Report

of the

Examination of

Southern Pilot Insurance Company

Sun Prairie, Wisconsin

As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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March 14, 2014

Honorable Theodore Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

SOUTHERN PILOT INSURANCE COMPANY
Sun Prairie, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Southern Pilot Insurance Company (SPilot or the company) was conducted in 2009 as of December 31, 2008. The current examination covered the intervening period ending December 31, 2012, and included a review of such 2013 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the company was conducted concurrently with the examination of insurers that are part of QBE North America. Representatives of the Pennsylvania Insurance Department acted in the capacity as the lead state for the coordinated exams. Work performed by the Pennsylvania Insurance Department was reviewed and relied on where deemed appropriate.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Pennsylvania Insurance Department. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

Investment Review

The independent examination firm was engaged by the Pennsylvania Insurance Department to perform a review of the company's invested assets portfolio as of December 31, 2012. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

II. HISTORY AND PLAN OF OPERATION

Southern Pilot Insurance Company was incorporated in North Carolina on August 30, 1962, under the name Pilot Fire & Casualty Company, and commenced business on September 30, 1962. The name of the company was changed to Jefferson-Pilot Fire & Casualty Company effective May 1, 1972. On April 3, 1995, Southern Guaranty Insurance Company (SGty) acquired 100% ownership of the company and its wholly owned subsidiary, Southern Fire & Casualty Company (SFire). At the time, SGty was a wholly owned subsidiary of Winterthur U.S. Holdings, Inc., who was a wholly owned subsidiary of Winterthur Swiss Insurance Company. Upon the acquisition, the company changed its name to that currently used, Southern Pilot Insurance Company (SPilot).

On December 15, 1997, Credit Suisse Group merged with the Winterthur Swiss Group. As a result of the merger, SPilot became an indirect wholly owned subsidiary of the Credit Suisse Group.

On March 31, 2005, SPilot and SFire redomiciled to Wisconsin. On September 30, 2005, SGty redomiciled to Wisconsin. Also during 2005, SPilot transferred its ownership in SFire to SGty by way of dividend. Effective December 31, 2005, General Casualty Company of Wisconsin (GC-WI) acquired SGty and its subsidiaries, Southern Guaranty Insurance Company of Georgia (SGty-GA), SPilot and SFire through a capital contribution from Winterthur U.S. Holdings, Inc. On January 1, 2006, GC-WI became the immediate parent of SGty-GA, SPilot and SFire through an upward dividend of 100% of their stock by SGty. On May 30, 2007, GC-WI sold SGty-GA to Key Financial Holdings, Inc.

Effective December 22, 2006, Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company to AXA. AXA is a French corporation managed under the oversight of a Management Board and a Supervisory Board. AXA's headquarters are located in Paris, France.

Effective May 31, 2007, AXA finalized the sale of Winterthur U.S. Holdings, Inc., and its consolidated subsidiaries to QBE Holdings, Inc., a subsidiary of Australian-based QBE

Insurance Group Limited (QBE Limited). Winterthur U.S. Holdings, Inc., was renamed QBE Regional Companies (N.A.), Inc. (QBE Regional).

Currently, SPilot records paid-up capital of $2,560,000 consisting of 250,000 shares of common stock with a $10.00 par value each and 60,000 shares of preferred stock with a $1.00 par value each. The company has 500,000 common shares and 250,000 preferred shares authorized. All outstanding shares of SPilot are owned by GC-WI.

Since 1963, GC-WI has expanded the number of its subsidiaries and effectively heads its own holding company subsystem under QBE Regional, consisting of eight subsidiary insurers. Further information concerning the QBE Limited holding company group is included in the report under the section titled “Affiliated Companies.”

All members of QBE Regional as well as all other insurance companies whose parent is QBE Holdings, Inc., are participants in an intercompany pooling arrangement. This arrangement is further described in this report under the section titled “Reinsurance.”

QBE Americas, Inc., is the primary employer for its holding company subsystem, with approximately 2,300 employees nationwide at the time of this examination. Subsidiaries of GC-WI have no employees of their own and rely principally on QBE Americas, Inc., and Unigard Insurance Company (UnigardIns) for the staff essential to run day-to-day operations. QBE Management Services Pty Limited manages the companies’ investment operations, subject to the supervision of each of the companies’ respective boards of directors. All operations of the holding company subsystem are conducted with staff provided by QBE Americas, Inc., UnigardIns and QBE Management Services Pty Limited in accordance with business practices and internal controls established by QBE Limited. Written agreements with affiliates are further described in this report under the section titled “Affiliated Companies.”

In 2012, the company wrote direct premium in the following states:

North Carolina	$12,629,501	51.8%
Georgia	9,113,417	37.4
South Carolina	1,561,480	6.4
Virginia	870,815	3.6
All others	208,462	0.8
Total	$24,383,675	100.0%

The company is licensed in Alabama, Arkansas, Georgia, Indiana, Maryland, Mississippi, North Carolina, Pennsylvania, South Carolina, Tennessee, Virginia, West Virginia and Wisconsin.

The company provides basic commercial coverages including: commercial property and business income, commercial umbrella, business automobile, commercial inland marine, employment-related practices liability coverage, general liability and worker's compensation. In addition, the company offers commercial package policies that include business owners' and a comprehensive policy that enables the policyholder to build customized insurance protection by combining multiple coverages under one policy. The standard lines focus is on small- to medium-sized commercial short-tail business.

In personal lines, the company provides products in the personal automobile and homeowner's lines of business. The Premier Auto product is a merit-rated product that matches pricing to the driving history of each driver listed for coverage by the policy, the type and usage of the vehicles and the age and marital status of each driver. Another auto product, Generations, is targeted to existing customers who become ineligible for Premier Auto due to driving history. Homeowner's offerings include the preferred homeowner product which provides open perils coverage for the dwelling, other structures and loss of use. The Crowne Homeowners product targets new and recently renovated homes meeting a certain threshold of coverage on the dwelling and is a comprehensive insurance package that includes expanded coverages and higher limits.

The company markets its products through independent agents. The geographic distribution area primarily includes: Georgia, North Carolina, South Carolina, and Virginia. Currently, the company has no appointed agents and direct business is written through independent agents of QBE Holdings, Inc., affiliates.

The following table is a summary of the net insurance premiums written by the company in 2012. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 269,166	$ 1,005,439	$ 269,166	$ 1,005,439
Allied lines	286,449	4,135,633	286,449	4,135,633
Farmowner's multiple peril		(10,843)		(10,843)
Homeowner's multiple peril	6,905,659	309,352	6,905,659	309,352
Commercial multiple peril	2,544,056	1,711,968	2,544,056	1,711,968
Ocean marine		20		20
Inland marine	569,442	396,526	569,442	396,526
Medical professional liability – occurrence		1,257		1,257
Medical professional liability – claims made		1		1
Earthquake	743	31,091	743	31,091
Group accident and health		494,659		494,659
Worker's compensation	331,145	539,519	331,145	539,519
Other liability – occurrence	431,357	(8,173)	431,357	(8,173)
Other liability – claims made	31	20,279	31	20,279
Excess worker's compensation		1,135		1,135
Products liability – occurrence	13,311	1,015	13,311	1,015
Products liability – claims made		2		2
Private passenger auto liability	6,292,636	(75,472)	6,292,636	(75,472)
Commercial auto liability	1,306,632	81,105	1,306,632	81,105
Auto physical damage	5,425,498	345,478	5,425,498	345,478
Aircraft (all perils)		55,460		55,460
Fidelity	6,423	52	6,423	52
Surety		(348)		(348)
Burglary and theft	1,123	(24,793)	1,123	(24,793)
Boiler and machinery		341		341
Credit		1,199,361		1,199,361
International		7		7
Reinsurance – non-proportional assumed property		455,101		455,101
Reinsurance – non-proportional assumed property		616,977		616,977
Reinsurance – non-proportional assumed financial lines		3,108		3,108
Aggregate write-ins for other lines of business		50		50
Total All Lines	$24,383,671	$11,285,307	$24,383,671	$11,285,307

III. MANAGEMENT AND CONTROL

Board of Directors

The structure of the board of directors underwent substantial organizational changes during 2012 and 2013 as the company refocused its efforts on profitability. The board of directors consists of 12 members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. The board members are also members of other boards of directors in the holding company group of QBE Holdings, Inc. Executive board members do not receive additional compensation for their service as directors. In addition, for services to QBE Holdings, Inc., outside board members receive compensation inclusive of all board and committee appointments. The compensation varies within a range of $125,000 to $225,000 based on experience and participation or chairing of various committees.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
David B. Duclos # New York, New York	Chief Executive Officer, QBE Holdings, Inc.	2015
Susan S. Harnett New York, New York	Chief Operating Officer, QBE Holdings, Inc.	2015
Harvey J. Bazaar North Caldwell, New Jersey	Retired, former Global and Americas Leader for the Capital Markets Group, PricewaterhouseCoopers International Limited	2015
Gregory J. Deal Deephaven, Minnesota	President and Chief Executive Officer, NAU Country Insurance Company	2015
Richard S. Dziadzio # New York, New York	Chief Financial Officer, QBE Holdings, Inc.	2015
George T. Tate # Oyster Bay, New York	Chief Executive Officer-North America, Australia and New Zealand Banking Group Limited	2015
Marc G. Metcalf San Francisco, California	Retired, former President and General Manager, GE Capital	2015
John G. Langione Allentown, New Jersey	Chief Risk Officer, QBE Holdings, Inc.	2015
Jeffrey S. Grange # Summit, New Jersey	Senior Vice President, QBE Holdings, Inc.	2015

Name and Residence	Principal Occupation	Term Expires
John A. Graf ## Houston, Texas	Chairman, President and CEO Forethought Financial Group, Inc.	2015
Robert V. James ## Chicago, Illinois	Senior Vice President QBE Holdings, Inc.	2015

Identifies directors who were appointed during 2013.
Identifies directors who were appointed during 2014.

Officers of the Company

Executive compensation is allocated to each insurer based on its participant percentage in the intercompany pooling arrangement. The 2012 Compensation, reported below, represents the total gross compensation paid to each individual on behalf of all companies which are part of QBE North America. Executive officers serving at the time of this examination are as follows:

Name	Office	2012 Compensation
John Rumpler *	Chief Executive Officer	$2,012,212
Susan S. Harnett	Chief Operating Officer	149,831
Domingo A. Cid *	President	386,957
Christopher C. Fish *	Chief Financial Officer	963,454
Nicholas H. Pastor *	Chief Actuary	611,943
Peter T. Maloney	Chief Legal Officer & Assistant Corporate Secretary	787,224
Dean K. Harring *	Chief Claims Officer	620,705
Steven L. Sheinheit *	Chief Strategy & Technology Officer	1,223,685
John G. Langione	Chief Risk Officer	565,882
Jennifer J. Vernon	General Counsel & Corporate Secretary	350,884
Carolyn C. Bartholdson	Chief Human Resources Officer	422,439
Wendall W. Stocker **	Treasurer	414,274
David B. Duclos #	Chief Executive Officer	0
Richard S. Dziadzio #	Chief Financial Officer	0
Andrew J. Doll #	Chief Actuary	0
Paul M. Stachura #	Chief Claims Officer	0
Richard P. Zaloom #	Chief Information Officer	0
Joanna L. Colaneri #	Treasurer	0
Robert V. James ##	President	0

* Identifies officers who are no longer with the company at the date of the report.
** Identifies officers who are still at the company but no longer in that role.
# Identifies officers who were appointed during 2013 and are current officers in addition to those remaining 2012 officers shown above.
Identifies officers who were appointed during 2014 and are current officers in addition to those remaining 2012 and 2013 officers shown above.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. Board committees appointed at the holding company level:

QBE Insurance Group Limited

Risk and Capital Committee
John Green, Chair
William M. Becker
John A. Graf

Audit Committee
Duncan M. Boyle, Chair
Isabel F. Hudson
Margaret Lueng
William M. Becker

Remuneration Committee
Isabel F. Hudson, Chair
Duncan M. Boyle
John Green
William M. Becker
Margaret Lueng

Governance and Nomination Committee
William M. Becker, Chair
Duncan M. Boyle
John A. Graf
John Green
Isabel F. Hudson
Margaret Leung

Investment Committee
John A. Graf, Chair
John Green
William M. Becker

QBE Holdings, Inc.

Executive Committee
John D. Neal, Chair
David B. Duclos
Susan S. Harnett
John G. Langione
Richard S. Dziadzio

ERISA Benefits Committee
Kevin Sweeney, Chair
Vincent Dekker
Immaculada Gonzalez
Steve Solomon
Dick Van Edsigna
Art Lee

Audit Committee
Harvey Bazaar, Chair
Marc G. Metcalf
George T. Tate
John A. Graf

Remuneration Committee
John A. Graf, Chair
Marc G. Metcalf
George T. Tate
Harvey J. Bazaar

Investment Committee
George T. Tate, Chair
David B. Duclos
Susan S. Harnett
John G. Langione
Richard S. Dziadzio

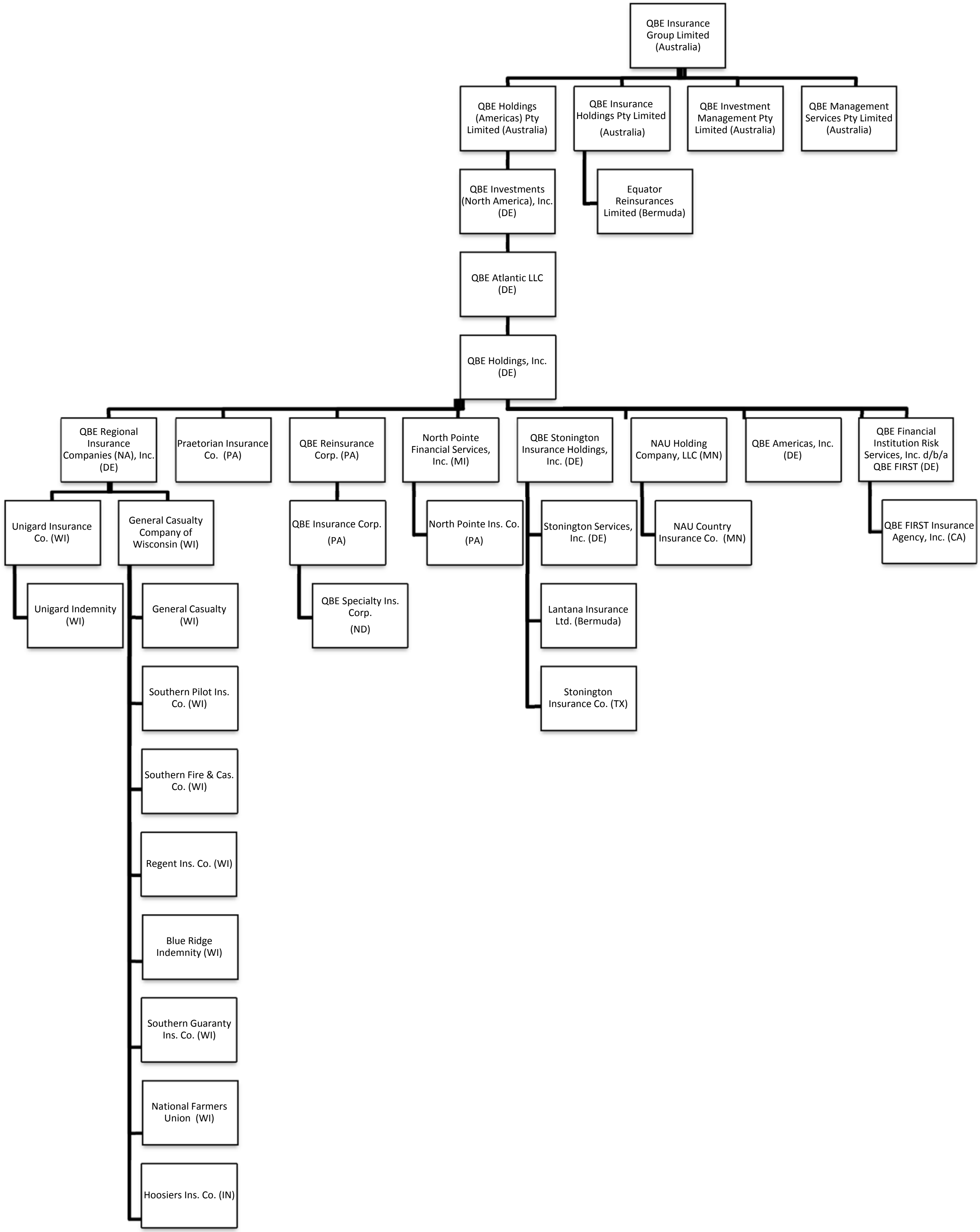
Risk and Capital Committee
Marc G. Metcalf, Chair
David B. Duclos
Susan S. Harnett
John G. Langione
Richard S. Dziadzio

Administrative Committee
David B. Duclos
Susan S. Harnett
John G. Langione
Richard S. Dziadzio

Underwriting Management Committee
David B. Duclos, Chair
John G. Langione
Jeffrey S. Grange
Charles Valinotti

IV. AFFILIATED COMPANIES

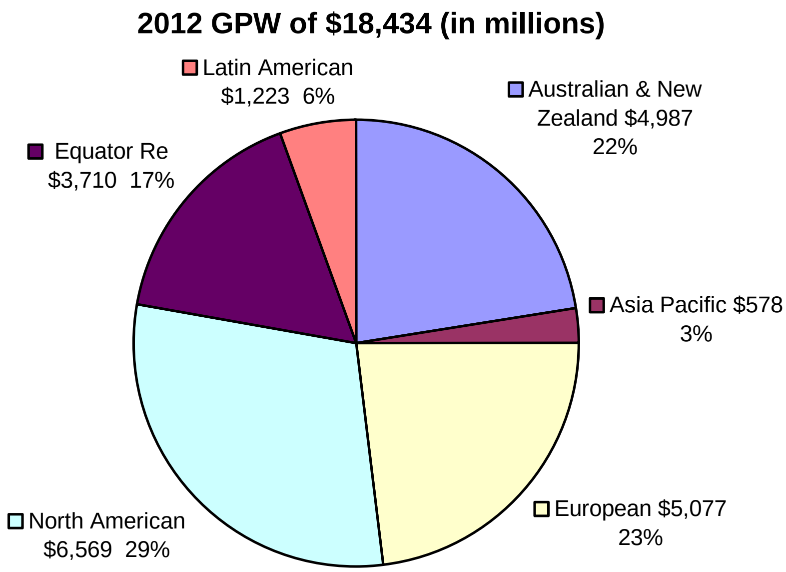
SPilot is a member of a holding company system in which the ultimate parent is QBE Insurance Group Limited. QBE Limited is a publicly traded company incorporated under the laws of Australia. The principal businesses of the holding company system are conducted through its property and casualty insurance and reinsurance subsidiaries. QBE Limited had 221 subsidiaries in its holding company system at December 31, 2012. The abbreviated organizational chart below identifies the succession of control directly related to the company as well as other significant affiliates within the group. A brief description of these affiliates follows the organizational chart shown on the following page.


QBE Insurance Group Limited (Australia)
QBE Holdings (Americas) Pty Limited (Australia)
QBE Insurance Holdings Pty Limited (Australia)
QBE Investment Management Pty Limited (Australia)
QBE Management Services Pty Limited (Australia)
QBE Investments (North America), Inc. (DE)
Equator Reinsurances Limited (Bermuda)
QBE Atlantic LLC (DE)
QBE Holdings, Inc. (DE)
QBE Regional Insurance Companies (NA), Inc. (DE)
Praetorian Insurance Co. (PA)
QBE Reinsurance Corp. (PA)
North Pointe Financial Services, Inc. (MI)
QBE Stonington Insurance Holdings, Inc. (DE)
NAU Holding Company, LLC (MN)
QBE Americas, Inc. (DE)
QBE Financial Institution Risk Services, Inc. d/b/a QBE FIRST (DE)
Unigard Insurance Co. (WI)
General Casualty Company of Wisconsin (WI)
QBE Insurance Corp. (PA)
North Pointe Ins. Co. (PA)
Stonington Services, Inc. (DE)
NAU Country Insurance Co. (MN)
QBE FIRST Insurance Agency, Inc. (CA)
Unigard Indemnity (WI)
General Casualty (WI)
QBE Specialty Ins. Corp. (ND)
Lantana Insurance Ltd. (Bermuda)
Southern Pilot Ins. Co. (WI)
Stonington Insurance Co. (TX)
Southern Fire & Cas. Co. (WI)
Regent Ins. Co. (WI)
Blue Ridge Indemnity (WI)
Southern Guaranty Ins. Co. (WI)
National Farmers Union (WI)
Hoosiers Ins. Co. (IN)

QBE Insurance Group Limited

QBE Insurance Group Limited was formed in 1886 in Townsville, Australia. Currently, the headquarters of QBE Limited are located in Sydney, Australia. QBE Limited is a publicly held company and is traded on the Australian Stock Exchange. The holding company group has a presence in every key insurance market with operations in over 45 countries.

QBE Limited's organizational chart refers to six insurance segments: Australian & New Zealand, Asia Pacific, European, North American, Latin American and Equator Re. The following chart is a geographical split of QBE Limited's 2012 gross premium written (GPW).



The holding company group also has a segment devoted to investment management of the insurers. The following is a summary of operations of each segment:

Australian & New Zealand
General insurance operations throughout Australia and New Zealand providing all major lines of insurance coverage for personal and commercial risks.

Asia Pacific
General insurance operations in the Asia Pacific region, including 15 countries, providing coverage for personal, commercial and specialty risks, which includes professional and general liability, marine, corporate property and trade credit.

European
This segment consists of the Lloyd's of London (Lloyd's) division and QBE Insurance Europe. The Lloyd's division is the largest manager of capacity and the second largest provider of capital, providing general insurance and reinsurance business. QBE Insurance Europe consists of general insurance operations in the UK, Ireland and other countries in mainland Europe. It also includes reinsurance business in Ireland.

North American
Conducts general insurance and reinsurance operations in the United States through four specialist business units: Financial Partner Services, property & casualty, crop and reinsurance. Headquarters are located in New York. QBE Limited first established a presence in the Americas in 1991.

Latin American
Conducts general insurance in seven countries throughout North, Central and South America focused mainly on commercial classes of business.

Equator Re
This company is QBE Limited's captive reinsurer based in Bermuda. Equator Reinsurances Limited provides reinsurance protection to the majority of the operating entities within the holding company group.

Investments
This segment provides for management of QBE Limited's investment portfolio. Over 99% of the members of the holding company group's investments are managed in-house.

As of December 31, 2012, the audited financial statements of QBE Limited reported (in U.S. dollars) assets of $50.7 billion, liabilities of $39.3 billion, and shareholders' equity of $11.4 billion. Operations for 2012 produced comprehensive income of $663 million on revenues of $15.8 billion.

QBE Management Services Pty Limited

QBE Management Services Pty Limited (QBE Management) is an investment management firm incorporated in Australia which manages the assets of the U.S. insurance operations included under the investment segment of QBE Limited's operations. This company became the investment management service provider for the affiliate companies effective December 31, 2012, when it replaced QBE Investment Management Pty Limited. As of December 31, 2012, the financial report of QBE Management provided assets of $417.2 million, liabilities of $390.4 million, and shareholders' equity of $26.8 million. Operations for 2012 produced net income of $10.3 million on revenues of $0.9 million.

QBE Investment Management Pty Limited

QBE Investment Management Pty Limited (QBE Investment) is an investment management firm incorporated in Australia which managed the assets of the U.S. insurance operations included under the investment segment of QBE Limited's operations until December 31, 2012. The company was known as Minster Court Asset Management Pty Limited prior to changing to its current name on March 31, 2011. As of December 31, 2012, the financial report of QBE Investment provided assets of $12.4 million, liabilities of $8.7 million, and shareholders' equity of $3.7 million. Operations for 2012 produced net income of $3.7 million on revenues of $0.3 million.

QBE Holdings (Americas) Pty Limited

QBE Holdings (Americas) Pty Limited is the vehicle whereby QBE Limited contributes capital to its operations in North and Latin America. As of December 31, 2012, the financial report of QBE Holdings (Americas) Pty Limited provided assets of $5.5 billion, liabilities of $69.3 million, and shareholders' equity of $5.4 billion. Operations for 2012 produced net income of $679.9 million on revenues of $682.3 million.

QBE Investments (North America), Inc.

QBE Investments (North America), Inc., is an intermediate holding company for the North American segment. As of December 31, 2012, the financial report of QBE Investments (North America), Inc., provided assets of $6.5 billion, liabilities of $2.6 billion, and shareholders' equity of $3.9 billion. Operations for 2012 produced net income of $41.9 million on revenues of $3.6 million.

QBE Atlantic LLC

QBE Atlantic LLC was incorporated in June 2009 and is an intermediate holding company for the North American segment. QBE Atlantic LLC operates in the United Kingdom and is treated as a United Kingdom entity under United Kingdom tax laws. As of December 31, 2012, the financial report of QBE Atlantic LLC provided assets of $6.5 billion, liabilities of $2.5 billion, and shareholders' equity of $4.0 billion. Operations for 2012 produced net income of $52.9 million on revenues of $192.8 million.

QBE Holdings, Inc.

QBE Holdings, Inc., is an intermediate holding company for the North American segment. As of December 31, 2012, the financial report of QBE Holdings, Inc., provided assets of $6.6 billion, liabilities of $310.2 million, and shareholders' equity of $6.3 billion. Operations for 2012 produced net income of $189.0 million on revenues of $185.9 million.

QBE Americas, Inc.

QBE Americas, Inc., was incorporated in Delaware on September 11, 2009, to become an insurance services company. QBE Americas, Inc., employs substantially all the Americas employees, owns and maintains business assets, and pays all operating expenses (direct expenses charged and shared expenses will be allocated to appropriate business units). As of December 31, 2012, the audited financial statements of QBE Americas, Inc., reported assets of $155.6 million, liabilities of $190.3 million, and shareholders' equity of $(34.6) million. Operations for 2012 produced a net loss of $37.3 million on revenues of $693.3 million. The net loss includes a $24.5 million actuarial loss on retirement benefit obligations.

QBE FIRST Insurance Agency, Inc.

QBE FIRST Insurance Agency, Inc. (QBE FIRST) was incorporated in California to become an insurance agency and services company. QBE FIRST provides these agency and services to members of the QBE North America pool as described further in the agreements below. As of December 31, 2012, the financial report of QBE FIRST provided assets of $1.7 billion, liabilities of $779.1 million, and shareholders' equity of $893.6 million. Operations for 2012 produced a net loss of $34.9 million on revenues of $490.6 million.

QBE Reinsurance Corporation

QBE Reinsurance Corporation's (QBE Re) principal business is underwriting property and casualty reinsurance business which is primarily obtained through reinsurance intermediaries. As of December 31, 2012, the combined audited financial statements of QBE North America reported QBE Re having assets of $1.5 billion, liabilities of $602.4 million, and capital and surplus of $943.1 million. Operations for 2012 produced a net income of $5.0 million on premiums of $365.8 million and net investment income of $8.7 million.

QBE Insurance Corporation

QBE Insurance Corporation (QBEIC) writes primarily property and casualty lines and group accident and health lines of direct insurance business through program managers. As of December 31, 2012, the combined audited financial statements of QBE North America reported QBEIC having assets of $2.2 billion, liabilities of $1.4 billion, and capital and surplus of $802.4 million. Operations for 2012 produced a net loss of $24.3 million on premiums of $833.7 million and net investment income of $14.2 million.

QBE Specialty Insurance Company

QBE Specialty Insurance Company primarily writes property and casualty insurance business through program managers and is eligible to write excess and surplus lines in all 50 states and the District of Columbia. As of December 31, 2012, the combined audited financial statements of QBE North America reported QBE Specialty Insurance Company having assets of $750.8 million, liabilities of $518.2 million, and capital and surplus of $232.6 million. Operations for 2012 produced a net loss of $14.0 million on premiums of $341.2 million and net investment income of $2.6 million.

Equator Reinsurances Limited

Equator Reinsurances Limited (Equator Re) is a captive reinsurer based in Bermuda providing reinsurance protection to the majority of the operating entities in the holding company group. As of December 31, 2012, the audited financial statements of Equator Re reported (in U.S. dollars) assets of $8.0 billion, liabilities of $5.9 billion, and shareholders' equity of $2.1 billion. Operations for 2012 produced net income of $298.3 million on premiums of $3.4 billion and net investment income of $153.0 million.

QBE Regional Companies (N.A.), Inc.

QBE Regional Companies (N.A.), Inc., is the holding company for GC-WI, UnigardIns and subsidiaries. As of December 31, 2012, the combined audited financial statements of QBE North America reported QBE Regional having assets of $2.1 billion, liabilities of $1.5 billion and capital and surplus of $605.9 million. Operations for 2012 produced net income of $22.6 million on premiums of $879.5 million and net investment income of $58.6 million.

General Casualty Company of Wisconsin

GC-WI provides personal and commercial property and casualty insurance coverages primarily to Midwestern and Northeastern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported GC-WI having assets of $1.0 billion, liabilities of $576.8 million, and capital and surplus of $448.1 million. Operations for 2012 produced net loss of $0.1 million on premiums of $337.7 million and net investment income of $15.3 million.

General Casualty Insurance Company

General Casualty Insurance Company (GCIC) provides personal and commercial property and casualty insurance coverages primarily to Midwestern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported GCIC having assets of $108.5 million, liabilities of $80.7 million, and capital and surplus of $27.8 million. Operations for 2012 produced net loss of $1.3 million on premiums of $45.7 million and net investment income of $0.7 million.

Regent Insurance Company

Regent Insurance Company (Regent) provides personal and commercial property and casualty insurance coverages primarily to Midwestern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported Regent having assets of $161.6 million, liabilities of $123.5 million, and capital and surplus of $38.1 million. Operations for 2012 produced net loss of $2.1 million on premiums of $63.3 million and net investment income of $0.7 million.

Hoosier Insurance Company

Hoosier Insurance Company (Hoosier) provides personal and commercial property and casualty insurance coverages in the state of Indiana. As of December 31, 2012, the combined audited financial statements of QBE North America reported Hoosier having assets of $83.7 million, liabilities of $60.0 million, and capital and surplus of $23.7 million. Operations for 2012 produced net loss of $1.6 million on premiums of $38.7 million and net investment income of $0.1 million.

Blue Ridge Indemnity Company

Blue Ridge Indemnity Company (BlueInd) provides personal property and casualty insurance coverages in the state of New York. As of December 31, 2012, the combined audited financial statements of QBE North America reported BlueInd having assets of $22.4 million, liabilities of $16.6 million, and capital and surplus of $5.7 million. Operations for 2012 produced net loss of $0.1 million on premiums of $10.6 million and net investment income of $0.1 million.

Southern Guaranty Insurance Company

SGty provides commercial property and casualty insurance coverages to Southeastern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported SGty having assets of $132.4 million, liabilities of $94.5 million, and capital and surplus of $37.9 million. Operations for 2012 produced net loss of $1.6 million on premiums of $59.8 million and net investment income of $1.0 million.

Southern Fire & Casualty Company

SFire provides personal and commercial property and casualty insurance coverages to Southeastern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported SFire having assets of $17.0 million, liabilities of $11.0 million, and capital and surplus of $5.9 million. Operations for 2012 produced net income of $0.1 million on premiums earned of $7.0 million and net investment income of $0.1 million.

National Farmers Union Property and Casualty Company

National Farmers Union Property and Casualty Company (NFU) provides personal and commercial property and casualty insurance coverages to Midwestern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported NFU having assets of $209.6 million, liabilities of $146.9 million, and capital and surplus of $62.7 million. Operations for 2012 produced net loss of $2.7 million on premiums of $95.0 million and net investment income of $1.1 million.

Unigard Insurance Company

UnigardIns provides personal and commercial property and casualty insurance coverages to Western areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported UnigardIns having assets of $466.2 million, liabilities of $308.4 million, and capital and surplus of $157.8 million. Operations for 2012 produced net income of $33.1 million on premiums of $179.4 million and net investment income of $38.9 million. The investment income includes capital gains of $31.6 million from the sale of real estate held by the company.

Unigard Indemnity Company

Unigard Indemnity Company (UnigardInd) provides personal and commercial property and casualty insurance coverages to Western areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported UnigardInd having assets of $64.0 million, liabilities of $45.8 million, and capital and surplus of $18.2 million. Operations for 2012 produced net loss of $1.1 million on premiums of $28.1 million and net investment income of $0.1 million.

Praetorian Insurance Company

Praetorian Insurance Company (Praetorian) concentrates on writing specialty property and casualty coverage not generally emphasized by standard insurance carriers. As of December 31, 2012, the combined audited financial statements of QBE North America reported Praetorian having assets of $1.1 billion, liabilities of $793.1 million, and capital and surplus of $316.3 million. Operations for 2012 produced net loss of $13.5 million on premiums of $510.1 million and net investment income of $8.2 million.

North Pointe Insurance Company

North Pointe Insurance Company (North Pointe) provides commercial property and casualty insurance coverages to Northeastern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported North Pointe having assets of $83.1 million, liabilities of $57.2 million, and capital and surplus of $25.9 million. Operations for 2012 produced net loss of $1.3 million on premiums of $35.2 million and net investment income of $0.3 million.

Stonington Insurance Company

Stonington Insurance Company (Stonington) provides commercial property and casualty insurance coverages to Southwestern areas of the U.S. As of December 31, 2012, the financial statements of Stonington reported assets of $76.2 million, liabilities of $20.2 million, and capital and surplus of $56.0 million. Operations for 2012 produced net loss of $5.5 million on premiums of $0.1 million and net investment income of $(0.1) million.

NAU Country Insurance Company

NAU Country Insurance Company (NAU) provides property and casualty insurance coverages with specialization in crop insurance. As of December 31, 2012, the combined audited financial statements of QBE North America reported NAU having assets of $1.5 billion, liabilities of $1.1 billion, and capital and surplus of $335.5 million. Operations for 2012 produced net loss of $23.7 million on premiums of $552.3 million and net investment income of $2.3 million.

Agreements with Affiliates

Affiliated reinsurance and trust agreements are discussed in the section of the report titled “Reinsurance.”

Internal Investment Management Agreement

Effective June 17, 2010, the company entered into an investment management agreement between Minster Court Asset Management Pty Limited (Minster) and QBE Regional and each of its subsidiaries. As noted previously, on March 31, 2011, Minster changed its name to QBE Investment Management Pty Limited. QBE Investment provides investment management services, including the investment and reinvestment of the company’s investment assets. The company provides QBE Investment with investment guidelines, approved by the board of directors, which direct QBE Investment with investment objectives, policies and restrictions. The assets in the investment account are being held in a custodial account. QBE Investment is responsible for providing the company daily investment transactions within two days, monthly reporting within two days of month-end, and quarterly board of director reports two weeks before a board meeting. The company is to reimburse QBE Investment a quarterly management fee for services rendered as follows:

Market Value of Fund	Fee per Annum
Money market, cash and fixed interest	9.5 basis points
Equities	45.0 basis points
Infrastructure loans and unlisted property trusts	12.5 basis points

The agreement may be terminated by the company giving not less than 5 days' written notice to the investment manager or by the investment manager giving not less than 20 business days' written notice to the company. Effective December 31, 2012, QBE Investment was replaced by QBE Management Services Pty Limited as the investment manager. The company paid QBE Management $28,415 for these services in 2012.

Intercompany Cost Allocation and Management Services Agreement

Effective January 1, 2010, the company entered into this service agreement with QBE Americas, Inc., QBE Holdings, Inc., QBE Atlantic LLC, QBE Investments (North America), Inc., Unigard Insurance Company, and QBE Americas, Inc.'s North American affiliates. In accordance with this agreement, QBE Americas, Inc., and UnigardIns provide actuarial, finance, accounting, legal, marketing, human resources, investment advice, internal audit, risk management, reinsurance, underwriting, claims, senior management and staff, information systems, group insurances, and policy services for the actual cost of the services performed. Within 30 days of the end of each month the provider of service is to bill the receiver and settlement is due within 15 days of receipt. The agreement may be terminated with 90 days' written notice.

Services Agreement

Effective September 17, 2010, Sterling National Insurance Agency, Inc., and QBE Regional and its subsidiaries, GC-WI, UnigardIns, and their respective subsidiaries, entered into this services agreement. Sterling National Insurance Agency, Inc., changed its name to QBE FIRST Insurance Agency, Inc., effective April 1, 2011. The purpose of the agreement is to allow QBE FIRST to provide the QBE Regional companies with specific policy and claims servicing outlined in Schedule A of the agreement for certain personal lines business. The QBE Regional companies each pay QBE FIRST a service commission of 3% of the net personal lines renewal premium due within 30 days of the receipt of the month-end report. The agreement may be terminated by either party with 90 days' written notice.

Agency Agreement

Effective January 1, 2011, Sterling National Insurance Agency, Inc., and QBE Holdings, Inc., and its subsidiaries, GC-WI, UnigardIns, and their respective subsidiaries, and QBEIC entered into this agency agreement. The purpose of the agreement is to allow QBE FIRST to operate as an agency for the QBE Regional companies in the jurisdictions where QBE FIRST is properly licensed with respect to the personal auto, personal property, and personal umbrella lines of business. The QBE Regional companies each pay QBE FIRST a commission of 10% to 15%, depending on the type of business, and is due within 30 days of the receipt of the month-end report. The agreement may be terminated by mutual written agreement of both parties in accordance with the terms and conditions to which they have agreed.

Tax Sharing Agreement

Effective January 1, 2008, QBE Investments (N.A.), Inc., and listed subsidiaries including QBE Regional and subsidiaries entered into a tax sharing agreement. The agreement has since been amended to include acquired subsidiaries or to terminate former subsidiaries. In accordance with this agreement, the group allocates tax among its members specifically on the basis of the tax a member would be liable for if it filed a separate federal income tax return. Net operating loss and capital carryovers of the members shall be taken into account only to the extent such items were generated in a consolidated return year to which this agreement or a previous tax sharing agreement applied and the member has not previously been and is not otherwise compensated for the use of such tax benefit items.

Estimated tax payments are to be paid to the parent on a quarterly basis with final settlement within 30 days of the filing of the consolidated return. If any adjustments are necessary, the amount differing from the amount previously determined shall be paid within 10 business days after parent receipt of a refund or at least 5 days before the due date for payment of additional tax liability. This agreement applies to all taxable years beginning with the effective date unless it is amended or terminated in writing by mutual agreement of all parties to the agreement.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained the proper insolvency provisions.

Thirteenth Restatement Reinsurance Agreement

Effective January 1, 1976, GC-WI, Regent and GCIC entered into an intercompany pooling arrangement whereby the entire net business in force and produced as of that date was ceded to GC-WI and then redistributed between the participants on a pro rata basis. The Thirteenth Restatement Reinsurance Agreement was designed to reaffirm the basic provisions of the 1976 agreement, as previously modified by the first twelve restatements, and to reflect the current organizational makeup of the participants to accomplish a QBE North America pool for insurance companies domiciled in the United States. As it has since 2012, QBE Insurance Corporation remains the lead company and pool manager.

Pool participants have entered into certain quota share agreements in which cessions are made prior to participation in the pooling arrangement. These reinsurance agreements are discussed below, as applicable to the company. Aside these cessions, participants cede 100% of remaining direct premiums, losses, loss adjustment expenses, and underwriting expenses to QBEIC. QBEIC, as the pool reinsurer, assumes on a severally liable basis and cedes to pool participants on a jointly and severally liable pro rata basis as follows effective January 1, 2014:

Company Name	Percentage
QBE Insurance Corporation	26.5%
NAU Country Insurance Company	15.2
Praetorian Insurance Company	14.8
QBE Specialty Insurance Company	10.5
General Casualty Company of Wisconsin	8.9
QBE Reinsurance Corporation	6.7
Unigard Insurance Company	5.0
National Farmers Union Property and Casualty Company	2.4
Stonington Insurance Company	2.2
Regent Insurance Company	1.7
Southern Guaranty Insurance Company	1.3
General Casualty Insurance Company	1.1
Hoosier Insurance Company	1.1
North Pointe Insurance Company	1.0
Unigard Indemnity Company	0.7
Southern Pilot Insurance Company	0.4
Blue Ridge Indemnity Company	0.3
Southern Fire and Casualty Company	0.2

QBEIC administers all aspects of the pooled business, including the placement of additional reinsurance, as approved by participants. Income and expenses related to investment operations and corporate taxes, including federal income taxes, are not included in the pooling.

Monthly accounting of all activity pursuant to the agreement is to be provided within 30 days after the close of each month. Settlements of any balances due shall be completed within 45 days after the close of each quarter. The agreement may be terminated by any participant at the end of any treaty year, with 90 days' written notice by any party.

Equipment Breakdown Quota Share Reinsurance Agreements

Effective January 1, 1998, SGty, SPilot, SFire, and SGty-GA (cedents) entered into a quota share agreement with Factory Mutual Insurance Company (Factory Mutual). The agreement was amended to terminate SGty-GA effective August 1, 2007. Factory Mutual reinsures 100% of the cedents' net liability with respect to direct business classified as equipment breakdown liability subject to certain exclusions. Factory Mutual's liability is limited to $2 million for any one risk without prior written agreement. Factory Mutual is credited with the cedents' proportionate share of net premiums written. The cedents receive a ceding commission of 40% of direct premium written and a profit-sharing commission. The profit-sharing commission is earned when the sum of incurred losses is less than plan losses based on a calendar year. Plan losses are calculated by multiplying the plan loss ratio of 25% by premiums earned. Quarterly reports of ceded unearned premiums and ceded outstanding loss reserves are to be provided within 25 days after the close of each quarter. Settlements of any balances due shall be completed within 20 days after receipt of the quarterly accounting reports. The agreement may be terminated with 180 days' written notice by any party.

Effective January 1, 2006, GC-WI, GCIC, Regent, Hoosier, Blue Ridge Insurance Company (BlueIns) and BlueInd (cedents) entered into a quota share agreement with The Hartford Steam Boiler Inspection and Insurance Company (Hartford Ins). The agreement was amended to terminate BlueIns and BlueInd effective January 1, 2007, and again amended effective August 1, 2007, to include SGty, SPilot and SFire. Hartford Ins reinsures 100% of the cedents' net liability with respect to direct business classified as equipment breakdown liability subject to certain exclusions. Hartford Ins' liability is limited to $100 million for any one accident, any one policy. Hartford Ins is credited with the cedents' proportionate share of net premiums written. The cedents receive a ceding commission of 35% of direct premium written and a profit-sharing commission. The profit-sharing commission is earned when the sum of incurred losses is less than plan losses based on a calendar year. Plan losses are calculated by multiplying the plan loss ratio by premiums earned; the ratio for policies covering referral risks is 23% and all other policies is 31%. Monthly accounting of activity pursuant to the agreement is to be provided within 45 days after the close of each month. Quarterly reports of ceded unearned premiums and ceded outstanding loss reserves are to be provided within 30 days after the close of each quarter. Settlements of any balances due shall be completed immediately after receipt of monthly accounting reports. The agreement may be terminated with 180 days' written notice by any party.

Equator Re Quota Share Reinsurance Agreement

Effective January 1, 2012, GC-WI, GCIC, Regent, BlueInd, SGty, SPilot, SFire, UnigardIns, UnigardInd, Hoosier Insurance Company, National Farmers Union Property and Casualty Company (the cedents) entered into a quota share agreement with affiliate, Equator Reinsurances Limited. Equator Re reinsures 40% of the cedents' net liability with respect to all direct and assumed business underwritten except that which is specifically excluded. Should the net combined operating ratio for business classified as "regional" or "middle markets" exceed

100%, the company retains the next 3% of net liability which would otherwise be ceded to Equator Re. Equator Re remains liable for the proportionate share of any amount in excess thereof. Nuclear incident risks for both liability and physical damage are excluded. Equator Re is credited with the cedents' proportionate share of net premiums written for new business. The cedents receive a monthly ceding commission of 40% of net acquisition cost. Quarterly accounting of all activity pursuant to the agreement is to be provided within 60 days after the close of each quarter. Settlements of any balances due shall be completed within 30 days after the receipt of accounting activity. The agreement may be terminated by any participant with 90 days' written notice.

Pursuant to s. Ins 52.05, Wis. Adm. Code, and the Stipulation and Order issued by the Office of the Commissioner of Insurance on May 17, 2012, GC-WI, GCIC, Regent, BlueInd, SGty, SPilot, SFire, UnigardIns, UnigardInd, Hoosier Insurance Company, and National Farmers Union Property and Casualty Company (the beneficiaries) have entered into three trust agreements with Equator Re and Citibank, N.A. (the Trustee), dated as of March 29, 2012. Equator Re secures payments of amounts due the company under the quota share and loss portfolio reinsurance agreements by transferring assets to the Trustee for deposit into the trust accounts for the sole benefit of the beneficiaries. The amount held in the trust accounts should equal to 102% of Equator Re's obligations attributable to the reinsurance agreement. Equator Re's obligations are defined as the sum of losses and allocated loss expenses paid by the beneficiaries but not recovered from Equator Re; reserves for losses reported and outstanding; reserves for losses incurred but not reported; reserves for allocated loss expenses; and reserves for unearned premium. The agreements may be terminated only after Equator Re or the beneficiaries have given the Trustee a written notice of its intention to terminate the trust accounts. The agreements provide that written notification of termination should be delivered by the Trustee to Equator Re and the beneficiaries at least 45 days, but not more than 60 days, prior to termination of the trust accounts. Equator Re is responsible for reimbursing the Trustee for its expenses under the agreements.

Further discussion pertaining to the quota share agreement, and the related trust agreement the company has with Equator Re, may be found in the "Summary of Examination Results" section of the report.

Excess of Loss and Catastrophe Reinsurance Portfolio

The company's ceded reinsurance portfolio for catastrophic and excess of loss coverages is assigned and placed by QBE North America located in New York City, with the company's approval. QBE North America uses the "group aggregate methodology" in development of their ceded reinsurance portfolio. The catastrophic and excess of loss coverages purchased encompasses all insurance subsidiaries of QBE North America. In determining adequate coverage, various loss scenarios are considered with the intent to protect the participants from a 100/250 year catastrophic event. The "group aggregate methodology" results in more buying power due to the centralization of reinsurance procurement. Exhibit A summarizes the company's ceded reinsurance portfolio for catastrophic and excess of loss coverages.

Exhibit A
QBE North America
2013 Excess of Loss and Catastrophe Reinsurance Portfolio

	Primary Reinsurer	Retention	Coverage	Limits	Terrorism Limit	Reinstate-ment(s)	Premium	Settlement	Intermediary
Casualty Clash **Excess of Loss** Coverages for excess liability classified as casualty business with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Hannover Rueckversicherungs Aktiengesellschaft - 30%	2,500,000	7,500,000 xs 2,500,000 10 year Sunset Clause	7,500,000 one occurrence	n/a	1	1,150,000	Premium within 60 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate
Property Catastrophe **Excess of Loss** Coverages for policies classified as property business with certain exceptions. Effective: 1/1/2013 Terminate: 1/1/2014	Equator Re - 100%	150,000,000	50,000,000 xs 150,000,000 Excludes Wind	50,000,000 one occurrence	n/a	1	7,400,000 minimum 9,250,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	None
	Equator Re - 100%	150,000,000	50,000,000 xs 150,000,000	50,000,000 one occurrence	n/a	1	25,000,000 minimum 31,250,000 deposit premium		
	Equator Re - 100%	200,000,000	100,000,000 xs 200,000,000	100,000,000 one occurrence	n/a	0	32,000,000 minimum 40,000,000 deposit premium		
	Equator Re - 100%	100,000,000	50,000,000 xs 100,000,000 2nd Event Wind	50,000,000 one occurrence	n/a	0	10,400,000 minimum 13,000,000 deposit premium		
Property Per Risk **Excess of Loss** Coverages for policies classified as property business with certain exceptions. Effective: 1/1/2013 Terminate: 1/1/2014	Equator Re - 100%	10,000,000	10,000,000 xs 10,000,000	10,000,000 one occurrence $40,000,000 aggregate	n/a	3	0.204% of net premium written 5,500,000 minimum 5,500,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	None
	Equator Re - 100%	20,000,000	30,000,000 xs 20,000,000	30,000,000 one occurrence $120,000,000 aggregate	n/a	3	0.148% of net premium written 4,000,000 minimum 4,000,000 deposit premium		

Exhibit A
QBE North America
2013 Excess of Loss and Catastrophe Reinsurance Portfolio

	Primary Reinsurer	Retention	Coverage	Limits	Terrorism Limit	Reinstate-ment(s)	Premium	Settlement	Intermediary
Terrorism Catastrophe **Excess of Loss** Coverages for acts of terrorism for policies classified as property or casualty with certain exceptions. Effective: 1/1/2012 Terminate: 1/1/2014	Lloyd's Syndicate 2003 - 75%	25,000,000	25,000,000 xs 25,000,000	25,000,000 one occurrence 50,000,000 per year aggregate	n/a	1	1,753,125 minimum 2,062,500 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	Guy Carpenter & Company, LLC
	Lloyd's Syndicate 2003 - 75%	50,000,000	50,000,000 xs 50,000,000	50,000,000 one occurrence 100,000,000 per year aggregate	n/a	1	2,550,000 minimum 3,000,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	Guy Carpenter & Company, LLC
Umbrella **Excess of Loss** Coverages for excess liability classified as umbrella with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Transatlantic Reinsurance Company - 29%	2,000,000 each policy after 5,500,000 annual aggregate	8,000,000 xs 2,000,000	8,000,000 one occurrence 16,000,000 for acts of terrorism during term	n/a	free and unlimited	11.89% of net premium earned 6,772,000 minimum 8,465,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate
	Lloyd's Syndicate 2987 - 22.5%	10,000,000	15,000,000 xs 10,000,000	15,000,000 one occurrence 30,000,000 for acts of terrorism during term	n/a	1	19.53% of net premium earned 1,000,000 minimum 1,250,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate

Exhibit A
QBE North America
2013 Excess of Loss and Catastrophe Reinsurance Portfolio

	Primary Reinsurer	Retention	Coverage	Limits	Terrorism Limit	Reinstatement(s)	Premium	Settlement	Intermediary
Workers' Compensation **<u>Excess of Loss</u>** Coverages for excess liability for policies classified as workers' compensation with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Lloyd's Syndicate 2003 Catlin Underwriting, Inc. - 30%	5,000,000	5,000,000 xs 5,000,000 10 year Sunset Clause	5,000,000 one occurrence 20,000,000 aggregate	n/a	3	0.603% of net premium earned 2,640,000 minimum 3,300,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate
Workers' Compensation Catastrophe **<u>Excess of Loss</u>** Coverages for excess liability for policies classified as workers' compensation with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Lloyd's Syndicate 2987 - 25% Alterra Bermuda Limited - 25%	10,000,000	25,000,000 xs 10,000,000 10 year Sunset Clause	25,000,000 one occurrence 50,000,000 aggregate	n/a	1	0.326% of net premium earned 1,200,000 minimum 1,500,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate
Worldwide Group Property Per Risk **<u>Excess of Loss</u>** Coverages for policies classified as property business with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Munich Re America - 40%	50,000,000	200,000,000 xs 50,000,000	200,000,000	n/a	3	1.0% of gross written premiums 111,018,600 minimum 123,354,000 deposit premium	Premium within 90 days after termination; Losses within 30 days of billing	Guy Carpenter & Company, LLC
Worldwide Group Property Catastrophe **<u>Excess of Loss</u>** Coverages for policies classified as property business with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Swiss Re - 35%	200,000,000	1,300,000,000 xs 200,000,000	1,300,000,000	n/a	n/a	12.884% of net premium earned 350,000,000 minimum 350,000,000 deposit premium	Premium within 90 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate
	Hannover Re Bermuda Ltd - 36.7%	200,000,000	1,300,000,000 xs 200,000,000	1,300,000,000	n/a	n/a	12.84% of net premium earned 465,000,000 minimum 465,000,000 deposit premium		

	Primary Reinsurer	Retention	Coverage	Limits	Terrorism Limit	Reinstatement(s)	Premium	Settlement	Intermediary
Worldwide Group Aggregate Catastrophe <u>Excess of Loss</u> Coverages for policies classified as property business with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Upsilon Re II Ltd - 4%	800,000,000	200,000,000 xs 800,000,000	200,000,000	n/a	n/a	57,780,000	Premium within 90 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate
	National Indemnity Company - 75%	800,000,000	400,000,000 xs 800,000,000	400,000,000	n/a	n/a	88,000,000		
	Kane SAC Ltd; IAFM Segregated Account - 4%	1,000,000,000	200,000,000 xs 1,000,000,000	200,000,000	n/a	n/a	30,000,000		
Worldwide Group Aggregate Risk <u>Excess of Loss</u> Coverages for policies classified as property business with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Munich Re America - 40%	400,000,000	200,000,000 xs 400,000,000	200,000,000	n/a	n/a	0.47% of net premium earned 52,182,900 minimum 57,981,000 deposit premium	Premium within 90 days after termination; Losses within 30 days of billing	Guy Carpenter & Company, LLC
	National Indemnity Company - 40%	400,000,000	200,000,000 xs 400,000,000	200,000,000	n/a	n/a	0.5343% of net premium earned 58,000,000 minimum 65,714,000 deposit premium		

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2012, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Southern Pilot Insurance Company
Assets
As of December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$16,662,380	$	$16,662,380
Cash, cash equivalents, and short-term investments	5,249,667		5,249,667
Investment income due and accrued	260,770		260,770
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	1,524,709	130,863	1,393,846
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	2,567,905		2,567,905
Reinsurance:			
Amounts recoverable from reinsurers	2,489,670		2,489,670
Other amounts receivable under reinsurance contracts	(5,750)		(5,750)
Current federal and foreign income tax recoverable and interest thereon	261,912		261,912
Net deferred tax asset	848,743	103,614	745,129
Guaranty funds receivable or on deposit	914		914
Receivables from parent, subsidiaries and affiliates	4,147,733		4,147,733
Write-ins for other than invested assets:			
Amounts billed and receivable deductible plans	282		282
Equities and deposits	12,187	384	11,804
Net receivable federally reinsured multi-peril crop insurance	2,230,046		2,230,046
Non-qualified deferred compensation plan	12,955		12,955
Other accounts receivable	45,993	31,554	14,439
Prepaid assets	2,416	2,416	0
Miscellaneous assets	19,132		19,132
Net claims receivable	460,244		460,244
Retroactive reinsurance recoverable	43,851		43,851
Total Assets	$36,835,758	$268,830	$36,566,928

Southern Pilot Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2012

Losses		$ 9,774,486
Reinsurance payable on paid losses and loss adjustment expenses		54,453
Loss adjustment expenses		1,850,578
Commissions payable, contingent commissions, and other similar charges		549,443
Other expenses (excluding taxes, licenses, and fees)		34,877
Taxes, licenses, and fees (excluding federal and foreign income taxes)		95,884
Unearned premiums		4,803,018
Advance premium		15,109
Ceded reinsurance premiums payable (net of ceding commissions)		3,702,729
Remittances and items not allocated		185,611
Drafts outstanding		656
Payable to parent, subsidiaries, and affiliates		4,711,508
Write-ins for liabilities:		
Additional minimum pension liability		19,061
Other liabilities		1,630
Retroactive reinsurance reserve		(46,591)
Total liabilities		25,752,455
Aggregate write-ins for other than special surplus funds	$ 46,591	
Common capital stock	2,500,000	
Preferred capital stock	60,000	
Gross paid in and contributed surplus	12,440,000	
Unassigned funds (surplus)	(4,232,118)	
Surplus as regards policyholders		10,814,473
Total Liabilities and Surplus		$36,566,928

Southern Pilot Insurance Company
Summary of Operations
For the Year 2012

Underwriting Income		
Premiums earned		$14,072,290
Deductions:		
Losses incurred	$9,035,324	
Loss adjustment expenses incurred	1,310,157	
Other underwriting expenses incurred	4,283,796	
Total underwriting deductions		14,629,277
Net underwriting gain (loss)		(556,986)
Investment Income		
Net investment income earned	318,331	
Net realized capital gains (losses)	2,337	
Net investment gain (loss)		320,667
Other Income		
Net gain (loss) from agents or premium balances charged off	(21,046)	
Finance and service charges not included in premiums	40,775	
Write-ins for miscellaneous income:		
Other miscellaneous income	4,865	
Renewal rights licensing	(28,000)	
Windstorm credits	6,579	
Retroactive reinsurance movement	(4,415)	
Total other income		(1,241)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(237,560)
Dividends to policyholders		77,904
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(315,464)
Federal and foreign income taxes incurred		(500,521)
Net Income		$ 185,057

Southern Pilot Insurance Company
Cash Flow
For the Year 2012

Premiums collected net of reinsurance			$15,751,388
Net investment income			653,102
Miscellaneous income			(1,241)
Total			16,403,249
Benefit- and loss-related payments		$16,346,461	
Commissions, expenses paid, and aggregate write-ins for deductions		7,188,482	
Dividends paid to policyholders		77,904	
Federal and foreign income taxes paid (recovered)		(840,896)	
Total deductions			22,771,951
Net cash from operations			(6,368,702)
Proceeds from investments sold, matured, or repaid:			
Bonds	$15,598,706		
Net gains (losses) on cash, cash equivalents, and short-term investments	(998)		
Miscellaneous proceeds	2,510,832		
Total investment proceeds		18,108,540	
Cost of investments acquired (long-term only):			
Bonds	8,150,445		
Miscellaneous applications	2,367,736		
Total investments acquired		10,518,181	
Net cash from investments			7,590,359
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			(1,808,163)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(586,506)
Cash, cash equivalents, and short-term investments:			
Beginning of year			5,836,173
End of Year			$ 5,249,667

Southern Pilot Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2012

Assets		$36,566,928
Less liabilities		25,752,455
Adjusted surplus		10,814,473
Annual premium:		
Lines other than accident and health	$11,285,307	
Less policyholder dividends	77,904	
	11,207,403	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,241,480
Compulsory Surplus Excess (or Deficit)		$ 8,572,993
Adjusted surplus (from above)		$10,814,473
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		3,138,072
Security Surplus Excess (or Deficit)		$ 7,676,401

Southern Pilot Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2012

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2012	**2011**	**2010**	**2009**	**2008**
Surplus, beginning of year	$10,875,233	$11,791,107	$12,833,964	$12,201,062	$21,759,051
Net income	185,057	(965,677)	(471,426)	315,695	724,110
Change in net deferred income tax	(385,169)	20,142	736,494	(75,665)	(384,021)
Change in nonadmitted assets	86,237	92,621	(447,689)	392,872	101,922
Capital changes:					
Paid in	500,000				
Surplus adjustments:					
Paid in	(500,000)				
Dividends to stockholders					(10,000,000)
Write-ins for gains and (losses) in surplus:					
Change in additional minimum pension liability	65,874	13,380	(94,855)		
Additional admitted deferred assets		275,579	194,753		
Reclassification of additional admitted deferred tax assets to surplus funds		(275,579)	(194,753)		
Pension transfer valuation adjustment	(12,760)	(76,339)	(765,382)		
Surplus, End of Year	$10,814,473	$10,875,233	$11,791,107	$12,833,964	$12,201,062

Southern Pilot Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2008

The company's NAIC Insurance Regulatory Information System results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2012	2011	2010	2009	2008
#1	Gross Premium to Surplus	330%	493%	635%	442%	459%
#2	Net Premium to Surplus	104	158	211	0	0
#3	Change in Net Premiums Written	-34*	-31	999 *	0	0
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	109 *	97	86	0	0
#6	Investment Yield	1.2 *	1.3 *	1.4 *	2.5 *	2.7*
#7	Gross Change in Surplus	-1	-8	-8	5	-44*
#8	Change in Adjusted Surplus	-1	-8	-8	5	-44*
#9	Liabilities to Liquid Assets	105 *	89	70	2	0
#10	Agents' Balances to Surplus	13	11	10	0	0
#11	One-Year Reserve Development to Surplus	8	3	0	0	0
#12	Two-Year Reserve Development to Surplus	7	0	4	0	0
#13	Estimated Current Reserve Deficiency to Surplus	31*	-10	0	0	0

Ratio No. 3 in 2010, relating to net premium, was primarily due to an increase in the company's pooling percentage to 1.7% in 2010 from 0% in 2009. The 2012 result was exceptional due to a combination of lower overall gross premiums due to a soft market and competitive pressure in addition to a decrease in the company's pooling percentage to 0.4% in 2012 from 1.7% in 2011.

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional result in 2012 was due primarily to a combination of Hurricane Irene and Hurricane Sandy losses in the Northeastern United States and spring and summer storms in the Midwestern United States in 2011.

Ratio No. 6 has been exceptional from 2008 through 2012. The company's exceptional results during these years were primarily the result of the company's conservative investment portfolio of primarily short-term bonds and the dividend to GC-WI in 2008.

The exceptional ratios Nos. 7 and 8 for 2008, relating to surplus, are primarily the result of a dividend paid of $10 million to its parent, GC-WI. The company obtained regulatory approval to pay the extraordinary dividends. The dividends were used to facilitate acquisitions, partially fund debt service requirements as well as provide normal dividends to QBE Regional.

Ratio No. 9 compares the company's liabilities to liquid assets. The exceptional result for 2012 was primarily due to an increase in reinsurance recoverables and an overall decrease in liquid invested assets at year-end.

Ratio No. 12 compares the current reserve deficiency to policyholders' surplus. An exceptional value was observed for the test; however, this resulted primarily from the intercompany pooling arrangement, which significantly impacted the ratio of earned premium to loss reserves in 2012 the current year and had a distorting impact in the test. Both One-Year and Two-Year Reserve Development tests had values in excess of 5%. The largest contributor to these figures was shown as the third-party administrator claims handling in the program business division.

Growth of Southern Pilot Insurance Company
(In 000s)

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2012	$36,567	$25,752	$10,814	$ 185
2011	44,364	33,489	10,875	(966)
2010	37,807	26,016	11,791	(471)
2009	13,090	256	12,834	316
2008	12,204	3	12,201	724

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2012	$35,669	$11,285	$14,072	73.5%	38.0%	112.0%
2011	53,597	17,228	17,445	74.3	35.8	112.0
2010	74,858	24,917	17,110	66.4	21.9	88.3
2009	56,673	0	0	0.0	0.0	0.0
2008	56,001	0	0	0.0	0.0	0.0

Effective January 1, 2008, the company entered into a quota share agreement under which the company ceded 25% of business to affiliate, Equator Reinsurances Limited. Effective January 1, 2012, this was replaced by a new quota share agreement with Equator Reinsurances Limited where the company cedes 40% of all business. Gross and net premiums fluctuated during the five-year period due primarily to changes in the company's participation in the pooling agreement which were 0% in both 2008 and 2009; 1.7% in 2010 and 2011; and 0.4% in 2012. Gross and net premiums in 2011 and 2012 were also reduced from a combination of lower overall gross premiums due to a soft market and competitive pressure.

The company had a net loss in 2011 due to a combination of a soft market, growing competition, and increased large event storm activity; the company's low investment yield was not sufficient to offset the increased losses in this year. The net income in 2012 was primarily due to a federal tax benefit of $0.5 million. Conversely, the company's net loss in 2010 was due primarily to federal taxes paid of $0.7 million. The company had a net income in 2008 and 2009 due to investment gains as its pooling percentage was 0% in these years. Surplus decreased in each of the last three years of the examination period due primarily to net underwriting losses.

Reconciliation of Surplus per Examination

The following schedule is a reconciliation of surplus as regards policyholders between that reported by the company and as determined by this examination:

	Increase	Decrease	
Surplus December 31, 2013, per annual statement			$10,814,473
Increase in aggregate losses and LAE	$944,000	$	(944,000)
Surplus December 31, 2013, Per Examination			$ 9,870,473

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Biographical Information and Jurat Page Reporting—It is recommended that the company file biographical affidavits on all officers who have executive decision-making authority in accordance with s. Ins 6.52 (5), Wis. Adm. Code, and properly identify officers, directors and any other positions in primary policy-making or managerial roles on the jurat page of the annual statement in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

   Action—Noncompliance; see comments in the “Summary of Current Examination Results.”

2. Equator Re Reinsurance Agreements and Trust—It is recommended that the company either amend its quota share and loss portfolio reinsurance agreements with Equator Re to reflect its current accounting practices or adhere to the agreements and account for the reinsurance in accordance with the current contract terms.

   Action—Compliance.

3. Equator Re Reinsurance Agreements and Trust—It is further recommended that the company comply with the NAIC Annual Statement Instructions – Property and Casualty and SSAP No. 62.

   Action—Compliance.

4. Equator Re Reinsurance Agreements and Trust—It is recommended that the company amend its reinsurance trust agreement to include how recoveries are to be allocated among participants in the event that the reinsurer is unable to fulfill its responsibilities.

   Action—Compliance.

5. Affiliated Transactions—It is recommended that the company settle affiliated balances in the timeframe agreed upon in accordance with affiliated agreements and amend agreements to specify a definitive time of settlement.

   Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Biographical Information and Jurat Page Reporting

Section Ins 6.52 (4), Wis. Adm. Code, defines "officer" as the president, one or more vice presidents, secretary, treasurer, chief actuary, general counsel, comptroller and any person, however described, who enjoys in fact the executive authority of any such officers. The company did not file biographical affidavits for certain board-appointed officers who would meet the definition. The following is a listing of these individuals:

- Carolyn C. Bartholdson, Chief Human Resources Officer
- Susan S. Harnett, Chief Operating Officer
- John G. Langione, Chief Risk Officer
- Christopher D. Davies, Director

Section Ins 6.52 (5), Wis. Adm. Code, requires that the company file a biographical report on any new director or officer within 15 days of appointment or election. Furthermore, the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions - Property and Casualty requires the company to identify officers, directors and any other positions in primary policy-making or managerial roles. The company did comply with the latter part of the prior examination recommendation, as the individuals noted above were listed as new officers or directors on the jurat page; however, there was no timely filed biographical affidavit for any of the individuals. It is recommended that the company file biographical affidavits on all officers who have executive decision-making authority in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

Equator Re Reinsurance Agreements and Trust

Pursuant to s. Ins 52.05, Wis. Adm. Code, and the Stipulation and Order issued by the Office of the Commissioner of Insurance on October 15, 2008, GC-WI, GCIC, Regent, BlueIns, BlueInd, SGty, SPilot, SFire and Hoosier Insurance Company (the beneficiaries) entered into a trust agreement with Equator Re and Brown Brothers Harriman Trust Company, N.A. (BBH) dated as of January 1, 2008. Effective September 29, 2009, the beneficiaries entered into a Resignation, Appointment and Acceptance, and Amendment Agreement to change the Trustee from BBH to Citibank, N.A. Effective September 30, 2010, the beneficiaries entered into a Reinsurance Trust Agreement to remove BlueIns from the trust. Equator Re secured payments of amounts due under the quota share and loss portfolio reinsurance agreements by transferring assets to this trustee for deposit into a trust account for the sole benefit of the beneficiaries. However, neither the reinsurance agreements nor the trust agreement documented, in the event that recoveries were to be made from the trust, how such recoveries would be allocated among the participants.

The reinsurance trust agreements between the QBE North America companies and Equator Re were reviewed and a provision was noted in Section 4(c) which was amended as of January 1, 2011. This provision stated "…Trustee, shall pay to each company listed as a Beneficiary in the Agreement such Beneficiary's pro rata share of the Assets in the Account based on the allocation accorded to each such Beneficiary in the Intercompany Allocation Contract in effect at the time of the transfer and as communicated to the Trustee by the Beneficiary." The trust agreement with Equator Re and Citibank, N.A., dated as of March 29, 2012, contains the same provision. However, the Intercompany Allocation Contract was cancelled effective January 1, 2013, as it was viewed as redundant with the 2013 QBE North America Pooling Agreement.

It is recommended that the company amend its reinsurance trust agreement to include how recoveries are to be allocated among participants in the event that the reinsurer is unable to fulfill its responsibilities.

Reserve Development and Documentation

The consulting actuary reviewed the company's appointed actuary's report for compliance with Actuarial Standard of Practice No. 41, as Actuarial Standard of Practice No. 9 was repealed effective May 1, 2011. The latter was referenced in the prior examination report of other QBE Regional affiliates, which stated "Documentation should be sufficient for another actuary practicing in the same field to evaluate the work. The documentation should describe clearly the sources of data, material assumptions, and methods." The NAIC Annual Statement

Instructions - Property and Casualty include the requirement that the actuarial report comply with Actuarial Standard of Practice No. 41.

The consulting actuary noted some of the necessary details in support of the calculations of ultimate liabilities were not disclosed in the exhibits. Additionally, the accompanying narrative to the exhibits was not very helpful to the reader in understanding the actuarial analysis. Upon request, the company provided the necessary details and additional narrative to understand the actuarial procedures; however, because the narrative and exhibits in the appointed actuary's report generally did not contain sufficient documentation for another actuary practicing in the same field to evaluate the work, the consulting actuary determined that the company was not in compliance with the prior examination. It is recommended that the company include sufficient documentation in its actuarial report including clear descriptions of sources of data, material assumptions, and methods in accordance with Actuarial Standard of Practice No. 41.

The consulting actuary's reserving report showed the pool's December 31, 2012, reserves were 8.1% deficient compared to the consulting actuary's estimated net reserves. An adjustment to surplus was made for each Wisconsin pool member to bring reserves to the level recommended by the consulting actuary as the difference was material. This adjustment is reflected in the section of this report captioned "Reconciliation of Surplus per Examination."

VIII. CONCLUSION

The company was incorporated under North Carolina laws on August 30, 1962, as a property and casualty insurer. The company redomiciled to Wisconsin on March 31, 2005. Effective December 22, 2006, Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company (former upstream parent of the company) to AXA. Effective May 31, 2007, AXA finalized the sale of Winterthur U.S. Holdings, Inc., (former subsidiary of Winterthur Swiss Insurance Company) and its consolidated subsidiaries to QBE Holdings, Inc., a subsidiary of Australian-based QBE Insurance Group Limited. Winterthur U.S. Holdings, Inc., was renamed QBE Regional Companies (N.A.), Inc.

The company markets commercial and personal lines of insurance, primarily conducting business in North Carolina, Georgia, South Carolina, and Virginia. QBE Insurance Corporation, NAU Country Insurance Company, Praetorian Insurance Company, QBE Specialty Insurance Company, General Casualty Company of Wisconsin, QBE Reinsurance Corporation, Unigard Insurance Company, National Farmers Union Property and Casualty Company, Stonington Insurance Company, Regent Insurance Company, Southern Guaranty Insurance Company, General Casualty Insurance Company, Hoosier Insurance Company, North Pointe Insurance Company, Unigard Indemnity Company, Southern Pilot Insurance Company, Blue Ridge Indemnity Company, and Southern Fire & Casualty Company are participants in an intercompany pooling arrangement of which Southern Pilot Insurance Company assumes 0.4% of pooled business.

The examination resulted in three recommendations related to filing biographical information on all directors and officers and reporting them on the jurat page, reinsurance and trust agreements with an affiliate (Equator Re), and reserve development and documentation. One of the recommendations was repeated from the prior examination.

The company had a net loss in 2011 due to a combination of a soft market, growing competition, and increased large event storm activity; the company's low investment yield was not sufficient to offset the increased losses in this year. Surplus decreased in each of the last three years of the examination period due primarily to net underwriting losses.

There was an adjustment to surplus as part of the examination to bring loss and loss adjustment expense reserves up to the level recommended by the consulting actuary in their reserving report. For this reason, the amount of surplus reported by the company as of December 31, 2012, $10,814,473, is adjusted to $9,870,473.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 46 - Biographical Information and Jurat Page Reporting—It is recommended that the company file biographical affidavits on all officers who have executive decision-making authority in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

2. Page 47 - Equator Re Reinsurance Agreements and Trust—It is recommended that the company amend its reinsurance trust agreement to include how recoveries are to be allocated among participants in the event that the reinsurer is unable to fulfill its responsibilities.

3. Page 48 - Reserve Development and Documentation—It is recommended that the company include sufficient documentation in its actuarial report including clear descriptions of sources of data, material assumptions, and methods in accordance with Actuarial Standard of Practice No. 41.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Jerry DeArmond, CFE	Insurance Financial Examiner, Advanced
Tom Houston, CPA, CFE	Insurance Financial Examiner, Advanced
James Lindell	Insurance Financial Examiner
Dan Schroeder	Insurance Financial Examiner

Respectfully submitted,

Karl K. Albert, CFE
Examiner-in-Charge

XI. APPENDIX—SUBSEQUENT EVENT

As noted earlier, an independent actuarial firm was engaged under a contract with the Pennsylvania Insurance Department to review the adequacy of the company's loss and loss adjustment expense reserves. Loss and LAE reserves were developed through December 31, 2013, based on the adverse development recorded for the prior accident years in their 2012 analysis. The actuary confirmed that the company booked an additional $273.3 million in loss and LAE reserves for the 2012 and prior accident years. The company's share of these reserves post pooling is $1.1 million.