Report

of the

Examination of

National Farmers Union Property and Casualty Company

Sun Prairie, Wisconsin

As of December 31, 2017

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**State of Wisconsin** / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 1, 2019

Honorable Mark V. Afable
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:

NATIONAL FARMERS UNION PROPERTY AND CASUALTY COMPANY
Sun Prairie, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of National Farmers Union Property and Casualty Company (NFU or the company) was conducted in 2013 as of December 31, 2012. The current examination covered the intervening period ending December 31, 2017, and included a review of such 2018 and 2019 transactions as deemed necessary to complete the examination.

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

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the “Financial Data” section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on 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 Department of Insurance. National Farmers Union Property and Casualty Company is a part of a large intercompany pooling arrangement. The actuary reviewed the adequacy of the company’s loss and loss adjustment expense reserves at the pool level. The actuary’s results were reported to the lead state examiner-in-charge and communicated to the participating states’ examiners- in charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.

## II. HISTORY AND PLAN OF OPERATION

The company was originally incorporated in 1945 in Utah and became licensed in Colorado in 1945. NFU was incorporated under the laws of the state of Colorado on December 5, 1984. The company was granted a license on December 16, 1985, and commenced business on December 31, 1986.

On September 30, 2005, QBE Reinsurance Corporation (QBE Re) purchased the company from One Beacon Insurance Group, LLC. Effective October 31, 2008, General Casualty Company of Wisconsin (GC-WI) purchased 100% interest of NFU and its wholly owned subsidiary, United Security Insurance Company (USIC), from QBE Re. GC-WI is a wholly owned subsidiary of QBE Regional Companies (N.A.), Inc., (QBE Regional) with the ultimate parent being Australian-based QBE Insurance Group Limited (QBE Limited). Effective January 1, 2009, NFU transferred ownership of USIC to GC-WI through a dividend transaction. Effective October 1, 2010, NFU redomiciled from Colorado to Wisconsin.

Currently, NFU records paid-up capital of $4,200,000 consisting of 4,200,000 shares of common stock with a $1.00 par value each. The company has 5,000,000 shares authorized. All outstanding shares of NFU are owned by GC-WI.

GC-WI effectively heads its own holding company subsystem under QBE Regional, consisting of six 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’ investments Global Investment Services Master Agreement, 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 2017, the company wrote direct premium in the following states:

| | | |
|---|---|---|
| North Dakota | $ 44,522,780 | 24.2% |
| Colorado | 37,749,156 | 20.5 |
| Minnesota | 20,144,362 | 10.9 |
| Montana | 19,853,185 | 10.7 |
| Kansas | 14,834,903 | 8.1 |
| South Dakota | 13,442,050 | 7.3 |
| All others | 33,680,112 | 18.3 |
| Total | $184,226,548 | 100.0% |

The company is licensed in District of Columbia and all states with the exception of Florida.

NFU is one of the 16 companies that comprise the QBE North America Pooled Entities (collectively referred to as “QBENA”) at year-end 2017. QBENA includes GC-WI, General Casualty Insurance Company (GCIC), Hoosier Insurance Company (Hoosier), NAU Country Insurance Company (NAU), North Pointe Insurance Company (North Pointe), Praetorian Insurance Company (Praetorian), QBE Insurance Corporation (QBEIC), QBE Re, QBE Specialty Insurance Company (Specialty), Regent Insurance Company (Regent), Southern Fire & Casualty Company (SFire), Southern Pilot Insurance Company (SPilot), Stonington Insurance Company (Stonington), Unigardins, and Unigard Indemnity Company (UnigardInd).

QBENA operates as a group of property and casualty, admitted lines insurers, and reinsurers that market a broad range of property and casualty lines, including personal, commercial, agriculture, crop, and specialty products through captive agents, independent agents, major brokers, and program managers.

The following table is a summary of the net insurance premiums written by the company in 2017. 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 | $ 1,682,987 | $ 983,894 | $ 1,682,988 | $ 983,893 |
| Allied lines | 10,039,839 | 23,283,358 | 10,039,839 | 23,283,358 |
| Farmowners multiple peril | 32,584,949 | 683,574 | 32,584,949 | 683,574 |
| Homeowners multiple peril | 19,407,144 | 7,713,915 | 19,407,144 | 7,713,915 |
| Commercial multiple peril | 9,856,178 | 1,129,448 | 9,856,177 | 1,129,448 |
| Mortgage guaranty | | | | |
| Ocean marine | | (13,224) | | (13,224) |
| Inland marine | 959,266 | 1,063,564 | 959,266 | 1,063,564 |
| Medical professional liability - claims made | | 384,622 | | 384,622 |
| Earthquake | | 195,695 | | 195,695 |
| Group accident and health | | 6,016,765 | | 6,016,765 |
| Other accident and health | | 122,764 | | 122,764 |
| Workers' compensation | | 5,138,601 | | 5,138,601 |
| Other liability – occurrence | 4,101,637 | 1,685,263 | 4,101,637 | 1,685,263 |
| Other liability – claims made | 716,663 | 3,692,963 | 716,663 | 3,692,963 |
| Excess workers' compensation | | (73,603) | | (73,603) |
| Products liability – occurrence | | (16,754) | | (16,754) |
| Products liability – claims made | | (226) | | (226) |
| Private passenger auto liability | 45,846,437 | 1,294,363 | 45,846,437 | 1,294,363 |
| Commercial auto liability | 1,725,436 | 490,393 | 1,725,436 | 490,393 |
| Auto physical damage | 57,215,660 | 1,716,782 | 57,215,660 | 1,716,782 |
| Aircraft (all perils) | | 1,419,059 | | 1,419,059 |
| Fidelity | | 32,248 | | 32,248 |
| Surety | 89,290 | 282,470 | 89,290 | 282,470 |
| Burglary and theft | 1,058 | 2,830 | 1,058 | 2,830 |
| Credit | | (2,003) | | (2,003) |
| International | | 837,640 | | 837,640 |
| Warranty | | | | |
| Reinsurance – non-proportional assumed property | | 1,156,496 | | 1,156,496 |
| Reinsurance – non-proportional assumed liability | | 1,795,664 | | 1,795,664 |
| Reinsurance – non-proportional assumed financial lines | | 1,585 | | 1,585 |
| Total all lines | $184,226,547 | $61,018,146 | $184,226,544 | $61,018,149 |

## III. MANAGEMENT AND CONTROL

### Board of Directors

The board of directors consists of seven members. All directors are elected annually to serve a one-year term. Effective February 2016, once an individual is appointed an officer, he or she holds such position until his or her replacement, removal from office, termination of employment or such other event as specified in the company's bylaws, whichever first occurs. Some of the members of the company's board of directors 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. Outside board members receive compensation inclusive of all board and committee appointments. The compensation of all outside board members includes the same fixed sum and expenses for attendance at meetings of the board of directors. The board chair currently receives $225,000 per year. The board members receive $135,000 per year for serving on the board and an additional $10,000 for the committee they chair.

Currently, the board of directors consists of the following persons:

| Name and Residence | Principal Occupation | Term Expires |
|---|---|---|
| Russell M. Johnston<br>Fair Haven, NJ | Chief Executive Officer<br>QBE Americas, Inc. | 2019 |
| Kris L. Hill<br>Summit, NJ | Chief Financial Officer<br>QBE Americas, Inc. | 2019 |
| Laurie Harris<br>New York, NY | None | 2019 |
| William Kronenberg III<br>Chester Springs, PA | Principal<br>Fresh Start Development Co LLC | 2019 |
| George T. Tate<br>Oyster Bay, NY | None | 2019 |
| Marc G. Metcalf<br>San Francisco, CA | Self Employed | 2019 |
| John G. Langione<br>Brick, NJ | Chief Risk Officer<br>QBE Americas, Inc. | 2019 |

**Officers of the Company**

Executive compensation is allocated to each insurer based on its participant percentage in the intercompany pooling arrangement. The 2017 Compensation, reported below, represents the total gross compensation paid to each individual on behalf of all companies which are part of QBE North America. The officers serving at the time of this examination are as follows:

| Name | Office | 2017 Compensation |
|---|---|---|
| Russell Johnston | Chief Executive Officer | $1,535,422 |
| Kris Hill | Chief Financial Officer | 866,963 |
| John Langione | Chief Risk Officer | 1,205,771 |
| Robert James* | Chief Operating Officer | 1,197,239 |
| Jeffrey Grange | President – Specialty | 1,593,879 |
| Mark Cantin | President – Field Operations | 1,117,429 |
| Shruti Patel | Chief Human Resources Officer | 706,175 |
| Tony Cacchione** | Chief Information Security Officer | 707,196 |
| Daniel Franzetti | Chief Claims Officer | 707,481 |
| Jose Gonzalez | Chief Legal Officer | 864,201 |
| Gregory Giardiello | Chief Accounting Officer | 474,078 |
| Sarah Krutov *** | Chief Actuary | 633,640 |
| John Beckman**** | Chief Underwriting Officer | 0 |

* Was replaced by Daniel Franzetti during 2018
** Was replaced by Tony Gonzalez during 2018
*** Was replaced by Kristen Bessette during 2018
**** Was newly appointed during 2018

**Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

**Audit Committee**
Laurie Harris, Chair
William Kronenberg III
Marc Metcalf
George Tate

**Investment Committee**
George Tate, Chair
Kris Hill
Russell Johnston
John Langione

**Remuneration Committee**
William Kronenberg III, Chair
Laurie Harris
Marc Metcalf
George Tate

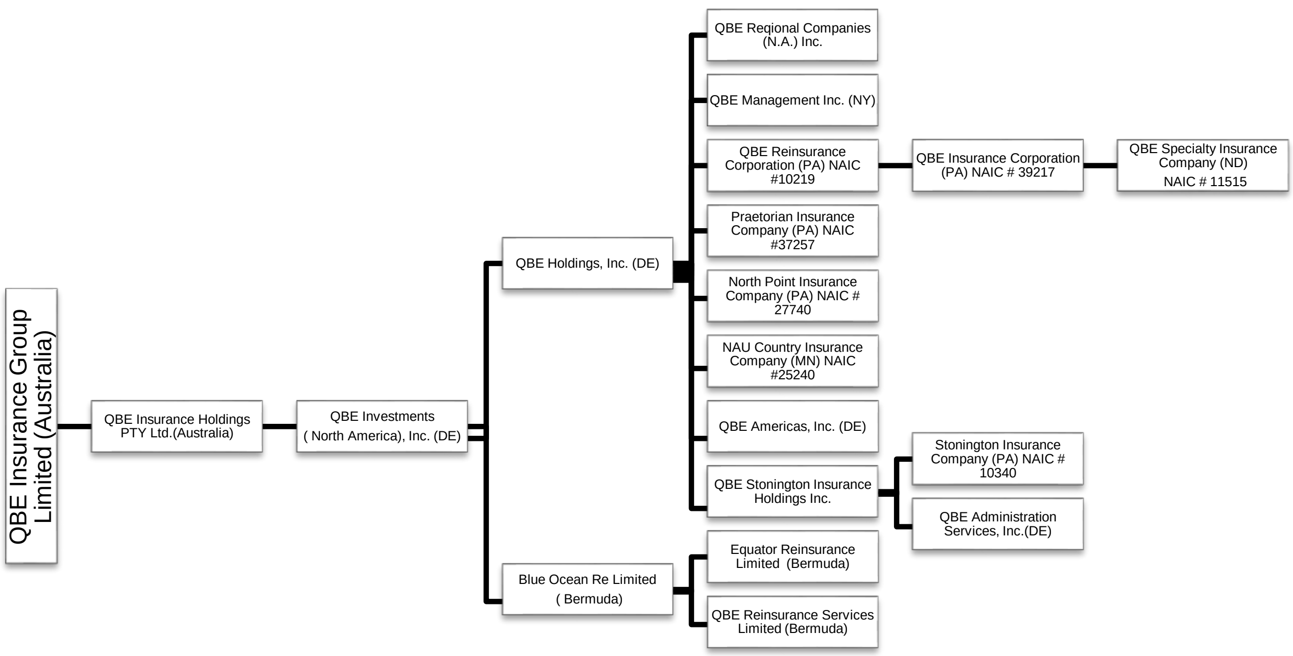
**Risk & Capital Committee**
Marc Metcalf, Chair
Kris Hill
Russell Johnston
William Kronenberg III
John Langione

## IV. AFFILIATED COMPANIES

NFU is a member of a holding company system in which the ultimate parent is QBE 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 122 subsidiaries in its holding company system on December 31, 2017. 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.

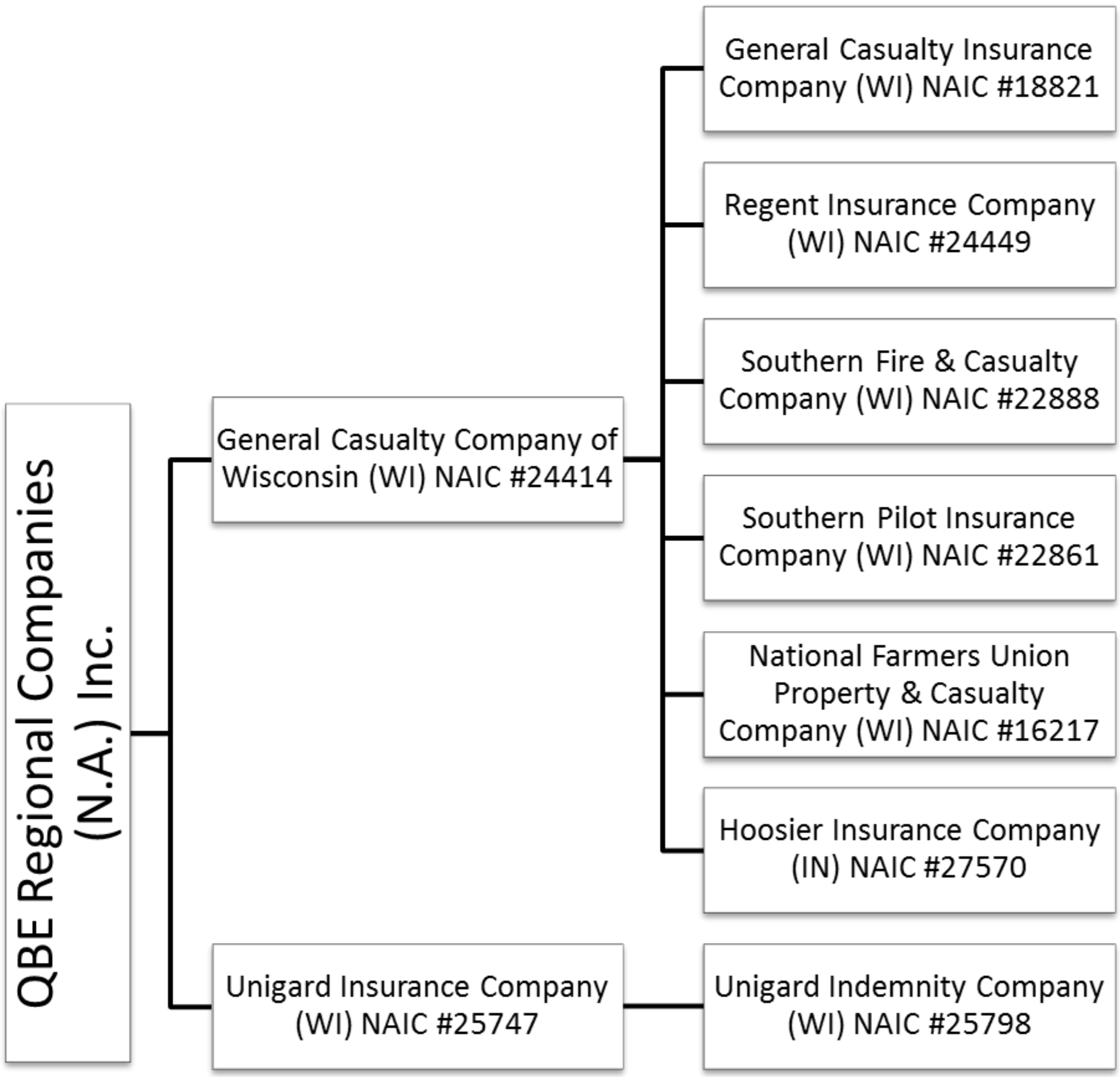
**Organizational Chart**

**QBE Holding Company System-Abbreviated**
**As of December 31, 2017**



**Organizational Chart**

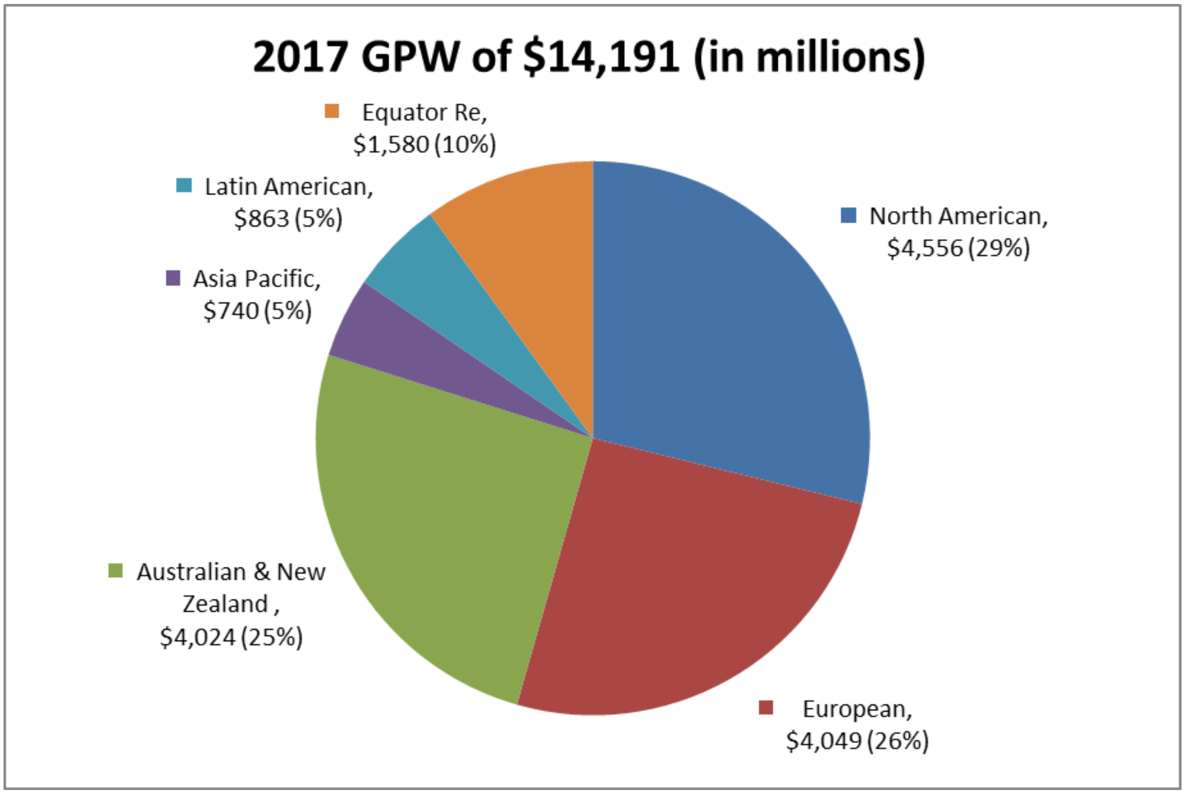
**QBE Regional Companies (N.A) Inc. and subsidiaries**




**QBE Insurance Group Limited**

QBE Limited was formed in 1886 in Townsville, Australia. Currently, the headquarters of QBE Limited is 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 36 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 2017 gross premium written (GPW).




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

**Australian & New Zealand**
This segment conducts general insurance operations throughout Australia and New Zealand providing all major lines of insurance coverage for personal and commercial risks.

**Asia Pacific**
This segment conducts general insurance operations in the Asia Pacific region, including 15 countries, providing coverage for personal, commercial, and specialty risks, which include 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**
This segment conducts general insurance and reinsurance operations in the United States through four specialist business units: Financial Partner Services, Property & Casualty, Crop, and Reinsurance. The headquarters is located in New York. QBE Limited first established a presence in the Americas in 1991.

**Latin American**
This segment 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. More than 99% of the holding company group's investments are managed in-house.

As of December 31, 2017, the audited financial statements of QBE Limited reported (in U.S. dollars) assets of $43.9 billion, liabilities of $35.0 billion, and shareholders' equity of $8.9 billion. Operations for 2017 produced a comprehensive net loss of $1,371 million.

**QBE Insurance Holdings PTY Ltd. (Australia)**

QBE Insurance Holdings Pty Ltd. (Australia) (QBE Insurance Holdings) is a non-operating holding company for QBE's Australian and New Zealand, Asia Pacific, Latin American, North American, and European operations, as well as Equator Reinsurances Limited and QBE Strategic Capital Company Pty Limited (worldwide regulated insurance entities). As of December 31, 2017, the audited financial statements of QBE Insurance Holdings reported assets of $11,559 million, liabilities of $776 million, and net assets of $10,783 million. Operations for 2017 produced a net gain of $491 million.

**QBE Investments (North America), Inc.**

QBE Investments (North America), Inc., (QBE Investments) is an intermediate holding company for the North American segment. As of December 31, 2017, the financial report of QBE Investments, provided assets of $6,793.2 million, liabilities of $500.2 million, and shareholders' equity of $6,293.1 million. Operations for 2017 produced a net loss of $108 million and net investment income of $114.3 million.

**QBE Holdings, Inc.**

QBE Holdings, Inc., is an intermediate holding company for the North American segment. As of December 31, 2017, the financial report of QBE Holdings, Inc., provided assets of $5,099.3 million, liabilities of $452.5 million, and shareholders' equity of $4,646.8 million. Operations for 2017 produced a net loss of $941.7 million and a net investment loss $61.1 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 are allocated to appropriate business units). As of December 31, 2017, the audited financial statements of QBE Americas, Inc., reported assets of $236.2 million, liabilities of $163.5 million, and shareholders' equity of $72.7 million. Operations for 2017 produced a net loss of $13.4 million on revenues of $596 million and a net investment income $1.4 million.

**QBE Reinsurance Corporation**

QBE Re's principal business is underwriting property and casualty reinsurance business, which is primarily obtained through reinsurance intermediaries. As of December 31, 2017, the combined audited financial statements of QBE North America reported QBE Re having assets of $1billion, liabilities of $258.4 million, and capital and surplus of $773.0 million. Operations for 2017 produced a net loss of $3.3 million on premiums of $180.3 million and net investment income of $5.0 million.

**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, 2017, the combined audited financial statements of QBE North America reported QBEIC having assets of $2.1 billion, liabilities of $1.4 billion, and capital and surplus of $678 million. Operations for 2017 produced a net loss of $23.7 million on premiums of $907.6 million and net investment income of $31.7 million.

**QBE Specialty Insurance Company**

Specialty 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, 2017, the combined audited financial statements of QBE North America reported Specialty having assets of $363.4 million, liabilities of $246.4 million, and capital and surplus of $117.0 million. Operations for 2017 produced a net loss of $5.1 million on premiums of $149.2 million and a net investment income of $4.1 million.

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

QBE Regional is the holding company for GC-WI, UnigardIns, and subsidiaries. As of December 31, 2017, the financial report of QBE Regional provided assets of $771 million, liabilities of $1.25 million, and shareholders' equity $769.7million. Operations for 2017 produced a net loss of $205.5 million.

**General Casualty Company of Wisconsin**

GC-WI provides personal and commercial property and casualty insurance coverages primarily to midwestern areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported GC-WI having assets of $797 million, liabilities of $ 546 million, and capital and surplus of $ 251 million. Operations for 2017 produced a net loss of $11 million on premiums of $373.0 million and net investment income of $8.4 million.

**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, 2017, the combined audited financial statements of QBE North America reported GCIC having assets of $9.5 million, liabilities of $ 1.9 million, and capital and surplus of $ 7.6 million. Operations for 2017 produced net income of $0.04 million and net investment income of $0.04 million.

**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, 2017, the combined audited financial statements of QBE North America reported Regent having assets of $40.9 million, liabilities of $8.7 million, and capital and surplus of $32.2 million. Operations for 2017 produced net income of $0.4 million and net investment income of $0.4 million.

**Hoosier Insurance Company**

Hoosier provides personal and commercial property and casualty insurance coverages in the State of Indiana. As of December 31, 2017, the combined audited financial statements of QBE North America reported Hoosier having assets of $7.8 million, liabilities of $0.6 million, and capital and surplus of $7.3 million. Operations for 2017 produced a net loss of $0.1 million and net investment income of $0.1 million.

**Southern Pilot Insurance Company**

SPilot provides personal and commercial property and casualty insurance coverages to southeastern areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported SPilot having assets of $7.0 million, liabilities of $0.1 million, and capital and surplus of $6.9 million. Operations for 2017 produced net income of $0.04 million and net investment income of $0.05 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, 2017, the combined audited financial statements of QBE North America reported SFire having assets of $7.2 million, liabilities of $0.07 million, and capital and surplus of $7.2 million. Operations for 2017 produced net income of $0.5 million and net investment loss of $0.07 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, 2017, the combined audited financial statements of QBE North America reported UnigardIns having assets of $394.6 million, liabilities of $298.1 million, and capital and surplus of $96.5 million. Operations for 2017 produced a net loss of $5.3 million on premiums of $186 million and net investment income of $4.8 million.

**Unigard Indemnity Company**

UnigardInd provides personal and commercial property and casualty insurance coverages to western areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported UnigardInd having assets of $7.6 million, liabilities of $0.1 million, and capital and surplus of $7.5 million. Operations for 2017 produced net income of $0.07 million and net investment income of $0.07 million.

**Praetorian Insurance Company**

Praetorian concentrates on writing specialty property and casualty coverage not generally emphasized by standard insurance carriers. As of December 31, 2017, the combined audited financial statements of QBE North America reported Praetorian having assets of $453.9 million, liabilities of $242.1 million, and capital and surplus of $211.8 million. Operations for 2017 produced a net loss of $10.1 million on premiums of $149.2 million and net investment income of $6.1 million.

**North Pointe Insurance Company**

North Pointe provides commercial property and casualty insurance coverages to northeastern areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported North Pointe having assets of $20.5 million, liabilities of $9.2 million, and capital and surplus of $11.2 million. Operations for 2017 produced net income of $0.2 million and net investment income of $0.2 million.

**QBE Stonington Insurance Holdings, Inc**.

QBE Stonington Insurance Holdings, Inc., (QBE Stonington) is holding company whose assets consist of its wholly owned subsidiaries: Stonington Insurance Company and QBE Administrative Services. As of December 31, 2017, the financial report of QBE Stonington reported assets of $37.9 million, liabilities of $1.2 million, and capital and net assets of $36.7 million. Operations for 2017 produced net income of $225 and net investment income of $2.2 million.

**Stonington Insurance Company**

Stonington provides commercial property and casualty insurance coverages to southwestern areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported Stonington having assets of $15.7 million, liabilities of $1.4 million, and capital and surplus of $14.3 million. Operations for 2017 produced net income of $0.1 million and net investment loss of $0.1 million.

**QBE Administration Services, Inc.**

QBE Administration Services, Inc., (QBEASI) is a legal entity registered under the law of State Delaware. QBEASI was formed on October 30, 2006. As of December 31, 2017, the financial report of QBESI reported assets of $0.6 million, liabilities of $0.2 million, and shareholders' equity of $0.4 million. Operations for 2017 produced a net loss of $0.2 million.

**NAU Country Insurance Company**

NAU provides property and casualty insurance coverages with specialization in crop insurance. As of December 31, 2017, the combined audited financial statements of QBE North America reported NAU having assets of $966.9 million, liabilities of $684.3 million, and capital and surplus of $282.6 million. Operations for 2017 produced a net loss of $15.4 million on premiums of $478.6 million and net investment income of $12.7 million.

**QBE Management Inc. (NY)**

QBE Management Inc., (NY) (QBE Management) is a management services company. As of December 31, 2017, the financial report of QBE Management reported assets of $3.9 million, liabilities of $4.0 million, and net liabilities of $100 thousand. Operations for 2017 produced a net loss of $383 thousand.

**Blue Ocean Re Limited**

QBE Blue Ocean Re Limited (Blue Ocean Re) was established in response to the introduction of the base erosion anti-abuse tax (BEAT) as a part of the US Tax Reform Act in December 2017. The company replaced Equator Re as the captive reinsurer for the QBE North American operations. Blue Ocean Re is a wholly owned subsidiary of QBE Investments North

America, Inc., based in Delaware. The company commenced operations at the beginning of 2018.

**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, 2017, the audited financial statements of Equator Re reported (in U.S. dollars) assets of $10,034 million, liabilities of $9,096 million, and shareholders' equity of $937.6 million. Operations for 2017 produced a net loss of $457.5 million on premiums of $2,227.6 million and net investment income of $162.5 million.

**QBE Reinsurance Services Limited (Bermuda)**

QBE Reinsurance Services (Bermuda) Limited (QBE Rein Services), incorporated in 2018, is a service entity that centralizes Bermuda's Equator Re division expenses and then recharges them to the other entities within Equator Re division. As of December 31, 2018, the financial report of QBE Rein Services reported assets of $8,964 thousand, liabilities of $8,969 thousand, and net liabilities of $5 thousand. Operations for 2018 produced a net loss of $5 thousand.

**Agreements with Affiliates**

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

**Global Investment Services Master Agreement**

Effective January 1, 2017, various companies within the QBE Insurance Group, including QBENA, other U.S. affiliates and non-U.S. affiliate counterparties, and QBE Group Services, Pty Limited entered into the Global Investment Services Master Agreement. The objectives of this agreement are to achieve: 1) a consistent set of terms that apply globally within the QBE Insurance, 2) a single document that applies globally and covers both investment management and advisory arrangements, and 3) a document that is easy to administer and keep up to date. The Global Investment Services Master Agreement replaces the individual management agreements for QBENA.

**Multinational Cooperation Agreement**

Effective January 1, 2017 QBENA (excluding NAU), the non-US affiliated entities of QBE Insurance (Australia) Limited, as well as the New Zealand Branch, QBE Underwriting Limited, QBE Insurance (Europe) Limited (including the Danish, French, German, Italian, Spanish, and Swedish branches), QBE Services, Inc., QBE Hong Kong & Shanghai Insurance Limited, QBE Insurance (Singapore) Pte Ltd, QBE de Mexico Compania de Seguros, S.A. de C.V., QBE Seguros S.A., QBE Seguros La Buenos Aires S.A., and affiliated reinsurer Equator Reinsurances Limited entered into this agreement. Under this agreement, the QBE “Producing Offices” provide business referrals to the “Insurer” or “Servicing Offices”, and the Servicing Office issues and services the local policies in line with the requirements providing by the business referral and the stipulations and guidelines prescribed by this agreement.

**Multinational Client Centre Agreement for the Provision of Services**

Effective January 1, 2017, QBENA (excluding NAU), QBE Group Services Pty LTD (QGS), QBE Americas, Inc., QBE Management Services Pty Limited, QBE Management Services (UK) Limited, and listed QBE North America entities, entered into this agreement. The agreement covers the provision of administrative services by the service providers to the producing offices in serving clients.

**Variation Agreements**

Effective August 1, 2018, the QBENA entities (excluding NAU) entered into separate Variation Agreements. Under these agreements, Blue Ocean Re replaced Equator Re as the reinsurer under the Multinational Cooperation Agreement.

**Intercompany Cost Allocation and Management Services Agreement**

Effective with the latest amendment on December 30, 2017, the company entered into this service agreement QBE Investments and subsidiaries. In accordance with this agreement, QBE Americas and Unigard Ins 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, with settlement due within 15 days of receipt. The agreement may be terminated with 90-days' written notice.

**Services Agreement**

Effective with the latest amendment on September 30, 2015, QBE FIRST Insurance Agency, Inc., (QBE FIRST), and the QBE Regional companies entered into this services agreement. The purpose of the agreement is to allow QBE FIRST to provide the QBE Regional companies with specific policy and claims services for certain personal lines business (as outlined in Schedule A of the agreement). The QBE Regional companies each pay QBE FIRST a service commission of 3% of the net personal lines renewal premium, which is 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. Amendment Number One, effective September 30, 2015, replaced QBE FIRST Insurance Agency, Inc., with Westwood Insurance Agency (to reflect the entity performing the services).

**Agency Agreement**

Effective with the latest amendment on September 30, 2015, QBE First, the QBE Regional companies, and QBEIC entered into this agency agreement. The purpose of the agreement is to allow QBE FIRST to operate as an agent 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, which 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. Amendment Number One, effective September 30, 2015, replaced QBE FIRST Insurance Agency, Inc., with Westwood Insurance Agency (to reflect the entity performing the services).

**Tax Sharing Agreement**

Effective April 1, 2017, QBE Investments, and listed 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 had 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 five 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.

**General Agency Crop Insurance Agreement**

Effective October 1, 2012, NFU entered into a General Agency Crop Insurance Agreement with an affiliate, NAU, effective October 1, 2012. Per the agreement, NFU appoints NAU as its general agent to supervise and conduct the writing of crop insurance business, effective for the 2013 and subsequent crop years. Under the agreement, crop insurance includes but is not limited to multiple peril crop insurance reinsured by the Federal Crop Insurance Corporation, crop hail insurance, and named peril insurance (inclusive of livestock insurance).

## V. REINSURANCE

The company's reinsurance portfolio and strategy are 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.

**Second 2017 Revision of the 1976 QBE North America Pooling 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 second 2017 revision of the 1976 QBE North America Pooling Agreement was designed to reaffirm the basic provisions of the 1976 agreement, as previously amended, and to remove Blue Ridge Indemnity Company (BlueInd) from the agreement and assign all of the rights, duties, and liabilities of BlueInd under the agreement to GC-WI effective April 1, 2017.

Pool participants have entered into certain quota share and/or loss portfolio agreements in which sessions are made prior to participation in the pooling arrangement. These reinsurance agreements are discussed below, as applicable to the company. Aside from these sessions, participants cede 100% of net written premiums, net losses, and net loss adjustment 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 April 1, 2017:

| Company Name | Percentage |
|---|---|
| QBE Insurance Corporation | 36.50% |
| NAU Country Insurance Company | 19.25 |
| General Casualty Company of Wisconsin | 15.00 |
| Unigard Insurance Company | 7.50 |
| QBE Reinsurance Corporation | 7.25 |
| Praetorian Insurance Company | 6.00 |
| QBE Specialty Insurance Company | 6.00 |
| National Farmers Union Property and Casualty Company | 2.50 |
| General Casualty Insurance Company | 0.00 |
| Hoosier Insurance Company | 0.00 |
| North Pointe Insurance Company | 0.00 |
| Regent Insurance Company | 0.00 |
| Southern Fire & Casualty Company | 0.00 |
| Southern Pilot Insurance Company | 0.00 |
| Stonington Insurance Company | 0.00 |
| Unigard Indemnity Company | 0.00 |

Monthly accounting of all activity and information relative to policies affected by 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. Each participant shall have the opportunity to review and approve any and all reinsurance transactions which in any way may affect the agreement. The agreement may be terminated by any participant at the end of any treaty year by providing at least one-year prior written notice to the remaining parties to the agreement.

**Affiliated Ceding Contracts**

**Multiple Line Quota Share Reinsurance Agreement**

Effective October 1, 2012, NFU and NAU entered into a quota share reinsurance agreement. NAU reinsures 100% of the company's net liability with respect to all crop hail, multiple-peril crop, and livestock protection insurance. NAU is credited with 100% of the company's net premiums written for new business. The company receives a ceding commission of 1.25% net premium written. The company shall prepare an accounting statement of the reinsurer's obligations 50 days prior to the end of each calendar quarter. Settlement 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.

**Blue Ocean Second Amended and Restated Loss Portfolio Transfer and Quota Share Reinsurance Agreement**

Effective January 1, 2015, current or future associate, subsidiary, and affiliated companies of QBENA entered into a quota share agreement with the affiliate, Equator Re. Equator Re reinsures 40% of the QBENA companies' net liability with respect to all direct and assumed business underwritten except that which is specifically excluded. The agreement was amended effective October 1, 2015, to terminate reinsurance under the agreement on business classified as mortgage and lender services on a cut-off basis, as respects all QBENA. Effective January 1, 2016, the agreement was amended the second time to change the terms of the agreement from a calendar year basis to loss occurring basis under policies in force as of January 1, 2016 (with effective dates of January 1, 2015, and later) and policies written or renewed with effective dates thereafter, as respects all QBENA Wisconsin-domiciled companies and certain listed companies. Furthermore, the agreement was amended to terminate SGty effective January 1, 2017, and again amended effective April 1, 2017, to terminate BlueInd.

In addition to the quota share agreement, the loss portfolio agreement was entered into January 1, 2016, whereby Equator Re reinsures 31% of the ultimate net liability and extra-contractual obligations and loss in excess of policy limits incurred and recorded to the cedents' (GC-WI, GCIC, Regent, BlueInd, SGty, SPilot, SFire, NFU, UnigardIns, UnigardInd, Specialty, QBE Re, QBEIC, Praetorian, North Pointe, Stonington, Hoosier, and NAU's) financial statements as of December 31, 2015, except that which is specifically excluded under the loss portfolio transfer agreement. The agreement was amended to terminate SGty effective January 1, 2017, and again amended effective April 1, 2017, to terminate BlueInd.

Effective December 31, 2017, GC-WI, North Pointe, Praetorian, QBEIC, Specialty, and Stonington (the cedents) and Equator Re agreed to amend, restate, and consolidate such that increase the aforementioned 40% quota share agreement and the aforementioned 31% loss portfolio transfer agreement to 100% quota share of covered losses, whenever occurring, under policies issued or assumed by the cedents that are included in certain discontinued programs.

Effective January 1, 2018, the cedents and Equator Re and QBE Blue Ocean Limited (Blue Ocean Re) entered into the second amended and restated loss portfolio and quota share reinsurance agreement. All parties agreed that Equator Re assumes 100% quota share of covered losses occurring on or before December 31, 2017, and Blue Ocean assumes 100% quota share of covered losses occurring on or after January 1, 2018. Covered losses include ultimate net loss, third-party administrator expenses, extra-contractual obligations, loss in excess of policy limits, premium payable under the inuring reinsurance agreements applicable to discontinued programs, and assessments related to the Michigan Catastrophic Claims Association (MCCA) and any similar assessments. On the effective date, an initial reinsurance premium should be transferred from the Equator Re trust account to Blue Ocean trust account. This amount equals to the unearned premium from reinsured policies as of January 1, 2018. Additional reinsurance premium is equal to 60% of premium written from policies as regards the

Community Association Underwriters of America, Inc., program, 67.712% of premium written from policies as regards all other discontinued programs, or 100% of amount paid by third-party reinsurers, received from the MCCA, salvage, litigation or arbitration recoveries. A ceding commission of 100% of net program expenses incurred is allowed to be deducted from the reinsurance premium. The agreement shall continue in force until such time as the reinsurers' liability with respect to covered losses terminates, which will be the earlier of (1) the date the cedents' liability with respect to the discontinued programs is terminated and all amounts due to the cedents under this agreement with respect to the discontinued programs are paid or (2) the date on which this agreement is terminated by the mutual written consent of the parties.

**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 the development of their ceded reinsurance portfolio. The catastrophic and excess of loss coverages encompass 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.

**Blue Ocean Trade Credit Quota Share Agreement**

In addition to the trade credit excess of loss reinsurance agreement described in Exhibit A, effective January 1, 2018, subsidiaries and associated companies of QBE Limited entered into a quota share agreement with the affiliate, Blue Ocean. Blue Ocean reinsures 40% of the cedents' net loss with respect to business written and classified as credit risk, political risk, and surety except that which is specifically excluded. The cedents receive a ceding commission based on a sliding scale according to which provisional ceding commission is 36% (and shall be payable at a loss ratio of 61%), the maximum ceding commission is 50%, and minimum ceding commission is 28% of gross net premium income. A quarterly accounting of all activity pursuant to the agreement is to be provided within 45 days after the close of each quarter. Settlements of any amounts due shall be completed within 15 days after the receipt of accounting activity.

**Equator Re Novation Agreement**

Effective January 1, 2018, all companies affiliated with QBENA entered into a novation agreement with an affiliate, Equator Re, and an affiliate, Blue Ocean. Blue Ocean assumes all existing and future rights, liabilities, duties, and obligations of Equator Re under certain reinsurance agreements between QBENA and Equator Re with the same effect as if Blue Ocean Re had originally entered into the reinsurance agreements with QBENA.

For that reason, Blue Ocean is the reinsurer of any following affiliated ceding reinsurance agreements described in the "REINSURANCE" section to replace Equator Re, effective January 1, 2018.

**Reinsurance Trust Agreement**

Pursuant to s. Ins 52.05, Wis. Adm. Code, effective March 29, 2012, GC-WI, GCIC, Regent, SPilot, SFire, UnigardIns, UnigardInd, Hoosier Insurance Company, and National Farmers Union Property and Casualty Company have entered into three reinsurance trust agreements with Equator Re and Citibank, N.A. (the Trustee).

After the creation of Blue Ocean, GC-WI, GCIC, Regent, SPilot, SFire, UnigardIns, UnigardInd, Hoosier, and NFU (the beneficiaries) entered into three reinsurance trust agreements with Blue Ocean and the same Trustee, effective May 17, 2018.

Blue Ocean secures payments of amounts due to the company under any reinsurance agreements entered into by the beneficiaries and Blue Ocean by transferring assets to the Trustee for deposit into the trust accounts for the sole benefit of the beneficiaries. The agreements may be terminated by the beneficiaries by at least 45-days' and not more than 60-days' written notice to Blue Ocean and the Trustee and may be terminated by Blue Ocean Re by at least 45-days' and not more than 60-days' written notice to the beneficiaries and the Trustee. Blue Ocean is responsible for reimbursing the Trustee for its fees and expenses under the reinsurance trust agreements.

**Nonaffiliated Ceding Contracts**

| | | |
|---|---|---|
| 1. | Type: | Quota Share |
| | Reinsured: | QBE Insurance Corporation including all owned or affiliated companies comprising “QBENA” |
| | Reinsurer: | The Hartford Steam Boiler Inspection and Insurance Company (Hartford Ins) |
| | Scope: | Cyber Risk |
| | Coverage: | 100% of the liability for losses covered under a cyber risk coverage form attaching to its policies, subject to certain exclusions |
| | Limit: | $100,000 annual aggregate per policy for computer attack; $100,000 annual aggregate per policy for network security liability |
| | Premium: | For the risks submitted for special acceptance, the cedents shall pay Hartford Ins a reinsurance premium as set forth in the written quotation.<br><br>For all other covered policies, the cedents shall pay Hartford Ins a reinsurance premium calculated in accordance with the rates contained in the cyber risk guidelines. |
| | Ceding Commission: | 35% of reinsurance premium ceded; no ceding commission for QBE AmRisc Program policies |
| | Effective date: | February 1, 2015 |
| | Termination: | Unlimited duration but may be terminated with 30-days’ written notice by either party |
| 2. | Type: | Quota Share |
| | Reinsured: | QBE Insurance Corporation, including all owned or affiliated companies comprising “QBENA” |
| | Reinsurer: | The Hartford Steam Boiler Inspection and Insurance Company |
| | Scope: | Data Compromise |
| | Coverage: | 100% of the liability for losses covered under a data compromise coverage form attaching to its policies, subject to certain exclusions |
| | Limit: | $1 million annual aggregate per policy for response expenses; $1 million annual aggregate per policy for defense and liability |
| | Premium: | For the risks require referral to Hartford Ins or may be submitted for special acceptance, the cedents shall pay Hartford Ins a reinsurance premium as set forth in the written quotation. |

For all other covered policies, the cedents shall pay Hartford Ins a reinsurance premium calculated in accordance with the rates contained in the data compromise guidelines.

Effective date: February 1, 2015

Termination: Unlimited duration but may be terminated with 30-days' written notice by either party

3. Type: Quota Share

Reinsured: QBE Insurance Corporation including all owned or affiliated companies under common control

Reinsurer: The Hartford Steam Boiler Inspection and Insurance Company

Scope: Employment Practices Liability (EPL)

Coverage: 100% of liability for losses (including defense costs) under an EPL coverage from attached to new and renewal policies written through the QBENA Small Business Unit and 80% of liability for losses (including defense costs) under an EPL coverage from all other attached to new and renewal policies, subject to certain exclusions

Limit: As concerns policies written through the QBENA Small Business Unit, Hartford Ins' liability for loss shall not exceed $1 million, subject to $1 million annual aggregate limit in the policy.

As concerns all other covered policies, Hartford Ins' liability for each wrongful employment act shall not exceed $1 million, subject to $1 million annual aggregate limit in the policy.

Premium: For the risks require referral to Hartford Ins or may be submitted for special acceptance, the cedents shall pay Hartford Ins an 80% quota share of reinsurance premium (shall pay Hartford Ins an agreed reinsurance premium as respects policies written through the QBENA Small Business Unit) as set forth in the written quotation, unless otherwise mutually agreed in writing.

For all other covered policies, the cedents shall pay Hartford ins an 80% quota share of the EPL insurance premium (shall pay Hartford Ins a reinsurance premium as respects policies written through the QBENA Small Business Unit) calculated in accordance with the rates contained in the EPL guidelines.

The cedents shall also pay Hartford Ins an additional 22% of the cedents' share of the EPL insurance premium as an administrative cost allowance (no additional administrative cost allowance as respects policies written through the QBENA Small Business Unit).

Ceding Commission: 35% of reinsurance premium of each policy written through the QBENA Small Business Unit; no ceding commission for all other covered policies

| | |
|---|---|
| Effective date: | February 1, 2012 |
| Termination: | Unlimited duration but may be terminated with 30-days' written notice by either party |

4. Type: Quota Share

| | |
|---|---|
| Reinsured: | QBE Insurance Corporation including all owned or affiliated companies comprising "QBENA" (cedents) |
| Reinsurer: | The Hartford Steam Boiler Inspection and Insurance Company |
| Scope: | Equipment Breakdown |
| Coverage: | 100% of equipment breakdown liability with respect to accidents and electronic circuitry impairments, as well as with respect to accidents occurring under all risk excess program policies, subject to certain exclusions |
| Limit: | $100 million for any one accident and/or any one electronic circuitry impairment, any one policy |
| Premium: | For the risks require referral to Hartford Ins or may be submitted for special acceptance, the cedents shall pay Hartford Ins a reinsurance premium as set forth in the written quotation.<br><br>For all other covered policies, the cedents shall pay Hartford Ins a reinsurance premium calculated in accordance with the rates contained in the equipment breakdown underwriting guidelines. |

Ceding Commission:

| Business Segment | Ceding Commission |
|---|---|
| Policies issued for corporate business unit covering referral risks | 35% |
| Policies covering referral risks other than policies issued for corporate business unit | In the written reinsurance quotation |
| Policies written by UnigardIns or for the all-risk excess property program, other than policies covering referral risks | None |
| National Farmers Union Builders' risk policies and National Farmers Union policies including an AAIS equipment breakdown coverage part | 30% |
| All other covered policies | 35% |

Profit sharing Commission: 50% of the profit-sharing calculation (profit sharing commission does not apply to policies written for the all-risk excess property program), which is the plan losses less the sum of incurred losses and loss carryforward based on a 12-month period for each business segment. Plan losses are calculated by multiplying the plan loss ratio for each business segment by premiums earned. The loss ratio for policies written for program business unit other than all risk program is 47%; for corporate business unit is 42%; for commercial business unit, for referral risk policies and farm policies is 43%, for referral risk policies other than farm referral risk policies is 30%, and for farm policies is 47%. Loss carryforward is the carried forward loss resulting from the preceding profit-sharing calculation until fully amortized.

Effective date: January 1, 2015

Termination: Unlimited duration but may be terminated with 30-days' written notice by either party

5. Type: Quota Share

Reinsured: QBE Insurance Corporation including all owned or affiliated companies comprising QBENA

Reinsurer: The Hartford Steam Boiler Inspection and Insurance Company

Scope: Home systems protection and homeowners equipment breakdown

Coverage and limit:

| Class of Business | Coverage* | Limit |
|---|---|---|
| Home systems protection liability under policies as respects home system breakdown | 100% | $100,000 for any one home system breakdown, any one policy |
| Homeowners equipment breakdown liability under policies as respects accidents | 100% | 50,000 for any one accident, any one policy |
| Service line coverage liability under policies as respects service line failures occurring on or after August 31, 2017 | 100% | 10,000 for any one service line failure, any one policy |

*Coverages subject to certain exclusion

Premium: For the risks require referral to Hartford Ins or may be submitted for special acceptance, the cedents shall pay Hartford Ins a reinsurance premium as set forth in the written quotation.

For all other policies, the cedents shall pay Hartford Ins a reinsurance premium calculated in accordance with the rates contained in the home systems protection/equipment breakdown and service line guidelines, or the pro-rata portion for in-term transactions or odd-term policies.

Ceding Commission: 35% of reinsurance premium ceded; no ceding commission for the MDU renters program policies

| | |
|---|---|
| Profit sharing Commission: | 50% of the profit-sharing calculation, which is the plan losses less the sum of incurred losses and loss carryforward based on a 12-month period for each business segment. Plan losses are calculated by multiplying the plan loss ratio by premiums earned. The loss ratio is 45%. Loss carryforward is the carried forward loss resulting from the preceding profit-sharing calculation. |
| Effective date: | February 1, 2015 |
| Termination: | Unlimited duration but may be terminated with 30-days' written notice by either party |

6. Type: Quota Share

| | |
|---|---|
| Reinsured: | QBE Insurance Corporation including all owned or affiliated companies comprising "QBENA" |
| Reinsurer: | The Hartford Steam Boiler Inspection and Insurance Company (Hartford Ins) |
| Scope: | Cyber Suite |
| Coverage: | 100% of the liability for losses covered under a cyber suite coverage form attaching to its policies, subject to certain exclusions |
| Limit: | a) The reinsurers liability for cyber coverage shall not exceed $1,000,000 annual aggregate policy.<br>b) The reinsurers liability for identity recovery shall not exceed $25,000 annual aggregate as respects each identity recovery insured. |
| Premium: | For policies, other than policies covering referral risks, the company shall pay to the reinsurer a reinsurance premium calculated in accordance with the rates contained in the cyber suite guidelines.<br><br>In the event Referral Risks and/or special acceptances are covered hereunder, the Company shall pay to the Reinsurer the agreed reinsurance premium as set forth in the written quotation issued by the Reinsurer and accepted by the Company.<br><br>For all other covered policies, the cedents shall pay Hartford Ins a reinsurance premium calculated in accordance with the rates contained in the cyber risk guidelines. |
| Effective date: | October 1, 2017 |
| Termination: | Unlimited duration but may be terminated with 30-days' written notice by either party |

7. Type: Facultative Excess of Loss

| | |
|---|---|
| Insured: | Cove Point Apartments |

Coverage and limit:

| Class of Business | Coverage* | Limit |
|---|---|---|
| Home systems protection liability under policies as respects home system breakdown | 100% | $100,000 for any one home system breakdown, any one policy |
| Homeowners equipment breakdown liability under policies as respects accidents | 100% | 50,000 for any one accident, any one policy |
| Service line coverage liability under policies as respects service line failures occurring on or after August 31, 2017 | 100% | 10,000 for any one service line failure, any one policy |

*Coverages subject to certain exclusion

Premium: For the risks require referral to Hartford Ins or may be submitted for special acceptance, the cedents shall pay Hartford Ins a reinsurance premium as set forth in the written quotation.

For all other policies, the cedents shall pay Hartford Ins a reinsurance premium calculated in accordance with the rates contained in the home systems protection/equipment breakdown and service line guidelines, or the pro-rata portion for in-term transactions or odd-term policies.

Ceding Commission: 35% of reinsurance premium ceded; no ceding commission for the MDU renters program policies

Profit sharing Commission: 50% of the profit-sharing calculation, which is the plan losses less the sum of incurred losses and loss carryforward based on a 12-month period for each business segment. Plan losses are calculated by multiplying the plan loss ratio by premiums earned. The loss ratio is 45%. Loss carryforward is the carried forward loss resulting from the preceding profit-sharing calculation.

Effective date: February 1, 2015

Termination: Unlimited duration but may be terminated with 30-days' written notice by either party

8. Type: Facultative Excess of Loss

Insured: Cove Point Apartments

Reinsurer: Arch Re Facultative, a division of Arch Reinsurance Company/Arch Reinsurance Company

Participation: 100%

Scope: All real and personal property belonging to the insured or for which the insured is responsible or has assumed responsibility to

| | |
|---|---|
| | insure prior to the occurrence of any damage as a result of loss, destruction or damage by all risks of direct physical loss destruction or damage, subject to certain exclusions as defined in the original policy wording |
| Retention: | $2.5 million |
| Coverage: | $6.5 million in excess of $2.5 million per occurrence |
| Premium: | $3,811 |
| Commissions: | NIL |
| Effective date: | June 1, 2018 |
| Termination: | January 1, 2019 |
| 9. Type: | Quota Share |
| Reinsured: | QBE Insurance Corporation including all owned or affiliated companies comprising “QBENA” |
| Reinsurer: | The Hartford Steam Boiler Inspection and Insurance Company (Hartford Ins) |
| Scope: | Multinational Equipment Breakdown |
| Coverage: | 100% of equipment breakdown of the company’s business classified as “multinational”, as respects accidents and electronic circuitry impairments occurring under new and renewal policies, as defined herein, becoming effective on or after the effective date of this agreement |
| Limit: | The reinsurers liability shall not exceed $100,000,000 for any one accident and/or any one electronic circuitry impairment, any one policy. |
| Premium: | The company shall pay to the reinsurer 100% of the company’s gross equipment breakdown premium written, within the limits of this agreement, during this period is in effect on the business covered hereunder.<br><br>In the event special acceptances are covered hereunder, the company shall pay to the reinsurer the agreed reinsurance premium as set forth in the written quotation issued by the reinsurer and accepted by the company. |
| Effective date: | October 1, 2017 |
| Termination: | Unlimited duration but may be terminated with 30-days’ written notice by either party. |

| | |
|---|---|
| 10. Type | Quota Share |
| Reinsured: | NFU |
| Reinsurer: | Farmers Union Mutual Insurance Company |
| Scope: | Private Passenger Automobile and Farm Automobile Property and liability in the State of North Dakota |
| Coverage: | 10% of NFU's net liability with respect to direct business classified as private passenger auto and farm auto property and liability in the State of North Dakota, subject to certain exclusions |
| Premium: | NFU pays 10% of subject direct premium written<br><br>NFU receives a ceding commission of 34% of direct premium written and a profit-sharing commission. The profit-sharing commission is 50% of the net profit calculated as premiums earned less ceding commission, expenses of 10% premium earned, and losses incurred for the contract year.<br><br>Settlements of any balances due shall be completed within 30 days of each March 31. |
| Effective date: | April 1, 2008 |
| Termination: | Unlimited duration but may be terminated with 90-days' written notice by either party |
| 11. Type | Quota Share |
| Reinsured: | NFU |
| Reinsurer: | Farmers Union Mutual Insurance Company |
| Scope: | Private passenger automobile and farm automobile property and liability in the State of Montana |
| Coverage: | 10% of NFU's net liability with respect to direct business classified as private passenger auto and farm auto property and liability in the state of North Dakota, subject to certain exclusions |
| Limit: | $101,000 any one policy |
| Premium: | NFU pays 10% of subject direct premium written.<br><br>NFU receives a ceding commission of 35% of direct premium written and a profit-sharing commission. The profit-sharing commission is 50% of the net profit calculated as premiums earned less ceding commission, expenses of 10% premium earned, and losses incurred for the contract year.<br><br>Settlements of any balances due shall be completed within 15 days after receipt of the quarterly report. |
| Effective date: | January 1, 2009 |

| | |
|---|---|
| Termination: | Unlimited duration but may be terminated with 90-days' written notice by either party |

**Exhibit A**
**QBE North America**
**2018 Excess of Loss and Catastrophe Reinsurance Portfolio**

| | Reinsurer | Retention | Coverage | Limits | Reinstatement(s) | Premium Before Any Reinstatement | Term |
|---|---|---|---|---|---|---|---|
| **Casualty Clash** **<u>Excess of Loss</u>** Coverages for policies classified as casualty business with certain exceptions | Blue Ocean Re | $2,500,000 | $7,500,000 xs $2,500,000<br><br>10-year Sunset Clause | $7,500,000 one occurrence | In the event all or any portion of the reinsurance coverage provided by this contract is exhausted by loss, the amount so exhausted shall be reinstated immediately from the time the occurrence commences hereon | $1,000,000 | Effective: 1/1/2018<br>Terminate: 12/31/2018 |
| **Commercial Inland Marine Per Risk <u>Excess of Loss</u>** Coverages for policies classified as commercial inland marine | Blue Ocean Re | 5,000,000 | $5,000,000 xs $5,000,000 | 5,000,000 one occurrence<br>15,000,000 aggregate | 2 full | 1.5% of net premium written<br><br>204,000 minimum<br><br>255,000 deposit premium | Effective: 1/1/2018<br>Terminate: 1/1/2019 |
| **Healthcare** **<u>Excess of Loss</u>** Covered for policies classified as healthcare | Blue Ocean Re | 3,000,000 | $3,000,000 xs $3,000,000 | 3,000,000 one occurrence<br><br>9,000,000 one occurrence | In the event all or any portion of the reinsurance under this contract is exhausted by loss, the amount so exhausted shall be reinstated from the time of the occurrence of such loss | 6.66% of net written premium<br><br>350,060 minimum<br><br>411,835 deposit premium | Effective: 3/1/2017<br>Terminate: 12/31/2018 |
| **Large Risk & Catastrophe Aggregate** **<u>Excess of Loss</u>** Coverages for policies classified as credit risk, political risk and surety risk (inure to the benefit of trade credit and surety excess of loss and 40% quota share reinsurance agreements) | Blue Ocean Re | 17,500,000 aggregate | 30,000,000 xs 17,500,000 aggregate | 3,000,000 one occurrence, subject to 2,500,000 franchise deductible<br><br>30,000,000 aggregate | No | 4,000,000 | Effective: 1/1/2018<br>Terminate: 12/31/2018 |

| | Reinsurer | Retention | Coverage | Limits | Reinstatement(s) | Premium Before Any Reinstatement | Term |
|---|---|---|---|---|---|---|---|
| **Management and Professional Liability** **<u>Excess of Loss</u>** Coverages for policies classified as management or professional liability | Blue Ocean Re | 2,500,000 one occurrence<br>7,5000,000 annual aggregate deductible | 2,500,000 xs 2,500,000 | 2,500,000 one occurrence 25,000,000 aggregate | 9 full | 0.9967% of gross net earned premium income<br>2,885,286 minimum<br>3,606,000 deposit premium | Effective: 1/1/2018 Terminate: 1/1/2019 |
| | | 5,000,000 one occurrence<br>5,000,000 annual aggregate deductible | 5,000,000 xs 5,000,000 | 5,000,000 one occurrence 30,000,000 aggregate | 5 full | 1.4690% of gross net earned premium income<br>4,252,519 minimum<br>5,316,000 deposit premium | |
| | | 10,000,000 one occurrence | 10,000,000 xs 10,000,000 | 10,000,000 one occurrence 60,000,000 aggregate | 2 full | 0.7345% of gross net earned premium income<br>2,126,259 minimum<br>2,658,000 deposit premium | |
| | | 30,000,000 one occurrence | 30,000,000 xs 20,000,000 | 30,000,000 one occurrence 60,000,000 aggregate | 1 full | 0.3986% of gross net earned premium income<br>1,153,883 minimum<br>1,442,000 deposit premium | |

| | Reinsurer | Retention | Coverage | Limits | Reinstatement(s) | Premium Before Any Reinstatement | Term |
|---|---|---|---|---|---|---|---|
| **Property Catastrophe** **<u>Excess of Loss</u>** Coverages for policies classified as property business with certain exceptions | Blue Ocean Re | 200,000,000 | 200,000,000 xs 200,000,000 | 200,000,000 one occurrence | In the event that all or any portion of the reinsurance is exhausted by loss, the amount so exhausted will be reinstated from the time of occurrence of such loss for up to one full reinstatement of the limit | Adjusted based on the change in the layer expected loss as derived from modeling using RMS Risk Link v17 for all covered modeled perils and territories from 7/1/2017 to the similarly modeled results as of 7/1/2018 25,200,000 minimum<br><br>31,500,000 deposit premium | Effective: 1/1/2018 Terminate: 1/1/2019 |
| | | 400,000,000 | 200,000,000 xs 400,000,000 | 200,000,000 one occurrence | | Adjusted based on the change in the layer expected loss as derived from modeling using RMS Risk Link v17 for all covered modeled perils and territories from 7/1/2017 to the similarly modeled results as of 7/1/2018<br><br>16,080,000 minimum 20,100,000 deposit premium | |
| **Property Per Risk** **<u>Excess of Loss</u>** Coverages for policies classified as property business with certain exceptions | Blue Ocean Re | 10,000,000 | 10,000,000 xs 10,000,000 | 10,000,000 one occurrence<br><br>40,000,000 aggregate | 3 full | 0.43% of net premium written<br><br>4,114,145 minimum<br><br>5,143,000 deposit premium | Effective: 1/1/2018 Terminate: 1/1/2019 |
| | | 20,000,000 | 30,000,000 xs 20,000,000 | 30,000,000 one occurrence<br><br>120,000,000 aggregate | 3 full | 0.56% of net premium written<br><br>5,357,956 minimum<br><br>6,697,000 deposit premium | |

| | Reinsurer | Retention | Coverage | Limits | Reinstatement(s) | Premium Before Any Reinstatement | Term |
|---|---|---|---|---|---|---|---|
| **Overlying Property Per Risk**<br>**<u>Excess of Loss</u>**<br>Coverages for policies classified as property business with certain exceptions | Blue Ocean Re | 600,000,000 | 400,000,000 xs 600,000,000 | 400,000,000 one occurrence<br><br>800,000,000 aggregate | 1 full | Adjusted based on the change in the layer expected loss as derived from modeling using RMS Risk Link v17 for all covered modeled perils and territories from 7/1/2017 to the similarly modeled results as of 7/1/2018 (no adjustment if the change in the layer expected loss is 2.5% or less)<br><br>27,000,000 minimum<br><br>27,000,000 deposit premium | Effective: 1/1/2018<br>Terminate: 1/1/2019 |
| | | 1,000,000,000 | 200,000,000 xs 1,000,000,000 | 200,000,000 one occurrence<br><br>$400,000,000 aggregate | 1 full | Adjusted based on the change in the layer expected loss as derived from modeling using RMS Risk Link v17 for all covered modeled perils and territories from 7/1/2017 to the similarly modeled results as of 7/1/2018 (no adjustment if the change in the layer expected loss is 2.5% or less)<br><br>9,500,000 minimum<br><br>9,500,000 deposit premium | |
| | | 1,200,000,000 | 225,000,000 xs 1,200,000,000 | 225,000,000 one occurrence (limit of liability will adjust based upon the 1 in 200-year OEP PML for North America all regions, all perils)<br><br>$450,000,000 aggregate | 1 full | 7,987,500 flat premium<br><br>Adjust equals to the change in the loss occurrence limit multiplied by 3.55%, in the event the limit of liability is adjusted | |

| | Reinsurer | Retention | Coverage | Limits | Reinstatement(s) | Premium Before Any Reinstatement | Term |
|---|---|---|---|---|---|---|---|
| **First Umbrella** **<u>Excess of Loss</u>** Coverages for excess liability classified as umbrella, excess, following form excess and high-limit primary business with certain exceptions | Blue Ocean Re | 4,000,000 | 6,000,000 xs 4,000,000 | 6,000,000 one policy, one occurrence<br>30,000,000 aggregate | 4 full | 9.66% of net premium earned<br>4,445,222 minimum<br>5,557,000 deposit premium | Effective: 1/1/2018 Terminate: 12/31/2018 |
| **Second Umbrella** **<u>Excess of Loss</u>** Coverages for excess liability classified as umbrella, excess, following form excess and high-limit primary business with certain exceptions | Blue Ocean Re | 10,000,000 | 15,000,000 xs 10,000,000 | 15,000,000 one policy, one occurrence, plus its proportionate share of any applicable loss adjustment expense.<br>30,000,000 aggregate | In the event that all or any portion of the reinsurance under this contract is exhausted by loss, the amount so exhausted shall be reinstated from the time of occurrence of such loss. | 14.7% of net premium written<br>1,940,493 minimum<br>2,426,000 deposit premium | Effective: 1/1/2018 Terminate: 12/31/2018 |
| **Trade Credit and Surety** **<u>Excess of Loss</u>** Coverages for business classified as credit risk, political risk, and surety risk | Blue Ocean Re | 5,000,000 | 5,000,000 xs 5,000,000 | 5,000,000 ultimate net each loss<br>25,000,000 aggregate | 4 full | 2.075% of gross net premium income<br>3,735,000 minimum<br>4,669,000 deposit premium | Effective: 1/1/2018 Terminate: 12/31/2018 |
| | | 10,000,000 | 10,000,000 xs 10,000,000 | 10,000,000 ultimate net each loss<br>50,000,000 aggregate | 4 full | 2.525% of gross net premium income<br>4,545,000 minimum<br>5,681,000 deposit premium | |
| | | 20,000,000 | 30,000,000 xs 20,000,000 | 30,000,000 ultimate net each loss<br>60,000,000 aggregate | 1 full | 4.075% of gross net premium income<br>7,335,000 minimum<br>9,169,000 deposit premium | |
| | | 50,000,000 | 250,000,00 0 xs 50,000,000 | 250,000,000 ultimate net each loss<br>500,000,000 aggregate | 1 full | 2.975% of gross net premium income<br>5,355,000 minimum<br>6,694,000 deposit premium | |

| | Reinsurer | Retention | Coverage | Limits | Reinstatement(s) | Premium Before Any Reinstatement | Term |
|---|---|---|---|---|---|---|---|
| **Whole Account Risk and Occurrence** **<u>Excess of Loss</u>** Coverages for all business covered by the 2018 Blue Ocean Re underlying contracts including property, workers compensation, casualty clash, and umbrella | Blue Ocean Re | 50,000,000 | 50,000,000 xs 50,000,000 | 50,000,000 one occurrence<br><br>100,000,000 aggregate | In the event of loss or losses occurring under this agreement, it is agreed to automatically reinstate to its full amount as set out in limit | 0.081% of premium income<br><br>1,385,812 minimum<br><br>1,732,265 deposit premium | Effective: 1/1/2018<br>Term: 12 months |
| **Overlying Whole Account Risk and Occurrence** **<u>Excess of Loss</u>** Coverages for all business covered by the 2018 Blue Ocean Re underlying contracts including property, workers compensation, casualty clash, and umbrella | Blue Ocean Re | 100,000,000 | 200,000,000 xs 100,000,000 | 200,000,000 one occurrence<br><br>400,000,000 aggregate | In the event of loss or losses occurring under this agreement, it is agreed to automatically reinstate to its full amount as set out in limit | 0.144% of premium income<br><br>2,463,666 minimum<br><br>3,079,582 deposit premium | Effective: 1/1/2018<br>Term: 12 months |

| | Reinsurer | Retention | Coverage | Limits | Reinstatement(s) | Premium Before Any Reinstatement | Term |
|---|---|---|---|---|---|---|---|
| **Workers' Compensation**<br>**<u>Excess of Loss</u>**<br>Coverages for excess liability for policies classified as workers' compensation with certain exceptions | Blue Ocean Re | 5,000,000 | 10,000,000 xs 5,000,000<br><br>5,000,000 xs 5,000,000 for employers liability business<br><br>10-year Sunset Clause | 10,000,000 one occurrence<br><br>30,000,000 aggregate | 2 full | 0.943% of net premium earned<br><br>2,600,000 minimum<br><br>2,600,000 deposit premium | Effective: 1/1/2018<br>Terminate: 12/31/2018 |
| **Workers' Compensation Catastrophe**<br>**<u>Excess of Loss</u>**<br>Coverages for excess liability for policies classified as workers' compensation (including employers liability) with certain exceptions | Blue Ocean Re | 15,000,000 | 20,000,000 xs 15,000,000<br><br>10-year Sunset Clause | 15,000,000 one occurrence for workers compensation<br><br>5,000,000 one occurrence for employers liability business<br><br>40,000,000 aggregate | In the event that all or any portion of the reinsurance under this contract is exhausted by loss, the amount so exhausted shall be reinstated from the time of occurrence of such loss. | 0.261% of net premium earned<br><br>720,000 minimum<br><br>720,000 deposit premium | Effective: 1/1/2018<br>Terminate: 12/31/2018 |
| | | 35,000,000 | 15,000,000 xs 35,000,000<br><br>10-year Sunset Clause | 15,000,000 one occurrence for workers compensation<br><br>5,000,000 one occurrence for employers liability business<br><br>30,000,000 aggregate | | 0.087% of net premium earned<br><br>240,000 minimum<br><br>240,000 deposit premium | |

| | Reinsurer | Retention | Coverage | Limits | Reinstatement(s) | Premium Before Any Reinstatement | Term |
|---|---|---|---|---|---|---|---|
| **<u>Large Risk and Catastrophe Aggregate Excess of Loss –</u>** Covers all business written by QBENA except for: NAU, QBE Re. & TC&S | Blue Ocean Re | 251,250,000 | 270,000,000 (90% of 300,000,000) xs 251.250,000 | 270,000,000 (90% of 300,000,000) in the agg subject to a 2,500,000 franchise | No | 70,000,000 | Effective: 1/1/2018 Terminate:12/31/2018 |
| **<u>General Aviation Excess of Loss</u>** Coverages for aviation and aerospace products liability with certain exceptions | Blue Ocean Re | 5,000,000 one occurrence | 5,000,000 xs 5,000,000 | 5,000,000 one occurrence 15,000,000 aggregate | 2@100% | 1.15% of gross net earned premium income 599,942 minimum 750,000 deposit premium | Effective: 1/1/2018 Terminate:12/31/2019 |
| | | 10,000,000 one occurrence | 10,000,000 xs 10,000,000 | 10,000,000 one occurrence 20,000,000 aggregate | 1@100% | .875% of gross net earned premium income 456,477 minimum 571,000 deposit premium | |
| | | 30,000,000 one occurrence | 30,000,000 xs 20,000,000 | 30,000,000 one occurrence 60,000,000 aggregate | 1@100% | 1.650% of gross net earned premium income 860,786 minimum 1,076,000 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, 2017, annual statement. 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." 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.

**National Farmers Union Property and Casualty Company**
**Assets**
**As of December 31, 2017**

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|---|---|---|
| Bonds | $ 80,254,490 | $ | $ 80,254,490 |
| Cash, cash equivalents, and short-term investments | 6,105,172 | | 6,105,172 |
| Investment income due and accrued | 504,274 | | 504,274 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in course of collection | 8,170,404 | 1,365,760 | 6,804,644 |
| Deferred premiums, agents' balances, and installments booked but deferred and not yet due | 8,902,594 | | 8,902,594 |
| Accrued retrospective premiums and contracts subject to redetermination | 80,866 | | 80,866 |
| Reinsurance: | | | |
| Amounts recoverable from reinsurers | 8,089,000 | | 8,089,000 |
| Funds held by or deposited with reinsured companies | | | |
| Other amounts receivable under reinsurance contracts | 36,563 | | 36,563 |
| Amounts receivable relating to uninsured plans | | | |
| Current federal and foreign income tax recoverable and interest thereon | 450,863 | | 450,863 |
| Net deferred tax asset | 6,612,714 | 4,949,382 | 1,663,332 |
| Receivable from parent, subsidiaries, and affiliates | 2,116,401 | | 2,116,401 |
| Write-ins for other than invested assets: | | | |
| Amounts billed and receivable deductible plans | 493,515 | 110,066 | 383,449 |
| Equities and deposits | 1,052,539 | 8,166 | 1,044,373 |
| Net receivable federally reinsured multi-peril crop insurance | 17,686,660 | | 17,686,660 |
| Summary of remaining write-ins for Line 25 from overflow page | 146,856 | 123,852 | 23,004 |
| Totals | 19,379,670 | 242,084 | 19,137,486 |
| Total assets | $140,702,911 | $6,557,226 | $134,145,686 |

**National Farmers Union Property and Casualty Company**
**Liabilities, Surplus, and Other Funds**
**As of December 31, 2017**

| | | |
|---|---|---|
| Losses | | $ 43,476,282 |
| Reinsurance payable on paid loss and loss adjustment expenses | | 332,893 |
| Loss adjustment expenses | | 7,500,714 |
| Commissions payable, contingent commissions, and other similar charges | | 3,542,149 |
| Other expenses (excluding taxes, licenses, and fees) | | 286,598 |
| Taxes, licenses, and fees (excluding federal and foreign income taxes) | | (7,609) |
| Unearned premiums | | 21,602,040 |
| Advance premium | | 77,921 |
| Ceded reinsurance premiums payable (net of ceding commissions) | | 11,696,216 |
| Funds held by company under reinsurance treaties | | 1,869,461 |
| Amounts withheld or retained by company for account of others | | 198,929 |
| Remittances and items not allocated | | 821,486 |
| Provision for reinsurance | | 111,000 |
| Payable to parent, subsidiaries, and affiliates | | 2,923,213 |
| Write-ins for liabilities: | | |
| Other liabilities | | 7,688 |
| Claims clearing account | | (2,424,510) |
| Totals | | (2,416,822) |
| Total Liabilities | | 92,014,471 |
| Common capital stock | $ 4,200,000 | |
| Gross paid in and contributed surplus | 34,454,297 | |
| Unassigned funds (surplus) | 3,476,919 | |
| Surplus as regards policyholders | | 42,131,216 |
| Total liabilities and surplus | | $134,145,686 |

**National Farmers Union Property and Casualty Company**
**Summary of Operations**
**For the Year 2017**

| | | |
|---|---|---|
| **Underwriting Income** | | |
| Premiums earned | | $62,161,925 |
| | | |
| Deductions: | | |
| Losses incurred | $41,439,808 | |
| Loss adjustment expenses incurred | 5,542,597 | |
| Other underwriting expenses incurred | 18,922,090 | |
| Total underwriting deductions | | 65,904,495 |
| Net underwriting gain (loss) | | (3,742,570) |
| | | |
| **Investment Income** | | |
| Net investment income earned | 1,205,595 | |
| Net realized capital gains (losses) | (19,651) | |
| Net investment gain (loss) | | 1,185,944 |
| | | |
| **Other Income** | | |
| Net gain (loss) from agents' or premium balances charged off | (227,228) | |
| Finance and service charges not included in premiums | 60,015 | |
| Write-ins for miscellaneous income: | | |
| Other miscellaneous income | 31,113 | |
| Total other income | | (136,099) |
| | | |
| Net income (loss) before dividends to policyholders and before federal and foreign income taxes | | (2,692,725) |
| Dividends to policyholders | | (154,005) |
| | | |
| Net income (loss) after dividends to policyholders but before federal and foreign income taxes | | (2,846,730) |
| Federal and foreign income taxes incurred | | (565,864) |
| | | |
| Net Income | | $(2,280,866) |

**National Farmers Union Property and Casualty Company**
**Cash Flow**
**For the Year 2017**

| | | | |
|---|---|---|---|
| Premiums collected net of reinsurance | | | $ 54,971,984 |
| Net investment income | | | 1,268,036 |
| Miscellaneous income | | | (136,099) |
| Total | | | 56,103,920 |
| Benefit- and loss-related payments | | $ 38,828,988 | |
| Commissions, expenses paid, and aggregate write-ins for deductions | | 25,289,710 | |
| Dividends paid to policyholders | | 154,005 | |
| Total deductions | | | 64,272,703 |
| Net cash from operations | | | (8,168,783) |
| | | | |
| Proceeds from investments sold, matured, or repaid: | | | |
| Bonds | $133,687,616 | | |
| Stocks | 19,878 | | |
| Net gains (losses) on cash, cash equivalents, and short-term investments | 27,856 | | |
| Total investment proceeds | | 133,735,349 | |
| Cost of investments acquired (long-term only): | | | |
| Bonds | 154,915,460 | | |
| Total investments acquired | | 154,915,460 | |
| Net cash from investments | | | (21,180,111) |
| | | | |
| Cash from financing and miscellaneous sources: | | | |
| Other cash provided (applied) | | (2,912,334) | |
| Net cash from financing and miscellaneous sources | | | (2,912,334) |
| | | | |
| **Reconciliation:** | | | |
| Net change in cash, cash equivalents, and short-term investments | | | (32,261,228) |
| Cash, cash equivalents, and short-term investments: | | | |
| Beginning of year | | | 38,366,400 |
| | | | |
| End of year | | | $ 6,105,172 |

**Compulsory and Security Surplus Calculation**
**December 31, 2017**

| | | | |
|---|---|---|---|
| Assets | | | $134,145,686 |
| Less liabilities | | | 92,014,471 |
| Adjusted surplus | | | 42,131,215 |
| Annual premium: | | | |
| Group accident and health | $ 6,016,765 | | |
| Factor | 10% | | |
| Total | | $ 601,676 | |
| Lines other than accident and health | 125,402,379 | | |
| Factor | 20% | | |
| Total | | 25,080,475 | |
| Compulsory surplus (subject to a minimum of $2 million) | | | 25,682,151 |
| Compulsory surplus excess (deficit) | | | 16,449,064 |
| Adjusted surplus (from above) | | | 42,131,215 |
| 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%) | | | 35,184,546 |
| Security surplus excess (deficit) | | | $ 6,946,669 |

**National Farmers Union Property and Casualty Company**
**Analysis of Surplus**
**For the Five-Year Period Ending December 31, 2017**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Surplus, beginning of year | $45,234,502 | $43,271,218 | $40,412,561 | $41,675,323 | $62,716,014 |
| Net income | (2,280,866) | 1,769,920 | 2,241,159 | (524,429) | (6,823,252) |
| Change in net deferred income tax | (3,876,140) | (722,843) | (921,166) | 255,319 | 2,366,096 |
| Change in nonadmitted assets | 3,063,049 | (379,830) | 1,442,328 | (946,669) | (5,885,260) |
| Change in provision for reinsurance | 800 | 170,800 | (246,600) | (25,000) | (6,000) |
| Cumulative effect of changes in accounting principles | | | | 5,260 | 118,196 |
| Dividends to stockholders | | | | | (10,500,000) |
| Write-ins for gains and (losses) in surplus: | | | | | |
| Change in defined benefit plan (net of tax) | | | | | (300,266) |
| Change in miscellaneous surplus | (36,341) | 47,470 | (4,553) | (3,947) | (10,205) |
| Special surplus-retroactive reinsurance movement | | 34,936 | (23,295) | (23,296) | |
| Correction of errors | 25,000 | 1,054,153 | 370,784 | | |
| Summary of remaining write-ins from overflow page | 1,212 | (11,323) | | | |
| Totals | (10,129) | 1,125,237 | 342,936 | (27,243) | (310,471) |
| Surplus, end of year | $42,131,216 | $45,234,502 | $43,271,218 | $40,412,561 | $41,675,323 |

**National Farmers Union Property and Casualty Company**
**Insurance Regulatory Information System**
**For the Five-Year Period Ending December 31, 2017**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below.

| | Ratio | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| #1 | Gross Premium to Surplus | 582% | 518% | 530% | 613% | 632% |
| #2 | Net Premium to Surplus | 145 | 120 | 114 | 156 | 184 |
| #3 | Change in Net Premiums Written | 12 | 11 | -22 | -17 | -5 |
| #4 | Surplus Aid to Surplus | 1 | 1 | 1 | 1 | 1 |
| #5 | Two-Year Overall Operating Ratio | 100* | 98 | 101* | 107* | 109* |
| #6 | Investment Yield | 1.3* | 1.1* | 0.6* | 0.4* | 0.3* |
| #7 | Gross Change in Surplus | -7 | 5 | 7 | -3 | -34* |
| #8 | Change in Adjusted Surplus | -7 | 5 | 7 | -3 | -34* |
| #9 | Liabilities to Liquid Assets | 96 | 94 | 99 | 115* | 120* |
| #10 | Agents' Balances to Surplus | 16 | 15 | 13 | 20 | 28 |
| #11 | One-Year Reserve Development to Surplus | -5 | -17 | 2 | 1 | 8 |
| #12 | Two-Year Reserve Development to Surplus | -18 | -13 | 3 | 8 | 17 |
| #13 | Estimated Current Reserve Deficiency to Surplus | 11 | -12 | -3 | -15 | 21 |

Ratio No. 5 ("Two-Year Overall Operating Ratio") measures the company's profitability over the previous two-year period. This ratio was exceptional from 2013 through 2015 and in 2017. The exceptional ratios were the result of significant losses and loss adjustment expenses incurred during this period, decreased premium volume, and adverse prior-year development.

Ratio No. 6 ("Investment Yield") measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets and was considered exceptional in all years under examination. A large portion of the company's portfolio is allocated in high-quality, short duration, fixed-income securities. The company's conservative investment approach and the prolonged low-interest rate environment in the United States contributed to exceptional results.

Ratios No. 7 ("Gross Change in Surplus"), and Ratio No. 8 ("Change in Adjusted Policyholders' Surplus") were exceptional in 2013 due to the extraordinary dividends in the amount of $10.5 million that were paid to the parent company, GC-WI.

Ratio No. 9 (“Liabilities to Liquid Assets”) measures the company’s ability to meet its financial demands. This ratio was considered exceptional in the years 2013 and 2014. The primary reasons for the exceptional results were the decreasing premium volume, adverse prior year development, and seasonal fluctuations related to administering the federal crop business; which can periodically create large receivables that are not counted as liquid assets under this ratio.

**Growth of National Farmers Union Property and Casualty Company**

| Year | Admitted Assets | Liabilities | Surplus as Regards Policyholders | Net Income |
|---|---|---|---|---|
| 2017 | $134,145,686 | $92,014,471 | $42,131,216 | $(2,280,866) |
| 2016 | 149,312,155 | 104,077,653 | 45,234,502 | 1,769,920 |
| 2015 | 139,589,918 | 96,318,700 | 43,271,218 | 2,241,159 |
| 2014 | 156,174,044 | 115,761,482 | 40,412,561 | (524,429) |
| 2013 | 178,352,524 | 136,677,201 | 41,675,323 | (6,823,252) |
| 2012 | 209,636,907 | 146,920,893 | 62,716,014 | (2,745,994) |

| Year | Gross Premium Written | Net Premium Written | Premium Earned | Loss and LAE Ratio | Expense Ratio | Combined Ratio |
|---|---|---|---|---|---|---|
| 2017 | $245,244,690 | $61,018,146 | $62,161,925 | 75.6% | 31.2% | 106.8% |
| 2016 | 234,527,439 | 54,405,227 | 50,245,473 | 58.8 | 36.4 | 95.2 |
| 2015 | 229,501,300 | 49,127,386 | 55,971,847 | 63.9 | 37.4 | 101.3 |
| 2014 | 247,847,550 | 63,213,531 | 66,416,012 | 69.2 | 33.9 | 103.1 |
| 2013 | 263,379,143 | 76,539,526 | 80,326,898 | 75.2 | 35.0 | 110.2 |
| 2012 | 261,887,902 | 80,528,921 | 94,987,962 | 73.5 | 35.9 | 109.4 |

During the period under examination, NFU, as a member of the QBE North American group, faced significant challenges due to the global economic conditions, unusual frequency, and severity of claims, catastrophes, and difficult investment market conditions. From 2012 to 2017, the company reported a 36.0% decrease in assets, a 37.4% decrease in liabilities, and a 32.8% decrease in surplus. The net operating results were unstable.

In 2013, QBE Limited implemented an operational transformation program with the goal to increase effectiveness and ability to compete in the insurance markets. A major objective of the program was to provide operational expense savings by offshoring and outsourcing services. The plan was completed in 2015 resulting in improved net operating results. In 2017, however, the company reported a net loss of $2.3 million, due to substantial losses from natural disasters in that year.

Gross and net premiums written decreased by 6.3% and 24.2% over the six-year period, respectively primarily due to the reduction in the premium volume.

The loss and LAE ratio had a decreasing trend from 2013 through 2016. In 2017, the ratio deteriorated 16.8 points, mostly due to extremely high catastrophe losses driven by hurricanes Harvey, Irma, and Maria, as well as extreme California wildfires. The combined ratio remained above 100% in four out of the five years under examination.

**Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2017, is accepted.

## VII. SUMMARY OF EXAMINATION RESULTS

**Compliance with Prior Examination Report Recommendations**

There were three 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.

   Action—Compliance.

2. 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.

3. 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.

   Action—Non-Compliance, see comments in the “Summary of Current Examination Results”.

## 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.

### Management and Control

The company has established a procedure for disclosure of conflicts of interest for its officers, directors, and responsible employees in compliance with a directive of the Commissioner of Insurance. As part of the examination, a review was performed to ensure that all officers and directors are complying with the company’s conflict of interest disclosure requirements. Conflict of interest questionnaires were reviewed for the period under examination and the company was unable to locate copies of the conflict of interest statements for all officers and directors for 2016. It is recommended that the company continue to have all officers and directors complete an annual conflict of interest disclosure.

### Unclaimed property

It was noted during the review of the company’s unclaimed checks that, although the company had set up a separate liability for checks outstanding more than a year, the company failed to submit the unclaimed funds to the State of Wisconsin after the funds had been unclaimed for five years. Unclaimed outstanding payments for claims managed by a third-party administrator also were not escheated in a timely manner. It is recommended that the company comply with ch. 177, Wis. Stat., as regards to unclaimed funds, and that it submit all funds that remain unclaimed after five years to the State of Wisconsin.

### Executive Compensation

The State of Wisconsin requires each Wisconsin-domiciled insurer to file a supplement to the annual statement entitled “Report of Executive Compensation” pursuant to ss. 601.42 and 611.63 (4), Wis. Stat. This report includes the total annual compensation paid to each director, the chief executive officer, and the four most highly compensated officers or employees other than the chief executive officer. In addition, the report requires disclosure of the compensation of all executive officers whose compensation exceeds specified amounts. The company completed this form disclosing employees with compensation over $400,000. All remuneration paid or accrued for services on behalf of each reportable employee should be included in the Report on Executive Compensation.

The examiners' review of executive compensation revealed that the company did not include in the Report on Executive Compensation the employer paid portion of health insurance benefits, (401) K employer's matching contribution, accidental death and dismemberment, group-term life insurance, employee assistance program, medical benefit contribution, employer's health savings account contribution, and long-term disability employer's paid premiums. It is recommended that the company properly complete the Report on Executive Compensation as required by s. 611.63 (4), Wis. Stat.

**Credit for Reinsurance**

A review of the trust account with QBE Blue Ocean Re and Citi Bank indicated that the company took full credit for reinsurance ceded to QBE Blue Ocean Re on its statutory financial statements filed for the first and second quarters of 2018 without the timely placement of proper collateral in accordance with Statements of Statutory Accounting Principles (SSAP) No. 62R, par. 56, and Appendix A-785 of the NAIC's Accounting Practices and Procedures Manual. It is recommended the company comply with the credit for reinsurance collateral requirements for certified and unauthorized reinsurers in accordance with SSAP No. 62R, par. 56, and Appendix A-785 of the NAIC's Accounting Practices and Procedures Manual.

**Actuarial Report Documentation**

The review of the QBENA reserves was performed by INS Consultants, Inc., an outside independent actuary contracted by the lead state.

The external actuary found that QBENA companies' exam report contained a finding that the actuarial report issued in support of the 2017 Statement of Actuarial Opinion did not provide sufficient details for another actuary practicing in the same field to evaluate the work in accordance with Actuarial Standard of Practice No 41. Pursuant to the NAIC's *Annual Statement Instructions – Property/Casualty*, actuarial report documentation should clearly disclose the sources of data, material assumptions, and methods, among other requirements. It is again recommended that the company include sufficient documentation in its actuarial report in accordance with Actuarial Standard of Practice No. 41. The following are specific areas where improvement in actuarial report documentation is recommended:

- Future actuarial report exhibits developed in ResQ model reflect clearer labeling and footnotes, to the extent possible;
- A summary of the indicated and carried loss and LAE reserve position by reserve review segment as of both September 30, 20XX and December 31, 20XX be included in future versions of the actuarial report;
- The companies include a more traditional actual-versus-expected roll-forward analysis at a disaggregated level in future reserve studies;
- All detailed exhibits in support of the crop analysis performed by the companies be included in future actuarial reports;
- Detailed exhibits in support of the asbestos and environmental (“A&E”) analysis be included in the actuarial report, with a breakout of A&E reserves from the by-segment analysis provided; and
- Future actuarial reports include a complete Schedule P reconciliation of paid losses, case outstanding reserves, and earned premiums by reserve review segment to the Schedule P lines of business.

## VIII. CONCLUSION

National Farmers Union Property and Casualty Company (NFU) was originally incorporated in 1945 in Utah and became licensed in Colorado in 1945. NFU was incorporated under the laws of the State of Colorado on December 5, 1984. The company was granted a license on December 16, 1985, and commenced business on December 31, 1986.

On September 30, 2005, QBE Reinsurance Corporation (QBE Re) purchased the company from One Beacon Insurance Group, LLC. Effective October 31, 2008, General Casualty Company of Wisconsin (GC-WI) purchased 100% interest of NFU and its wholly owned subsidiary, United Security Insurance Company (USIC), from QBE Re. GC-WI is a wholly owned subsidiary of QBE Regional Companies (N.A.), Inc., (QBE Regional) with the ultimate parent being Australian-based QBE Insurance Group Limited (QBE Limited). Effective January 1, 2009, NFU transferred ownership of USIC to GC-WI through a dividend transaction. Effective October 1, 2010, NFU redomiciled from Colorado to Wisconsin.

NFU is one of the 16 companies that comprise the QBENA pooled entities at year-end 2017. As a part of the QBENA sub-group, the company markets a broad range of property and casualty lines, including personal, commercial, agriculture, crop, and specialty products.

From 2012 to 2017, NFU's admitted assets decreased by 36.0%, gross premiums written decreased by 6.3%, and surplus decreased by 32.8%. The decrease in admitted assets and surplus was a result of the decrease in net income from operations, and the payment of extraordinary dividends to the parent company, GC-WI. The decrease in gross premium written was primarily attributable to the reduction in the premium volume. As of December 31, 2017, NFU had assets of $134,145,686, liabilities of $92,014,471, and a surplus of $42,131,216.

The company complied with two out of the three recommendations from the previous examination report.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 55 - Management and Control—It is recommended that the company continue to have all officers and directors complete an annual conflict of interest disclosure.

2. Page 55 - Unclaimed Property—It is recommended that the company comply with ch. 177, Wis. Stat., as regards to unclaimed funds, and that it submit all funds that remain unclaimed after five years to the State of Wisconsin.

3. Page 56 - Executive Compensation—It is recommended that the company properly complete the Report on Executive Compensation as required by s. 611.63 (4), Wis. Stat.

4. Page 56 - Credit for Reinsurance—It is recommended the company comply with the credit for reinsurance collateral requirements for certified and unauthorized reinsurers in accordance with SSAP No. 62R, par. 56, and Appendix A-785 of the NAIC's Accounting Practices and Procedures Manual.

5. Page 56 - Actuarial Report Documentation—It is again recommended that the company include sufficient documentation in its actuarial report in accordance with Actuarial Standard of Practice No. 41 containing the following:

   - Future actuarial report exhibits developed in ResQ model reflect clearer labeling and footnotes, to the extent possible.;
   - A summary of the indicated and carried loss and LAE reserve position by reserve review segment as of both September 30, 20XX and December 31, 20XX be included in future versions of the actuarial report;
   - The companies include a more traditional actual-versus-expected roll-forward analysis at a disaggregated level in future reserve studies;
   - All detailed exhibits in support of the crop analysis performed by the QBENA companies be included in future actuarial reports;
   - Detailed exhibits in support of the asbestos and environmental ("A&E") analysis be included in the actuarial report, with a breakout of A&E reserves from the by-segment analysis provided; and
   - Future actuarial reports include a complete Schedule P reconciliation of paid losses, case outstanding reserves, and earned premiums by reserve review segment to the Schedule P lines of business.

## X. SUBSEQUENT EVENTS

On December 22, 2017, the US Tax Reform Act was signed into law. Several provisions of the new Tax Legislation significantly affected the insurance industry including the Base Erosion Anti Abuse Tax (BEAT) provision. The BEAT imposes an additional minimum tax on payments made from US companies to foreign affiliates including payments related to reinsurance. As disclosed in the Notes to the company's 2018 financial statements: "To avoid a significant negative capital impact resulting from the BEAT, QBE Insurance Group of North America restructured its organizational legal entity structure. A new Bermuda subsidiary, called QBE Blue Ocean Re Limited ("Blue Ocean Re"), was formed and moved under U.S. ownership. Blue Ocean Re will make an IRS 953(d) election to be taxed as a US taxpaying corporation. Most all the affiliate reinsurance placements from the Company will be placed with Blue Ocean effective January 1, 2018. Since the reinsurance payments made by the Company to Blue Ocean will be considered US domestic to US domestic payments the BEAT will not apply."

On August 1, 2018, Sutton National Insurance Holdings LLC submitted a Form A filing with the State of Wisconsin Office of the Commissioner of Insurance (OCI) pertaining to a proposed acquisition of control of Unigard Indemnity Company. OCI approved the transaction on December 17, 2018. The sale was consummated on January 1, 2019.

On December 5, 2018, Integon National Insurance Company submitted a Form A filing with the State of Wisconsin, OCI pertaining to a proposed acquisition of control of NFU. The application is currently under review.

## 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** |
|---|---|
| Stephanie Falck, CFE | Insurance Financial Examiner |
| Yi Xu | Insurance Financial Examiner |
| Xiaozhou Ye | Insurance Financial Examiner |
| Ana Careaga | ACL Specialist |
| Eleanor Lu | IT Specialist |
| Jerry DeArmond, CFE | Reserve Specialist |
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Respectfully submitted,

Ana Careaga
Examiner-in-Charge