising in the ordinary course business, which is taken in account in establishing loss and loss adjustment expense reserves. The Company's management believes that the resolution of such litigation is not expected to have a material adverse effect of the financial position or the operating results of the Company.

The Company served as a member of the Board of Governors of the National Workers' Compensation Reinsurance Pool (Pool). In March 2008 a legal dispute arose between the National Council on Compensation Insurance (NCCI), serving as attorney-in-fact for the Pool, and American International Group, Inc., et. al. (AIG). The dispute involved alleged underreporting of workers' compensation premium by AIG to avoid participation in residual markets AIG, in turn, filed its own action against all other insurance companies, including the Company, one of many Third-Party Defendants, alleging similar or identical conduct. The original complaint filed by AIG was dismissed, however an amended complaint filed October 16, 2009 by AIG asserts breach of fiduciary duty against the same Third-Party Defendants. On February 14, 2011 AIG filed its Agreed Motion For Voluntary Dismissal, which requests the court to dismiss with prejudice its claims against of the Third-Party Defendants, including the Company. The order of dismissal was entered on March 10 resulting in the dismissal with prejudice of the claims asserted against each of the Third-Party Defendants, including the Company.

The Company is subject to guaranty fund and other assessments by the states in which the Company writes business. The Company accrued a liability for guaranty fund and other assessments of approximately $3,185,133 and $2,471,977 as of December 31, 2010 and 2009, respectively. This represents management's best estimate based on information received from the states in which the Company writes business and may change due to factors including the Company's share of the ultimate cost of insolvencies.

14. Related Party Transactions

The Company is related through its parent company to an insurance services subsidiary, MEMIC Services, Inc. During 2010, the Company paid the affiliate, MEMIC Services, Inc. $1,560,124 for loss control, managed care and other services provided to the Company.

The Company is 100% owned by Maine Employers' Mutual Insurance Company (MEMIC). MEMIC charges the Company management and other fees in the normal course of business and in accordance with the terms of certain cost sharing agreements. In 2010, the Company was charged approximately $1,986,285 for underwriting, claim and investment management fees, and received $100,533 for those services that were provided to MEMIC by the Company.

At December 31, 2010 and 2009, the Company reported $1,363,651 and $402,753, respectively, in amounts due to its parent MEMIC. The amounts are settled periodically in accordance with the terms of certain cost sharing agreements.

15. Surplus Notes

Date Issued	Interest Rate	Par Value (Face Amount of Notes)	Carrying Value of Note	Principal and/or Interest Paid Current Year	Total Principal and/or Interest Paid	Unapproved Principal and/or Interest	Date of Maturity
4/30/04	LIBOR + 4%	$ 6,000,000	$ 6,000,000	$ 263,673	$ 2,843,980	$ 33,571	4/29/2034

The surplus note of $6,000,000 in the table above was issued pursuant to Rule 144A under the Securities Act of 1933, underwritten by Dekania Capital Management II, and administered by JP Morgan/Chase as trustee.

Interest accrues at a floating rate of 3 month LIBOR plus 4%. Interest payments are due quarterly in arrears on February 15, May 15, August 15 and November 15. Each payment of interest on and principal of the surplus note may be made only with the prior approval of the Commissioner of

Insurance of the State of New Hampshire and only to the extent the Company has sufficient surplus earnings to make such payment.

The Company may, at its option, redeem the note in whole at any time or in part from time to time at a redemption price of 100%. As of December 31, 2010 the note has not been redeemed.

The surplus note is subordinated to all senior obligations, including all existing and future debt and guarantees, and any expense or policy claims. The note will rank equally with any future surplus note or similar obligation of the Company.

16. Subprime Mortgage Related Risk Exposure

The Company considers its exposure to subprime mortgage risk based on the likelihood of future cash flows, unrealized losses, potential write-downs and the likelihood that an impairment is other than temporary. The Company regularly reviews the ratings of all subprime mortgage risk securities. Differentiation between changes in asset values due to unrealized losses or changes in asset values due to less than anticipated future cash flows are not necessary since the subprime holdings are not material to the overall portfolio. The Company does not rely on investing in subprime mortgages in its overall investment strategy. The Company mitigates its overall exposure with a predominately fixed income portfolio in other than subprime mortgage based securities.

The Company has the following exposure related to other investments with subprime exposure:

	Actual Cost	Book/Adjusted Carrying Value	Fair Value	Other than Temporary Impairment to Date
Residential Mortgage Backed Securities	$ 656,689	$ 532,699	$ 521,683	$ (101,061)
Commercial Mortgage Backed Securities	-	-	-	-
	$ 656,689	$ 532,699	$ 521,683	$ (101,061)

As of December 31, 2010 there were three subprime mortgage related securities with ratings between BBB and AAA. There were no other than temporary impairment write-downs of during 2010 on these subprime mortgage related securities.

The Company does not have any underwriting exposure to subprime mortgage risk through Mortgage Guaranty or Financial Insurance Guaranty coverage.

17. Loan Backed Securities

The Company has elected to use the prospective method of determining prepayment assumptions. Prepayment assumptions are derived primarily from projected cash flow information obtained from recognized external sources. Where projected cash flow information is not publicly available the information is obtained from external asset managers or by internal estimates. The Company uses IDC Corporation in determining the market value of its loan-backed securities. There have been no changes from the retrospective to the prospective adjustment methodology due to negative yield on specific securities.

The Company has no loan-backed securities that have a recognized other than temporary impairment (OTTI) where the Company either has the intent to sell; or do not have the ability or intent to retain the investment for a period of time to recover any unadjusted amortized cost basis.

The Company currently holds one security with a recognized OTTI where the present value of future cash flows expected to be collected is less than the amortized cost basis of the security.

CUSIP	Amortized Cost Before Other-Than-Temporary Impairment	Present Value of Projected Cash Flows	Other-Than-Temporary Impairment	Amortized Cost After Other-Than-Temporary Impairment	Fair Value at Time of Other-Than-Temporary Impairment	Date of Financial Statement Where Reported
41161UAE2	$ 502,385	$ 392,364	$ 110,022	$ 392,363	$ 308,492	12/31/2009
41161UAE2	264,881	323,634	10,152	254,729	264,881	12/31/2010
Total	XXX	XXX	$ 120,174	XXX	XXX	XXX

The fair value and gross unrealized losses of non-agency RMBS investment securities and the amount of time the securities have been in an unrealized loss position as of December 31, 2010 are as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Non-Agency RMBS	$ 328,820	$ (2,730)	$ 1,376,733	$ (139,208)	$ 1,705,553	$ (141,938)

The cumulative amount of credit losses on loan backed and structured securities still held as of December 31, 2010 is as follows:

	Period from January 1, 2010 to December 31, 2010
Credit losses as of the beginning of the period	$ 110,022
Credit losses for which an OTTI was not previously recognized	-
Additional credit losses on securities for which an OTTI was previously recognized	10,152
Reductions for securities sold during the period	(19,113)
Reductions for securities reclassified as intend-to-sell	-
Credit losses as of December 31, 2010	$ 101,061

The Company has no repurchase agreements and/or Securities Lending Transactions, no investments in real estate or low-income housing tax credits in the current year or prior year.

18. Subsequent Events

Subsequent events have been considered through March 25, 2011 for these statutory financial statements which are available to be issued March 25, 2011. There were no events occurring subsequent to the end of the year that merited recognition or disclosure in these financial statements.