STATE OF INDIANA ) BEFORE THE INDIANA
) SS:
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )
)
Hoosier Insurance Company )
One General Drive )
Sun Prairie, Wisconsin 53596 )

Examination of Hoosier Insurance Company

**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Doug Webber, Acting Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Hoosier Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on April 21, 2010, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Hoosier Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

June 18, 2010
Date

Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner

**CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 2309**

| | | |
|---|---|---|
| STATE OF INDIANA | ) | BEFORE THE INDIANA |
| | ) SS: | |
| COUNTY OF MARION | ) | COMMISSIONER OF INSURANCE |

IN THE MATTER OF: )
)
Hoosier Insurance Company )
One General Drive )
Sun Prairie, Wisconsin 53596 )

Examination of Hoosier Insurance Company

**FINDINGS AND FINAL ORDER**

The Indiana Department of Insurance conducted an examination into the affairs of the Hoosier Insurance Company (hereinafter "Company") for the time period January 1, 2004 through December 31, 2008.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on April 14, 2010.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on April 21, 2010 and was received by the Company on April 27, 2010.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS:**

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Hoosier Insurance Company as of December 31, 2008.
2. That the Examiners' Recommendations are reasonable and necessary in order for the Hoosier Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.

2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.

3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Doug Webber

Signed and Sealed this 18th day of June, 2010.

Douglas Webber
Acting Insurance Commissioner

# STATE OF INDIANA

## Department of Insurance

# REPORT OF EXAMINATION

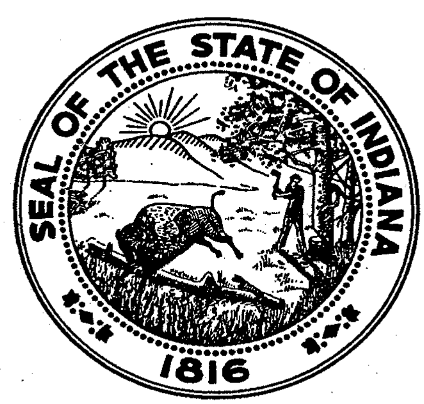
# OF

# HOOSIER INSURANCE COMPANY

NAIC COMPANY CODE 27570

As of

December 31, 2008



# TABLE OF CONTENTS

**STATE OF INDIANA**
MITCHELL E. DANIELS, JR., Governor

**IDOI**

**INDIANA DEPARTMENT OF INSURANCE**
311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

CAROL CUTTER, Commissioner

April 15, 2010

Honorable Alfred W. Gross, Chairman
Financial Condition (E) Committee, NAIC
Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23218

Honorable Douglas Webber
Acting Commissioner, Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioners,

Pursuant to the authority vested in Appointment Number 3602, an examination has been made of the affairs and financial condition of:

**Hoosier Insurance Company**
**8500 Keystone Crossing**
**Indianapolis, Indiana 46240-2456**

hereinafter referred to as the "Company," an Indiana domestic, stock, property and casualty insurance company. The examination was conducted at the Main Administrative Office of the Company at One General Drive, Sun Prairie, Wisconsin 53596.

The Report of Examination, showing the status of the Company as of December 31, 2008, is hereby respectfully submitted.

## SCOPE OF EXAMINATION

The Company was last examined by representatives of Indiana Department of Insurance (IDOI) as of the period ending December 31, 2004. The present risk focused examination covered the period from January 1, 2005 through December 31, 2008, and was conducted by Huff, Thomas & Company (HuffThomas) and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The Company participates in an intercompany reinsurance pooling arrangement with its parent, General Casualty of Wisconsin (GCW), and other affiliates. GCW and its Wisconsin domesticated subsidiaries of the General Casualty Group (GCG) were concurrently examined by the Office of the Commissioner of Insurance of Wisconsin (OCI) for the four-year period ending December 31, 2008. In conducting the examination, the IDOI, by its representatives, relied upon the work performed by OCI which was largely applicable to the Company in most phases of the examination. Additionally, the examiners for OCI and IDOI relied upon the independent audit reports and opinions contained therein rendered by PricewaterhouseCoopers LLP for the years 2007 - 2008 and KPMG LLP for the years 2005 - 2006. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

Charles Letourneau, FCAS, MAAA, of American Actuarial Consulting Group LLC (AACG), a consulting actuary appointed by the OCI, conducted a full actuarial evaluation of the loss and loss adjustment expense reserves of the General Casualty Companies as of December 31, 2008. Hoosier was listed in the AACG Report as included in the review.

The examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition. Examination procedures included the verification and evaluation of assets, determination of liabilities and review of income and disbursement items, minutes, corporate documents, policy and claim files, and other records to the extent deemed necessary.

## HISTORY

The Company was incorporated on December 2, 1986, as a stock property and casualty insurance company under the laws of the State of Indiana and commenced business on December 31, 1986.

On June 29, 1995, Protective Insurance Company, a subsidiary of Baldwin & Lyons, Inc. and parent of Hoosier Insurance Company, agreed to sell 100% of its shares of the Company to GCW for $36.5 million. Closing of the sale occurred on October 2, 1995, and was effective September 30, 1995.

As of the previous IDOI examination, the owner of GCW (and the Company) was the Winterthur Swiss Insurance Company, in-turn owned by the ultimate controlling party (UCP) "The Credit Suisse Group." Effective December 22, 2006, The Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company to AXA. Winterthur Swiss Insurance Company owned 100% of the Company through its wholly owned subsidiary, Winterthur U.S. Holdings, Inc. which is the holding company for Winterthur's U.S. operations.

Effective May 31, 2007, AXA finalized the sale of Winterthur U.S. Holdings, Inc. and its consolidated subsidiaries to Australian based QBE Insurance Group. Winterthur U.S. Holdings, Inc. was renamed QBE Regional Companies (N.A.), Inc.

All outstanding shares of stock of the Company's parent, GCW, are currently owned by QBE Regional Companies (N.A.), Inc.

## CAPITAL AND SURPLUS

Common Stock

As of December 31, 2008, the Company had 10,000 authorized shares of common stock, all of which were issued and outstanding. The Company's common stock has a par value of $100 per share. The amount of common stock did not change during the examination period. The Company is a wholly owned subsidiary of GCW, domiciled in Wisconsin, which is ultimately a wholly owned subsidiary of the QBE Insurance Group Limited, a publicly traded company incorporated under the laws of Australia.

The Company has no preferred stock outstanding and has not issued any surplus notes.

Dividends

The Company paid dividends to its parent, GCW, of $13,000,000, $1,960,000, $2,200,000 and $2,400,000 in each of the four years 2008, 2007, 2006 and 2005, respectively.

All dividends were approved by the Company's Board of Directors. The 2008 distribution was an extraordinary dividend, as defined by IC 27-1-23-4(4), and was not disapproved by the IDOI.

## TERRITORY AND PLAN OF OPERATION

The Company writes full coverage automobile, commercial multi-peril, worker's compensation, homeowners and general liability coverage solely in the state of Indiana which is largely coordinated from the GCW branch office in Indianapolis, Indiana. Both commercial and personal lines of business are marketed and distributed through independent agents. The Company does not use captive agents and no business is written directly.

Accounts and records are primarily maintained in Sun Prairie, Wisconsin; however claim files are located in different states including the branch office in Indianapolis, Indiana. Currently in excess of 90% of the claims are being handled by the Indianapolis branch. The vast majority, but not all, of the remaining claims are handled in the Sun Prairie office. The Company has no employees of its own. Certain personnel, administrative and other services are provided by affiliate companies within the holding system. Virtually all expenses for the holding company subsystem led by GCW are initially paid by GCW and then allocated to the individual companies.

The Company participates in a reinsurance pooling agreement with its affiliated property and casualty insurance companies in the GCG. The Company's participation percentage as of December 31, 2008 was four percent (4%). Refer to "Reinsurance" section of this Report of Examination for additional information.

## GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

| Year | Admitted Assets | Liabilities | Policyholder Surplus | Premiums Earned | Net Income (Loss) |
|---|---|---|---|---|---|
| 2008 | $94,099,218 | $65,707,196 | $28,392,022 | $42,006,904 | $6,442,355 |
| 2007 | 124,093,236 | 86,343,796 | 37,749,441 | 53,689,463 | 2,199,747 |
| 2006 | 123,308,132 | 85,888,518 | 37,419,614 | 56,421,863 | 3,932,023 |
| 2005 | 119,250,979 | 84,002,930 | 35,248,048 | 57,311,290 | 4,446,112 |
| 2004 | 107,640,807 | 74,170,262 | 33,470,544 | 49,826,555 | 2,875,259 |

The decrease in the Company's surplus from 2007 to 2008 was primarily attributable to an extraordinary dividend. The decrease in admitted assets was primarily attributable to liquidating assets to pay for the extraordinary dividend. The increase in net income from 2007 to 2008 was mainly due to a reserve release from a loss portfolio transfer.

## LOSS AND UNDERWRITING EXPERIENCE

Underwriting risk assessment is performed on a consolidated basis for the GCG. The following exhibit shows the underwriting results of the Company for the period of the examination, the amounts were compiled from the Company's filed Annual Statements:

| Year | Premiums Earned | Net Losses Incurred | Expenses Incurred | Loss Ratio |
|---|---|---|---|---|
| 2008 | $42,006,904 | $17,234,353 | $17,129,479 | 82% |
| 2007 | 53,689,463 | 29,875,261 | 23,711,716 | 100% |
| 2006 | 56,421,863 | 30,014,188 | 23,940,867 | 96% |
| 2005 | 57,311,290 | 29,806,860 | 24,038,602 | 94% |
| 2004 | 49,826,555 | 26,517,495 | 21,777,709 | 97% |

A loss ratio in excess of 100% typically indicates an underwriting loss. The Company did not have any underwriting losses for the period under review.

## MANAGEMENT AND CONTROL

Directors

The Company's Restated Bylaws state that the Board of Directors shall consist of at least five (5) and not more than twelve (12) persons. At least one of the Directors shall reside in the State of Indiana. The shareholders elect the Board of Directors at the annual meeting by plurality vote. The following is a listing of persons serving as Directors at December 31, 2008:

Name and Residence

Peter Kurt Christen
Snoqualmie, WA

Jeffrey Robert Dehn *
Bellevue, WA

Thomas Mark Greenfield
Avon, CT

Joseph Derrick Puterbaugh
Carmel, IN

John Roger Schanen
Sun Prairie, WI

Charles Robert Valinotti *
Farmingdale, NY

*Resigned effective 7/2/09

## Officers

The Company's Restated Bylaws state that the Board of Directors shall appoint Officers of the Company as it deems appropriate. At a minimum, the Board of Directors shall appoint a President, Treasurer and Corporate Secretary. The following is a list of key officers and their respective titles as of December 31, 2008:

| Name | Title |
|---|---|
| Peter Kurt Christen | President & CEO |
| John Roger Schanen | Treasurer |
| Jennifer Jean Vernon | Secretary |
| Jeffrey Robert Dehn | Senior Vice President |
| Peter George Logothetis | Senior Vice President |
| Charles Robert Valinotti | Senior Vice President |
| Thomas Mark Greenfield | Senior Vice President |
| John Michael Bondura | Regional Insurance Claims Officer |

## Corporate Governance

The Board of Directors is comprised of the officers of the Company who (except for Indiana Director, Joseph Puterbaugh) are also officers and Directors for the parent, GCW, and the other members of GCG. The Directors and officers have an active role in the Company's corporate governance as determined from the review of the minutes. The Board's routine duties include: review of operations, compliance with statutes, articles, and bylaws; approval of prior minutes, amendments to articles and bylaws, dividends and investments; the election of Directors and the appointment of officers.

The Company, as with all the companies in the GCG, does not appoint Committees from its Board of Directors. Committees are appointed at the holding company level, QBE Holdings, Inc. and QBE Regional Companies (N.A.), Inc. The following is a listing of holding company level Board of Director Committees:

<u>QBE Regional Companies (N.A.), Inc.</u>
Regional Risk and Control Committee

<u>QBE Holdings, Inc.</u>
Audit Committee
Benefits Committee
Company Policy and Conflict of Interest Committee
Executive Committee
Reinsurance Committee
Executive Management Risk Committee

<u>QBE Insurance Group Limited</u>
Audit Committee
Investment Committee
Remuneration Committee
Chairman's Committee
Funding Committee

Based on a review of biographical information and through management interviews, it was determined the Company's senior officers are adequately qualified and have the experience necessary to administer the operations and affairs of the Company. The Company's senior officers have provided a stable and conservative management approach in conducting the Company's operations.

From the review of the interviews with Company Directors and officers, it was concluded that under QBE, the GCG has entered a period of organizational change. Formerly (under Credit Suisse) the Group was organized largely into geographic regional segments, each with a full array of functional departments. At this point in the reorganization, emphasis is being made to transition into more functional consolidation along lines of business (without completely removing the geographic organization for marketing and underwriting functions). Claims processing and information systems are being modernized and streamlined under the consolidation model for all lines.

It was determined, overall, the Company maintains an effective corporate governance structure. The Board of Directors and key executives set an appropriate "tone at the top" with a clear commitment to promote integrity and ethical behavior throughout the Company.

## CONFLICT OF INTEREST

The QBE Code of Conduct outlines a set of policies of general business ethics that apply to all employees when conducting or undertaking any activity on behalf of QBE. This Code of Conduct applies to all Directors and employees of the U.S. companies, including the Company.

As part of the Code of Conduct, all employees, officers and Directors are required to complete and sign a Conflict of Interest Statement yearly. Employees must disclose any conflict or potential conflict. The statements are reviewed by the Compliance Unit of Corporate Legal.

It was determined that all officers and Directors serving during the examination period completed the required conflict of interest questionnaire.

## OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. It was noted during the examination the Directors did subscribe to an Oath of Office.

## CORPORATE RECORDS

The Shareholder and Board of Directors minutes were reviewed for the period under examination and through the fieldwork date. Significant actions taken during each meeting were noted. It was determined that the annual meetings and other regular board meetings were held in accordance with the Company's Bylaws. As discussed under Management and Control, the Company's Board of Directors has not appointed any Committees, as Committees are appointed at the holding company level.

## AFFILIATED COMPANIES

### Organizational Structure

As discussed previously under the headings of History and Management and Control, the Company is wholly owned along with nine other affiliates by GCW. GCW is in turn owned by QBE Regional Companies (N.A.), Inc. The UCP is QBE Insurance Group Limited of Australia. An abridged organizational chart follows on the next page showing the changes in ownership for the years under examination and the current position of the Company within the hierarchy of the QBE Insurance Group Limited.

### Affiliated Agreements

All expenses for the holding company system led by GCW are initially paid by GCW. Expenses other than federal taxes and investment management are allocated in accordance with the affiliated pooling reinsurance agreement according to each insurer's participation in premium and losses.

The Investment Management Agreement with Minster Court Asset Management Pty Ltd (MCAM), effective June 1, 2007, is managed and invested by MCAM in segregated accounts for the Company and its custodian.

The Tax Sharing Agreement effective January 1, 2008, sets forth the methods for allocating consolidated, combined or unitary income taxes among affiliates of QBE Investments (North America), Inc. with provisions for the administration of such returns. Provisions were in place for the individual calculation for each company's income tax liability and for no company to pay taxes greater than the amount if the taxes were calculated individually.

Organization Chart for the Years under Examination

| 12/31/04-05 | 12/31/06 | 12/31/07 | 12/31/08 |
|---|---|---|---|
| Credit Suisse Group (SWT) | AXA France | QBE Insurance Group Limited | QBE Insurance Group Limited |
| Winterthur Swiss Insurance Co (SWT) | Winterthur Swiss Insurance Co (SWT) | QBE RE Services PTY Limited (Australia) | QBE Holdings (Americas) PTY Limited |
| Winterthur US Holdings, Inc (DE) | Winterthur US Holdings, Inc (DE) | QBE Australia PTY Limited | QBE Investments (North America), Inc |
| General Casualty Co. of Wisconsin (WI) | General Casualty Co. of Wisconsin (WI) | QBE Investments (North America) Inc | QBE Holdings, Inc (DE) |
| Hoosier Insurance Company (IN) | Hoosier Insurance Company (IN) | QBE Holdings, Inc (DE) | QBE Regional Companies (N.A.), Inc (DE) |
| | | QBE Regional Companies (N.A.), Inc. (DE) | General Casualty Co. of Wisconsin (WI) |
| | | General Casualty Co. of Wisconsin (WI) | Hoosier Insurance Company (IN) |
| | | Hoosier Insurance Company (IN) | |

## FIDELITY BOND AND OTHER INSURANCE

The Company, through its upstream affiliate, QBE Holdings, Inc., protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by National Union Fire Company of Pittsburgh, Pennsylvania. The Company is insured for losses up to $15,000,000 with a $250,000 deductable. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

As of December 31, 2008, the Company had also secured three (3) layers of professional liability insurance with major carriers providing total coverage of $40,000,000 per occurrence and in aggregate.

## STATUTORY AND SPECIAL DEPOSITS

The Company reported a statutory deposit in the form of a U.S. Treasury Note with a par value of $100,000 with the IDOI as of December 31, 2008. According to Indiana statute IC 27-1-6-14(d), a domestic capital stock company must deposit with the IDOI an amount equal to ten percent (10%) of its paid-in capital stock requirement in cash or in obligations of the United States. The Company's deposit satisfies this requirement.

## REINSURANCE

Reinsurance Pooling

The Company participates in a reinsurance pooling agreement with its affiliated property and casualty insurance companies in the GCG. The lead insurer, GCW, assumes 100% of the net business written by the pool participants and then retrocedes a portion of the net business written to each company. Effective January 1, 2008, parties to the agreement entered the Seventh Reinstatement Reinsurance Agreement which was not disapproved by the IDOI. The participants in the agreement in 2008 were as follows:

| Participating Companies | | Pool % |
|---|---|---|
| General Casualty Company of Wisconsin (GCW) ** | | 39.0% |
| Regent Insurance Company | | 9.0% |
| General Casualty Insurance Company | | 7.0% |
| Hoosier Insurance Company | | 4.0% |
| Blue Ridge Insurance Company | | 6.0% |
| Blue Ridge Indemnity Company | | 2.0% |
| Southern Guaranty Insurance Company | | 10.0% |
| Southern Pilot Insurance Company | | 0.0% |
| Southern Fire and Casualty Company | | 0.0% |
| Unigard Insurance Company (UIC) | | 20.0% |
| Unigard Indemnity Company (UID) | | 3.0% |
| | Total | 100% |

**Lead company

All lines and types of insurance business of the companies are subject to the pooling agreement. For 2008, the Company reported reinsurance premiums ceded to GCW of $41,500,692 and assumed premium of $36,220,559.

GCW and UIC cede a portion of their insurance business to various non-affiliated reinsurers on a facultative basis and a portion of their business to affiliated and non-affiliated reinsurers for excess of loss and catastrophe protection. These placements are made subsequent to the assumption of pooled business by GCW from pool members. The Company's portion of these premium cessions was immaterial.

Quota Share

Effective January 1, 2008, the Company entered into a quota share agreement and loss portfolio transfer agreement with an affiliated company, Equator Reinsurances Limited, to cede 25% of its new, renewal, inforce and existing loss reserves for commercial lines excluding commercial auto and commercial umbrella. This agreement was not disapproved by the IDOI.

It was determined that all reinsurance agreements provided for risk transfer in accordance with the requirements of SSAP No. 62. In addition, all agreements contained the necessary language as required by the provisions of SSAP No. 62 and Indiana law. No exceptions were noted.

## RESERVES

Norman E. Donelson, FCAS, MAAA, is the Company's Reserving Actuary. Mr. Donelson was appointed by the Board of Directors on August 21, 2008, to render an opinion on the statutory-basis loss reserves of the Company. He rendered an opinion on such reserves for the year ended December 31, 2008. For the years ended December 31, 2005 to 2007, an opinion on the statutory-basis loss reserves of the Company was provided by Michael E. Schmitz, FCAS, MAAA, with the actuarial firm Milliman, USA. Mr. Donelson is Chief Actuary for QBE Regional Insurance. The Company asserted the appointment of an internal actuary was made as a cost savings measure.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss reserves, loss adjustment expense reserves, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials. As stated in the Opinion of Mr. Donelson, the Company writes no long duration contracts, defined as contracts, excluding financial guaranty contracts, mortgage guaranty contracts, and surety contracts, that fulfill both of the following conditions: (1) the contract term is greater than or equal to thirteen months and (2) the insurer can neither cancel nor increase the premium during the contract term.

In forming his opinion, Mr. Donelson relied upon information prepared by the Company. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as he considered necessary.

The 2008 opinion stated the balances of reserves: 1) meet the requirements of the insurance laws of Indiana, 2) are consistent with reserves computed in accordance with Standards of Practice issued by the Actuarial Standards Board (including the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty and Loss Adjustment Expense Reserves) and 3) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

During the examination, it was determined by the OCI consulting actuary, Charles Letourneau, FCAS, MAAA, whose review included the Company, that the loss and loss adjustment expense reserves carried by the General Casualty Companies as of December 31, 2008, on a gross and net of reinsurance basis, appear to fall between the low end and the midpoint of a range of reasonable estimates.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the year ended December 31, 2008, was agreed to the Annual Statement without exception. The Annual Statements for the years ended December 31, 2005 through December 31, 2008, were agreed to each year's general ledger with no exceptions noted. The Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

## HOOSIER INSURANCE COMPANY

## FINANCIAL STATEMENTS

### Assets

| | As of December 31, 2008 | | | |
|---|---|---|---|---|
| | Per Annual Statement | Exam Adjustments | Per Examination | December 31 Prior Year |
| **Assets:** | | | | |
| Bonds (Schedule D) | $ 20,345,117 | $ - | $ 20,345,117 | $ 11,210,271 |
| Common stocks | 6,716,585 | - | 6,716,585 | - |
| Cash, cash equivalents and short term investments | 48,629,342 | - | 48,629,342 | 93,431,336 |
| Subtotals, cash and invested assets | $ 75,691,044 | $ - | $ 75,691,044 | $ 104,641,607 |
| Investment income due and accrued | 551,218 | - | 551,218 | 1,310,237 |
| Uncollected premiums and agents balances in the course of collection | 2,652,743 | - | 2,652,743 | 2,973,992 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 10,920,294 | - | 10,920,294 | 12,003,735 |
| Amounts recoverable from reinsurers | 1,631,841 | - | 1,631,841 | 457,491 |
| Net deferred tax asset | 2,484,525 | - | 2,484,525 | 2,661,426 |
| Receivable from parent, subsidiaries and affiliates | 167,553 | - | 167,553 | 44,748 |
| **Total Assets** | **$ 94,099,218** | **$ -** | **$ 94,099,218** | **$ 124,093,236** |

## HOOSIER INSURANCE COMPANY

## FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

| | As of December 31, 2008 | | | |
|---|---|---|---|---|
| | Per Annual Statement | Examination Adjustments | Per Examination | December 31, Prior Year |
| **Liabilities:** | | | | |
| Losses | $ 33,748,398 | $ - | $ 33,748,398 | $ 47,338,591 |
| Loss adjustment expenses | 8,244,389 | - | 8,244,389 | 10,907,154 |
| Commissions payable | 1,385,912 | - | 1,385,912 | 1,818,851 |
| Other expenses | 1,559,250 | - | 1,559,250 | 1,965,851 |
| Taxes, licenses and fees | 157,961 | - | 157,961 | 205,722 |
| Current federal and foreign income taxes | 516,350 | - | 516,350 | 316,851 |
| Unearned premiums | 17,538,099 | - | 17,538,099 | 23,324,448 |
| Advance premiums | 133,482 | - | 133,482 | 186,968 |
| Ceded reinsurance premiums payable | 764,789 | - | 764,789 | (76,404) |
| Remittances and items not allocated | 4,167 | - | 4,167 | 8,966 |
| Provision for reinsurance (Schedule F, Part 7) | 60,400 | - | 60,400 | 54,800 |
| Drafts outstanding | 46,007 | - | 46,007 | 202,969 |
| Aggregate write-ins for liabilities | 1,547,994 | - | 1,547,994 | 89,029 |
| **Total Liabilities** | **$ 65,707,196** | **$ -** | **$ 65,707,196** | **$ 86,343,796** |
| Common capital stock | $ 1,000,000 | $ - | $ 1,000,000 | $ 1,000,000 |
| Gross paid in & contributed surplus | 30,500,000 | - | 30,500,000 | 30,500,000 |
| Unassigned funds (surplus) | (3,107,978) | - | (3,107,978) | 6,249,441 |
| **Surplus as regards policyholders** | **$ 28,392,022** | **$ -** | **$ 28,392,022** | **$ 37,749,441** |
| **Total liabilities, capital and surplus** | **$ 94,099,218** | **$ -** | **$ 94,099,218** | **$ 124,093,237** |

## HOOSIER INSURANCE COMPANY

## FINANCIAL STATEMENTS

### Statement of Income

| | As of December 31, 2008 | | | |
|---|---|---|---|---|
| | Per Annual Statement | Exam Adjustments | Per Examination | December 31, Prior Year |
| Premiums earned | $ 42,006,904 | $ - | $ 42,006,904 | $ 53,689,463 |
| Deductions | | | | |
| Losses incurred | $ 17,234,353 | $ - | $ 17,234,353 | $ 29,875,261 |
| Loss expenses incurred | 4,749,041 | - | 4,749,041 | 7,177,610 |
| Other underwriting expenses incurred | 12,380,438 | - | 12,380,438 | 16,534,106 |
| Total underwriting deductions | $ 34,363,832 | $ - | $ 34,363,832 | $ 53,586,977 |
| **Net underwriting gain (loss)** | **$ 7,643,072** | **$ -** | **$ 7,643,072** | **$ 102,486** |
| Investment Income | | | | |
| Net investment income | $ 3,041,452 | $ - | $ 3,041,452 | $ 5,047,112 |
| Net realized capital gains or (losses) | (1,500,038) | - | (1,500,038) | (1,312,185) |
| **Net investment gain** | **$ 1,541,414** | **$ -** | **$ 1,541,414** | **$ 3,734,927** |
| Net gain (loss) from premium balances charged off | $ (69,681) | $ - | $ (69,681) | $ (28,490) |
| Finance and service charges not included in premiums | 213,639 | - | 213,639 | 220,965 |
| Aggregate write-ins for miscellaneous income | (948) | - | (948) | (203) |
| Total other income | **$ 143,010** | **$ -** | **$ 143,010** | **$ 192,272** |
| Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | $ 9,327,496 | $ - | $ 9,327,496 | $ 4,029,685 |
| Dividends to policyholders | 695,027 | - | 695,027 | 681,208 |
| Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | $ 8,632,469 | $ - | $ 8,632,469 | $ 3,348,477 |
| Federal and foreign income taxes incurred | 2,190,114 | - | 2,190,114 | 1,148,730 |
| **Net Income** | **$ 6,442,355** | **$ -** | **$ 6,442,355** | **$ 2,199,747** |

# HOOSIER INSURANCE COMPANY

## FINANCIAL STATMENTS

### Capital and Surplus Account

| | As of December 31, 2008 | | | |
|---|---|---|---|---|
| | **Per Annual Statement** | **Exam Adjustments** | **Per Examination** | **December 31, Prior Year** |
| **Capital and Surplus Account:** | | | | |
| Surplus as regards policyholders, December 31 prior year | $ 37,749,441 | $ - | $ 37,749,441 | $ 37,419,614 |
| Net income | $ 6,442,355 | $ - | $ 6,442,355 | $ 2,199,747 |
| Change in net unrealized capital gains [losses] | (1,063,700) | - | (1,063,700) | - |
| Change in net deferred income tax | (21,957) | - | (21,957) | (230,473) |
| Change in nonadmitted assets and related items | (833,290) | - | (833,290) | 365,380 |
| Change in provision for reinsurance | (5,600) | - | (5,600) | (54,800) |
| Dividends to stockholders | (13,000,000) | - | (13,000,000) | (1,960,000) |
| Aggregate write-ins for gains and losses in surplus | (875,226) | - | (875,226) | 9,973 |
| **Change in surplus as regards policyholders for the year** | **$ (9,357,419)** | **$ -** | **$ (9,357,419)** | **$ 329,827** |
| **Surplus as regards policyholders, December 31 current year** | **$ 28,392,022** | **$ -** | **$ 28,392,022** | **$ 37,749,441** |

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2008, based on the results of this examination.

## OTHER SIGNIFICANT FINDINGS

There were no significant findings made as a result of this examination. In addition, the Company has complied with the comments made in the prior Report of Examination.

## SUBSEQUENT EVENTS

Effective January 1, 2009, the intercompany pooling agreement was amended to include two new affiliated insurance companies, National Farmers Union Property and Casualty Company and United Security Insurance Company.

Also in 2009, QBE Atlantic LLC was added as an additional ownership layer between QBE Holdings, Inc. and QBE Investments (North America), Inc.

## MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by the Chief Executive Officer, Treasurer and Controller of the Company.

# CONCLUSION

The preceding Report of Examination of **Hoosier Insurance Company** as of December 31, 2008, shows its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, Alvin Burrell, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of **Hoosier Insurance Company.**

**Alan T. Griffieth, CFE**
**Examinations Manager**
**Indiana Department of Insurance**