Report

of the

Examination of

United National Specialty Insurance Company

Bala Cynwyd, Pennsylvania

As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

April 28, 2014

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

Commissioner:

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

UNITED NATIONAL SPECIALTY INSURANCE COMPANY
Bala Cynwyd, Pennsylvania

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of United National Specialty Insurance Company (the company or UNSIC) was conducted in 2008 as of December 31, 2007. The current examination covered the intervening period ending December 31, 2012, and included a review of such 2013 and 2014 transactions as deemed necessary to complete the examination.

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

The examination of the company was conducted concurrently with the examination of the Global Indemnity Group. Representatives of the Pennsylvania Department of Insurance acted in the capacity as the lead state for the coordinated exams. In addition to the state of Wisconsin, work performed by the Indiana Department of Insurance was reviewed and relied on where deemed appropriate.

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

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

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

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

Independent Actuary's Review

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

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1961 as Hallmark Insurance Company, Inc. (Hallmark) and was the successor to a corporation of the same name organized on February 2, 1961, and having commenced business on December 16, 1961. The original Hallmark was based in Madison, Wisconsin, and later in Middleton, Wisconsin. It wrote short-term insurance for hunters, sportsmen, athletes, and travelers, including accidental medical expense, short-term disability, accidental death and dismemberment, and legal liability. The common shares of Hallmark were publicly traded. Effective January 1, 1967, Hallmark assumed all of the outstanding property and casualty business of the Wisconsin Insurance Corporation of America, of Madison, Wisconsin, thereby diversifying its book of business while actively continuing its former activities.

CIC Financial Corporation (CIC), an insurance holding company based in Chicago, Illinois, acquired financial control of Hallmark on August 31, 1977, through a tender offer of $2 per common share. Eventually, CIC acquired approximately 96% of the outstanding common shares of Hallmark. After the acquisition, Hallmark was restructured to write commercial property policies in Illinois and Wisconsin, with the home office remaining in Middleton, Wisconsin. The corporation's plan of operation was to complement the lines of Casualty Insurance Company, a wholly owned insurance subsidiary of CIC domiciled in Illinois.

In September 1982, The Continental Corporation of New York, New York, acquired CIC under an Agreement and Plan of Merger dated June 28, 1982. On April 29, 1983, through a complex series of mergers and corporate reorganizations, Hallmark Insurance Company, Inc., was merged into a newly created Wisconsin insurer, CI-Wisconsin Insurance Corporation, with the latter company surviving.

CI-Wisconsin Insurance Corporation, a wholly owned subsidiary of The Continental Corporation, was incorporated on August 9, 1982, under ch. 611, Wis. Stat. It commenced business on April 29, 1983, effective with the final merger transaction with the original Hallmark. This final merger transaction dissolved the existence of the original Hallmark as an independent entity and cancelled all of its issued and outstanding common stock. Outstanding common shares of Hallmark then owned by the public, representing approximately 4% of the total shares outstanding, were converted into the right to receive $3 in cash per share (without interest) from the surviving corporation. The surviving CI-Wisconsin Insurance Corporation changed its name to Hallmark Insurance Company, Inc., concurrent to the final merger transaction.

The management and office location of Hallmark did not change initially after the acquisition of ultimate control by The Continental Corporation. However, efforts to achieve profitability in its commercial property business were unsuccessful. Hallmark had experienced underwriting losses since its acquisition by CIC in 1977. Pursuant to s. 611.78, Wis. Stat., Hallmark reinsured all outstanding liabilities for policies and contracts of insurance with the Continental Insurance Company effective July 1, 1983. All of Hallmark's employees, with a few exceptions, were terminated and the Middleton, Wisconsin, home office was closed. Sufficient assets were retained in Hallmark to maintain the insurer's licenses in good standing and to meet obligations to general creditors.

Diamond State Insurance Company purchased Hallmark as a shell from The Continental Corporation on March 7, 1985.

In this way, Hallmark became a fifth-tier subsidiary of American Manufacturing Corporation (Pennsylvania), and ultimately under the effective control of the various trusts that control American Manufacturing Corporation. On June 30, 1997, the holding company system was restructured to remove American Manufacturing Corporation (Pennsylvania) and American Manufacturing Corporation (Delaware) from the succession of control. This was accomplished through a dividend of the outstanding shares of American Insurance Service, Inc., to the private related family trusts that own American Manufacturing Corporation (Pennsylvania). The ultimate control of the various trusts continued to be exercised through American Insurance Service, Inc.

The company changed its statutory home office address effective June 9, 2000. Pursuant to discussions with the Wisconsin Office of the Commissioner of Insurance (OCI), this change did not warrant an amendment to the company's articles of incorporation or bylaws. The company changed its statutory home office address again on March 31, 2002. The statutory home office address is now 411 East Wisconsin Avenue, Suite 700, Milwaukee, WI 53202.

The company changed its name from Hallmark Insurance Company, Inc., to United National Specialty Insurance Company effective July 1, 2001.

On September 5, 2003, Fox Paine & Company, LLC (Fox Paine) made a capital contribution of $240 million to United National Group, Ltd. (UNGL). UNGL was formed to facilitate the acquisition, in exchange for 10.0 million Class B common shares and 14.0 million Series A preferred shares, of Wind River Investment Corporation (the holding company for UNSIC which dissolved on May 31, 2006) from a group of family trusts affiliated with the Ball family of Philadelphia, Pennsylvania. (UNGL subsequently merged with Penn-America Group, Inc., and Penn Independent Corporation to become United America Indemnity Ltd.) Additional information concerning the holding company system is contained in the section of this report titled "Affiliated Companies."

Effective as of December 15, 2003, UNGL, an intermediate parent of the company, completed an initial public offering (IPO).

In January 2004, the company's Bermuda-domiciled affiliate reinsurer (and upstream parent), Wind River Reinsurance Company, Ltd. (WRRC) started to assume business from UNSIC on a quota share basis. This agreement resulted in 60% of all business written by UNSIC being ceded to WRRC along with WRRC establishing a reinsurance credit trust. This reinsurance arrangement was again reviewed and restructured in January 2007 reducing the ceded percentage to 50% of written business. Additional information concerning reinsurance is contained in the section of this report titled "Reinsurance."

On January 24, 2005, United America Indemnity, Ltd., (formerly United National Group Ltd.) completed a merger with Penn-America Group, Inc. (PAGI) as well as the acquisition of Penn Independent Corp. Subsequent to the merger, United National Insurance Company directly owned 100% of Penn Independent Corp. and directly or indirectly owned 32.7% of PAGI. PAGI owns 100% of Penn-America Insurance Company.

On July 2, 2010, Global Indemnity plc replaced United America Indemnity, Ltd., as the ultimate parent company as a result of a redomestication transaction from the Cayman

Islands to Ireland. Global Indemnity plc shares are quoted on the NASDAQ under the symbol "GBLI."

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

Illinois	$2,560,676	54.3%
Pennsylvania	1,314,456	27.9
Wisconsin	792,046	16.8
Texas	12,579	0.3
All others	36,566	0.7
Total	$4,716,323	100.0%

The company is licensed in the District of Columbia and all states except Pennsylvania. The company is an eligible surplus lines insurer in Pennsylvania.

The major products marketed by the company include commercial multiple peril, other liability – occurrence, inland marine, and allied lines. The major products are marketed through 11 wholesale general agents, 37 wholesale brokers, 9 aggregators, 293 retailers, and 1 direct agent.

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

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Fire	$ 418,352	$ 321,958	$ 418,352	$ 321,958
Allied lines	188,711	445,803	188,711	445,803
Homeowner's multiple peril	32,928	30,056	32,928	30,056
Commercial multiple peril	2,975,402	1,486,340	2,975,402	1,486,340
Ocean marine	0	3,575	0	3,575
Inland marine	465,412	573,563	465,412	573,563
Medical professional liability – occurrence	0	(28)	0	(28)
Medical professional liability – claims made	0	209	0	209
Earthquake	0	4,934	0	4,934
Worker's' compensation	5,230	3,223	5,230	3,223
Other liability – occurrence	512,676	892,239	512,676	892,239
Other liability – claims made	66,487	43,652	66,487	43,652
Products liability – occurrence	51,125	129,371	51,126	129,371
Commercial auto liability	0	264,978	0	264,978
Auto physical damage	0	46,084	0	46,084
Total All Lines	$4,716,323	$4,245,957	$4,716,323	$4,245,957

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of eight members. All of the directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members do not receive any compensation specifically for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Stephen A. Cozen Villanova, Pennsylvania	Chairman Cozen O'Connor	2015
James W. Crystal New York, New York	Chairman & Chief Executive Officer Crystal & Company	2015
Seth Gersch Hillsborough, California	Member of the Advisory Panel Fox Paine & Company	2015
Joseph R. Lebens Burlington, Connecticut	Chief Underwriting & Actuarial Officer Global Indemnity Group, Inc.	2015
Thomas M. McGeehan King of Prussia, Pennsylvania	Chief Financial Officer Global Indemnity plc	2015
Raghu Ramachandran Larchmont, New York	Chief Investment Officer Global Indemnity plc	2015
Matthew B. Scott Berwyn, Pennsylvania	Chief Marketing Officer Global Indemnity Group, Inc.	2015
Cynthia Y. Valko Collegeville, Pennsylvania	Chief Executive Officer Global Indemnity plc	2015

Officers of the Company

The officers serving at the time of this examination are as follows[1]:

Name	Office	2012 Compensation
Joseph R. Lebens	Executive Vice President	$461,044
Thomas M. McGeehan	Treasurer	582,466
Linda C. Hohn	Secretary	180,179

[1] These officers are compensated by an upstream affiliate and their compensation is allocated among affiliates. The amount listed is their total gross salary before allocation.

Committees of the Board

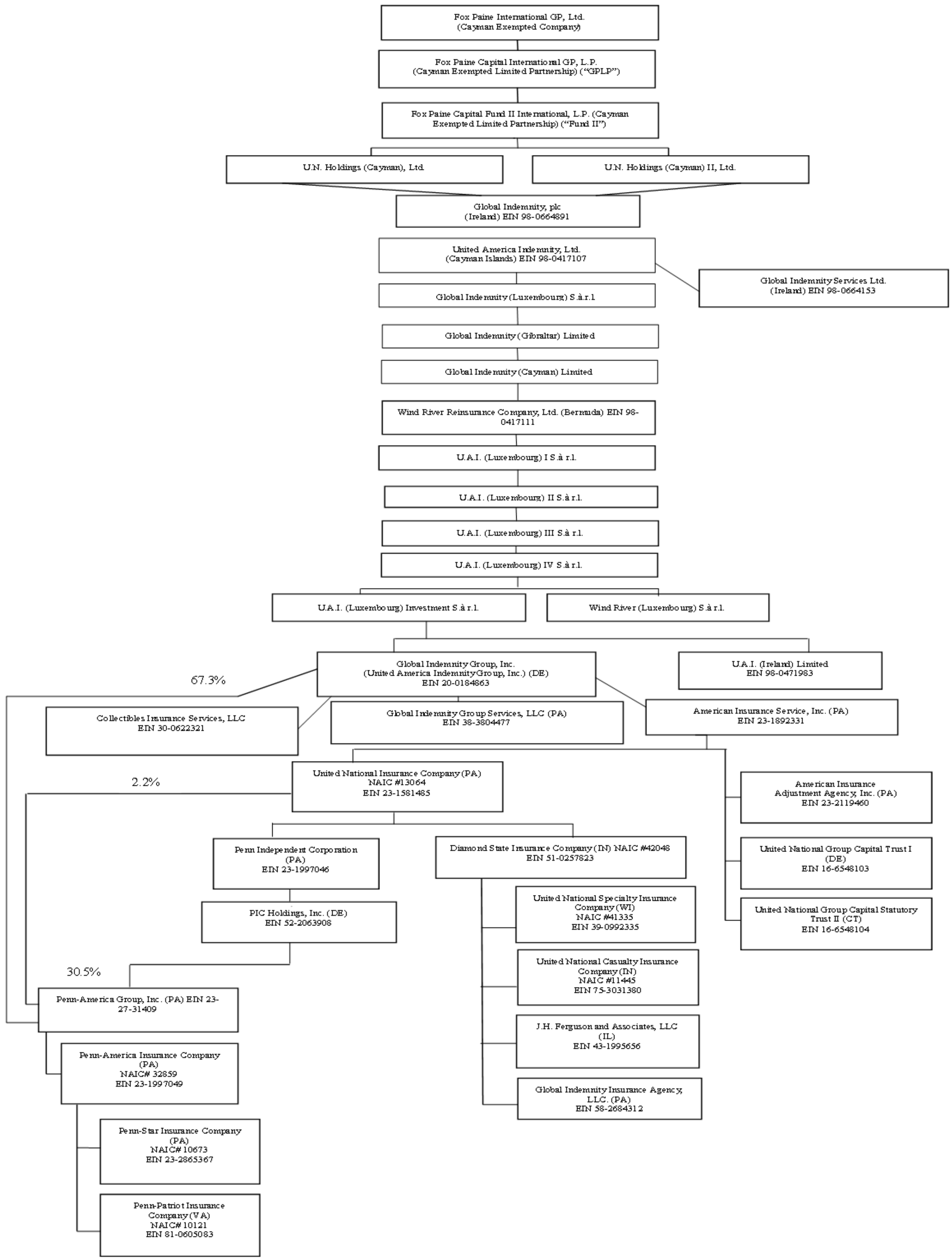
The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee	**Finance Committee**
Joseph R. Lebens	Joseph R. Lebens
Matthew B. Scott	Thomas M. McGeehan
Cynthia Y. Valko	Cynthia Y. Valko

IV. AFFILIATED COMPANIES

United National Specialty is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2012



Footnotes

(1) Fox Paine International GP, Ltd., is the general partner of GPLP. Management and control of GPLP is vested exclusively in the general partner. Limited partners have no voting rights with respect to, and do not exercise control over, GPLP.
(2) GPLP is the general partner of Fund II. Management and control of Fund II is vested exclusively in the general partner. Limited partners have no voting rights with respect to, and do not exercise control over, Fund II.
(3) GPLP, Fund II and Fox Paine & Company, LLC, a Delaware limited liability company (Fox Paine LLC), are parties to a Management Agreement. Fox Paine LLC has no direct or indirect ownership of GPLP, Fund II or any other entity shown on this chart.
(4) Approximately 2.3% of U.N. Holdings (Cayman), Ltd., is held through various private investment funds controlled by GPLP in its capacity as the sole shareholder of the general partner of such investment funds.
(5) Approximately 19.7% of common shares of Global Indemnity plc are held directly by U.N. Holdings (Cayman), Ltd. Approximately 4% of the issued and outstanding common shares in Global Indemnity plc are held through various private investment funds controlled by GPLP in its capacity as the sole shareholder of the general partner of such investment funds.
(6) Approximately 28.5% of the issued and outstanding common shares in Global Indemnity plc are held directly by U.N. Holdings (Cayman) II, Ltd.
(7) Global Indemnity plc is a publicly traded company. There are no shareholders that directly or indirectly own 10% or more of its shares other than as shown.

Due to the number and variety of interests controlled by Fox Paine International GP, Ltd., this report will confine its narrative of specific entities to selected parents in the direct succession of control of United National Specialty Insurance Company. With the exception of certain members of its reinsurance pool, UNSIC does not have significant reinsurance, investment, or service relationships with any affiliate that is not in its succession of control.

Global Indemnity plc

Global Indemnity plc is a holding company formed in 2010 under the laws of Ireland. United America Indemnity, Ltd., is now a wholly owned subsidiary of Global Indemnity plc. The corporation’s insurance subsidiaries write property and casualty insurance lines, on both a surplus lines and admitted basis.

As of December 31, 2012, the audited statements of Global Indemnity plc reported assets of $1,903,703,000, liabilities of $1,097,085,000, and stockholder’s equity of $806,618,000. Operations for 2012 produced a net income of $34,757,000.

Global Indemnity Group, Inc.

Global Indemnity Group, Inc., was incorporated as U.N. Holdings II, Inc., on August 13, 2003, under the laws of Delaware. The name was changed to United America Group, Inc., in September of 2005 and to its present name in July of 2010. The corporation serves as an intermediate holding company with its subsidiaries writing property and casualty business.

As of December 31, 2012, the stand-alone unaudited financial statements of Global Indemnity Group, Inc., reported assets of $1,488,820, liabilities of $1,228,353, and stockholders' equity of $260,467. Operations for 2012 produced a net loss of $4,587,000.

American Insurance Services, Inc.

American Insurance Service, Inc., was incorporated under the laws of Pennsylvania on June 2, 1972. This intermediate holding company's insurance subsidiaries write property and casualty insurance lines on both a surplus lines and admitted basis. As of December 31, 2012, the unaudited financial statements of American Insurance Services, Inc., reported assets of $355,667,000, liabilities of $30,834,000 and stockholders' equity of $324,833,000. Operations for 2012 produced net income of $9,856,000.

United National Insurance Company

United National Insurance Company (UNIC) was incorporated under the laws of Pennsylvania on May 27, 1960, and commenced business on December 31, 1960. UNIC writes property and casualty insurance, primarily on a surplus lines basis. UNIC is licensed only in Pennsylvania but is an eligible surplus lines insurer in every other state, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

As of December 31, 2012, the audited financial statements of UNIC reported assets of $502,228,643, liabilities of $200,752,426, and surplus of $301,476,217. Operations for 2012 produced net income of $20,581,633.

Diamond State Insurance Company

Diamond State Insurance Company (DSIC) was incorporated under the laws of Delaware on February 20, 1981, and commenced business on April 1, 1982. On July 13, 1992, DSIC redomesticated from Delaware to Indiana. DSIC is authorized to write property and casualty insurance on an admitted basis in all 50 states and the District of Columbia.

As of December 31, 2012, the audited financial statements of DSIC reported assets of $154,076,906, liabilities of $52,991,302, and surplus of $101,085,604. Operations for 2012 produced a net income of $4,329,190.

Agreements with Affiliates

UNSIC's operations are coordinated from the home office of UNIC, in Bala Cynwyd, Pennsylvania. The company has no employees of its own. All day-to-day operations are conducted with staff provided by Global Indemnity Group Services, LLC, in accordance with the business practices and internal controls it maintains with respect to its employees. In addition to common staffing and management control by UNIC, UNSIC's relationship to its affiliates is affected by the following written agreements. Reinsurance agreements are described in the "Reinsurance" section of this report. A brief summary of the other agreements follows.

Cost Allocation Agreement

A cost allocation agreement, dated January 25, 2005, by and among the affiliates of Global Indemnity Group, Inc., covers facilities, operational services, cost allocation, billing and settlement. Each quarter each party provides supporting documentation of the charges to its affiliate to be paid within 60 days after the end of each calendar quarter reporting.

The business and affairs of all affiliates are to each be managed by their respective boards of directors and by their respective designated officers. In the event of any disagreement, the determination of the group's independent certified public accountants shall be final and binding. This agreement may be terminated at any time by any party giving 30 days' written notice, provided that each affiliate will have the right to continue to receive data processing services or to utilize data processing facilities and related software for up to one year from the date of notice. This agreement shall be subject to negotiation at least once every three years. Upon termination, each party will deliver to the others all books and records deemed to be the property of the others.

Reinsurance Trust Agreement

On January 1, 2004, Wind River Reinsurance Company, Ltd. [f/k/a Wind River Insurance Company (WRIC)], as grantor, United National Specialty Insurance Company, as beneficiary, and Wachovia Bank, N.A., as trustee, entered into a reinsurance trust agreement. Under the terms of the reinsurance trust agreement, WRRC is to maintain, in trust, securities or cash, as permitted investments by the state of Wisconsin, with a valuation equal to the total of the unearned premium reserve, loss and loss adjustment expense reserve, and the reserve for incurred but not reported losses carried on UNSIC's books as constituting the accounts reinsured by WRRC. UNSIC has the right to withdraw assets from the trust account at any time, without notice to the grantor, upon presentation of written notice to the trustee. UNSIC is under a contractual obligation to apply any assets withdrawn from the account only for the following purposes:

a. To pay or reimburse UNSIC for WRRC's share under the reinsurance agreement regarding any losses and allocated loss expenses paid or payable by UNSIC, but not recovered from WRRC, or for unearned premiums due to UNSIC, if not otherwise paid by WRRC.

b. To make payment to WRRC of any amounts held in the trust account that exceed 104% of the actual amount required to fund WRRC's obligations as provided by the reinsurance trust agreement.

c. When UNSIC has received notice of termination of the trust account, and when WRRC's entire obligations remain unliquidated and undischarged ten days prior to such termination date, to withdraw amounts equal to such obligations and deposit such amounts in a separate account, in UNSIC's own name, in any United States bank or trust company, apart from its general assets, in trust for such uses and purposes specified in a. and b. above to the extent not theretofore satisfied.

The purpose of the reinsurance trust agreement is to forestall the need for UNSIC to establish provisions for reinsurance as required by statutory accounting principles in the absence of such collateral. Various state laws penalize reinsurance credits due from reinsurers not licensed or otherwise approved in their jurisdiction, regardless of the specific reinsurer's financial integrity.

Tax Allocation Agreement

UNSIC has participated in a tax-sharing agreement since July 1, 1997. The company currently participates in a January 25, 2005, tax-sharing agreement with Global Indemnity Group, Inc., and its subsidiaries whereby the federal tax liability determined at the end of the taxable year of any individual insurer member of the affiliated group shall not be more than it would have paid if it had filed on a separate return basis. Intercompany tax balances are settled with payments made within 30 days of the filing of the affiliated groups return and refunds paid within 30 days after receipt of tax refund. Current participating companies include: AIS, UNIC, DSIC, UNSIC, American Insurance Adjustment Agency, Inc., Global Indemnity Insurance Agency, LLC, J.H. Ferguson and Associates, LLC, Penn-America Group, Inc., Penn-America Insurance Company, Penn-Star Insurance Company, Penn-Patriot Insurance Company, and Penn Independent Corporation.

V. REINSURANCE

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

Affiliated Pooling Agreement

United National Specialty Insurance Company participates in a pooling arrangement with certain of its affiliates. After external and affiliated reinsurance, the pool participants cede 100% of their net premiums written, losses, loss adjustment expenses, underwriting expenses and related balance sheet categories to United National Insurance Company. UNIC, as the lead company and pool manager, administers all aspects of the pooled business. UNIC distributes the net pooled business according to the participations listed below. Income and expenses related to investment operations and corporate taxes, including federal income taxes, are not included in pooling.

Participations:

	12/31/2012	**1/1/2013**
United National Insurance Company	40.0%	40.0%
Penn-America Insurance Company	25.0	25.0
Diamond State Insurance Company	10.0	15.0
Penn-Star Insurance Company	10.0	10.0
Penn-Patriot Insurance Company	5.0	5.0
United National Specialty Insurance Company	5.0	5.0
United National Casualty Insurance Company	5.0	0.0
Total	100.0%	100.0%

Lines covered:	All the net retained business on policies written
Items included:	Net premiums written and earned, losses, loss adjustment expenses, underwriting expenses, salvage and subrogation recoveries, assessments, taxes, and policyholder dividends
Effective:	January 1, 2009, as amended, continuous to present
Termination:	By any party on the last day of any March, June, September or December, upon 90 days' written notice by any party or at any time by mutual agreement of the parties. Each participant shall remain liable with respect to all cessions in force on the effective date of termination.

Additional comments:	Any dispute arising out of this agreement shall be settled through arbitration

Pre-Pool Reinsurance Program

Affiliated Ceding Contracts

1.	Type:	50% Quota Share
	Reinsurer:	Wind River Reinsurance Company, Ltd.
	Scope:	All net retained liability as respects losses occurring and/or claims made under policies in force at the inception of this contract or renewed during the term of this contract (excluding worker's compensation business and losses from named storms)
	Retention:	50% of the losses occurring and/or claims made under policies in force at the inception of this contract or renewed during the term of this contract
	Coverage:	50% of the losses occurring and/or claims made under policies in force at the inception of this contract or renewed during the term of this contract
	Premium:	50% of net subject premium
	Commissions:	Ceding commission equal to the company's acquisition costs on business plus 2%
	Effective:	January 1, 2014, continuous to present
	Termination:	Either party may terminate this contract with not less than 90 days' prior written notice. Upon termination the reinsurer will remain liable for all policies in force at the termination date until the first anniversary date, date of cancellation or natural expiration date, whichever occurs first, plus odd time, if any, not to exceed 24 months, plus the period of discovery allowed.
2.	Type:	Stop Loss
	Reinsurer:	Wind River Reinsurance Company, Ltd.
	Scope:	All net retained liability as respects losses occurring and/or claims made under policies in force at the inception of this contract or renewed during the term of this contract (excludes worker's compensation business and losses from numbered catastrophes)
	Retention:	Ultimate net loss equal to 70% of net earned premium
	Coverage:	100% of ultimate net losses in excess of 70% of company's net earned premium up to a maximum limit of liability of 90% of net earned premium
	Premium:	5.50% of subject net earned premium

Commissions:	None
Effective:	January 1, 2014, continuous to present
Termination:	Either party may terminate this contract with not less than 90 days' prior written notice. Upon termination the reinsurer will remain liable for all policies in force at the termination date until the first anniversary date, date of cancellation or natural expiration date, whichever occurs first, plus odd time, if any, not to exceed 24 months, plus the period of discovery allowed.

Non-Affiliated Ceding Contracts

The following non-affiliated ceding contracts cover all of the members of the affiliated pooling agreement. Retention, coverage, and premium amounts are divided among the six members of the pool in accordance with the pooling percentages outlined above.

3.	Type:	Casualty Clash Excess of Loss
	Reinsurer:	Munich Reinsurance America, Inc.
	Scope:	Casualty, professional liability, umbrella and following form excess liability business (excluding worker's compensation business)
	Retention:	The first $3,000,000 of ultimate net loss per occurrence
	Coverage:	Ultimate net loss up to $10,000,000 in excess of $3,000,000 per loss occurrence, with an annual aggregate limit of $20,000,000
	Premium:	Annual deposit premium of $700,000 paid in quarterly installments; annual minimum premium of $560,000, subject to adjustment at the rate of 0.80% of subject gross earned premium
	Commissions:	None
	Effective date:	May 1, 2013
	Termination:	The contract is scheduled to expire on May 1, 2014. Either party may terminate this contract with not less than 90 days' prior written notice provided that the reinsurer shall continue to be bound for the balance of the term of all policies which remain in force.
	Additional comment:	Guy Carpenter & Company is recognized as the intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company. Other reinsurance coverage's required.

4. Type: Casualty & Professional Liability Excess of Loss

Reinsurers: As of May 1, 2013, participation was as follows:

	Percentage
Munich Reinsurance America, Inc.	50.0%
Transatlantic Reinsurance Company	50.0
Total	100.0%

Scope: Casualty business (general liability, products liability and professional liability) and commercial auto liability (excludes worker's compensation and umbrella liability)

Retention: The first $1,000,000 of each loss occurrence

Coverage: Losses occurring up to $2,000,000 in excess of $1,000,000 per loss occurrence (casualty business). Losses occurring up to $4,000,000 in excess of $1,000,000 per loss occurrence (professional liability).

Premium: Annual deposit premium of $4,500,000 less ceding commission paid in quarterly installments; annual minimum premium of $3,600,000 subject to adjustment at the rate of 4.850% (casualty and commercial auto liability) and 15.00% (professional liability) of subject gross net earned premium less ceding commission

Commission: 32.5% ceding commission

Effective date: May 1, 2013, continuous to present

Termination: Either party may terminate this contract with not less than 90 days' prior written notice. Upon termination the reinsurer will remain liable for all policies in force at the termination date until the first anniversary date, date of cancellation or natural expiration date, whichever occurs first, plus odd time, if any, not to exceed 18 months, plus the period of discovery allowed or where the company has issued an Extended Reporting Period Endorsement.

Additional comments: Guy Carpenter is recognized as the intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

5. Type: Quota Share

Reinsurer: American Standard Insurance Company of Wisconsin

Scope: Property and casualty business – vacant properties

Retention: 50% of liability on related business

Coverage:	50% quota share participation on losses incurred by the company on the reinsured policies
Premium:	50% of net subject premium
Commissions:	40% on all premiums ceded
Effective date:	April 1, 2011, to April 1, 2014
Termination:	The company may terminate the participation of any reinsurer with 90 days' prior written notice provided that the reinsurer shall continue to be bound for the balance of the term of all policies which remain in force

6. Type: Property Per Risk Excess of Loss (multiple layer)

Reinsurers: As of January 1, 2014, participation was as follows:

	Percentage
Munich Reinsurance America, Inc.	30.0
Transatlantic Reinsurance Company	15.0
Hannover Ruckversicherung Aktiengesellschaft	5.0
Total	50.0% of 100%

Scope:	Business classified by the company as the following property business – small business (includes garage keepers' legal liability coverage); class specific products, property brokerage and dealers open lot
Retention:	First $2,000,000 of each and every risk. First Excess Layer - 50% of $3,000,000 ultimate net loss each and every risk, each and every loss in excess of $2,000,000. Second Excess Layer - 50% of $10,000,000 ultimate net loss each and every risk, each and every loss in excess of $5,000,000.
Coverage:	First Excess Layer - 50% of $3,000,000 ultimate net loss each and every risk, each and every loss in excess of $2,000,000, subject to a limit of liability to the reinsurer of $3,000,000 ultimate net loss in the aggregate on all risks involved in one occurrence. Second Excess Layer - 50% of $10,000,000 ultimate net loss each and every risk, each and every loss in excess of $5,000,000, subject to a limit of liability to the reinsurer of $10,000,000 in the aggregate on all risks involved in one occurrence.

Premium:	First Excess Layer - Annual deposit premium of $2,879,144 less ceding commission paid in quarterly installments. The company is 50% subscribed. Second Excess Layer - Annual deposit premium of $1,419,099 less ceding commission paid in quarterly installments. The company is 50% subscribed. Annual minimum premium of $3,438,594, subject to adjustment based on subject net earned premium depending on business type. The company is 50% subscribed.
Commissions:	32.5% ceding commission
Effective:	January 1, 2014, continuous to present
Termination:	The company may terminate the participation of any reinsurer with 90 days' prior written notice provided that the reinsurer shall continue to be bound for the balance of the term of all policies which remain in force

7. Type: Property Catastrophe Excess of Loss (Multiple Layers)

Reinsurers: As of June 1, 2013, participation was as follows:

	Participation	
Reinsurer	**First Layer**	**Second Layer**
Various (Guy Carpenter)	22.50%	70.00%
Munich Reinsurance America, Inc.	27.50	10.00
Total	50.00%	80.00% of 100.00%

Scope:	All business classified by the company as property business including, but not limited to, fire, allied lines, inland marine, commercial multiple peril, business owners, commercial and private passenger automobile physical damage
Retention:	First $20,000,000 of ultimate net losses per occurrence. First Layer - 50% of $20,000,000 ultimate net loss in excess of the company's retention of $20,000,000 of ultimate net loss per occurrence. Second Layer - 20% of $50,000,000 ultimate net loss in excess of the company's retention of $40,000,000 of ultimate net loss per occurrence.
Coverage:	First Layer - 50% of $20,000,000 ultimate net loss in excess of the company's retention of $20,000,000 of ultimate loss per occurrence. The reinsurer's limit of liability will be no more than $40,000,000 of ultimate net loss for all occurrences during the term of the contract.

Second Layer - 80% of $40,000,000 ultimate net loss in excess of the company's retention of $40,000,000 of ultimate net loss per occurrence. The reinsurer's limit of liability will be no more than $80,000,000 of ultimate net loss for all occurrences during the term of the contract.

Premium: First Layer - Gross of the company's participation: Annual deposit premium of $3,500,000 paid in quarterly installments; annual minimum premium of $2,800,000, subject to adjustment at the rate of 3.2990% of subject net written premium

Second Layer - Gross of the company's participation: Annual deposit premium of $4,000,000 paid in quarterly installments; annual minimum premium of $3,220,000, subject to adjustment at the rate of 3.77% of subject net written premium

Commissions: None

Effective: June 1, 2013

Termination: The contract is scheduled to expire on June 1, 2014

Additional comment: Guy Carpenter is recognized as the intermediary. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

8. Type: Statutory Mine Subsidence Insurance Coverage

Reinsurer: Illinois Mine Subsidence Insurance Fund

Scope: Required by statue to be available in certain counties in Illinois for commercial and residential property insurance to cover damage by mine subsidence

Retention: Deductibles determined by the fund

Coverage: Up to 100% of the statutory limits which currently are $750,000 for residential and commercial coverage and $15,000 for living unit coverage

Premium: 100% of the premium for business written and classified by the company as mine subsidence insurance

Commissions: 20%

Effective: July 1, 2008

Termination: Continuous or upon the repeal of the statute

9. Type: Boiler & Machinery Breakdown Reinsurance

Reinsurer: The Travelers Indemnity Company

Scope:	100% of all business written and classified by the company as specialty products equipment breakdown insurance
Retention:	Minimum deductibles of $1,000
Coverage:	100% of the losses occurring and/or claims made under policies in force at the inception of this contract or renewed during the term of this contract with limits of liability for property damage up to $50,000,000 and business income/extra expense coverage up to $10,000,000
Premium:	100% of the premium for business written and classified by the company as specialty products equipment breakdown insurance
Commissions:	36% ceding commission
Effective:	January 1, 2008, continuous to present
Termination:	The company may terminate the participation of any reinsurer with 90 days' prior written notice

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2012, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

United National Specialty Insurance Company
Assets
As of December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$66,866,568	$	$66,866,568
Cash, cash equivalents, and short-term investments	5,641,387		5,641,387
Receivables for securities	5,794		5,794
Investment income due and accrued	437,295		437,295
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	1,360,137	20,773	1,339,364
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	96,232		96,232
Reinsurance:			
Amounts recoverable from reinsurers	874,069		874,069
Net deferred tax asset	781,489	251,413	530,076
Guaranty funds receivable or on deposit	232		232
Receivable from parent, subsidiaries, and affiliates	2,695,013	58,968	2,636,045
Write-ins for other than invested assets:			
Losses paid, reserved, claims processing pending	53,889		53,889
Total Assets	$78,812,105	$331,154	$78,480,951

United National Specialty Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2012

Losses		$ 9,482,386
Reinsurance payable on paid loss and loss adjustment expenses		1,442,051
Loss adjustment expenses		4,277,768
Commissions payable, contingent commissions, and other similar charges		53,000
Other expenses (excluding taxes, licenses, and fees)		72,497
Taxes, licenses, and fees (excluding federal and foreign income taxes)		4,321
Current federal and foreign income taxes		219,309
Unearned premiums		1,954,823
Ceded reinsurance premiums payable (net of ceding commissions)		698,787
Amounts withheld or retained by company for account of others		10,928
Remittances and items not allocated		104,594
Provision for reinsurance		8,659
Payable to parent, subsidiaries, and affiliates		428,411
Write-ins for liabilities:		
Escheat payable		82,013
Deferred ceding commission		12,565
Total liabilities		18,852,112
Common capital stock	$ 4,200,000	
Gross paid in and contributed surplus	28,631,583	
Unassigned funds (surplus)	26,797,256	
Surplus as regards policyholders		59,628,839
Total Liabilities and Surplus		$78,480,951

United National Specialty Insurance Company
Summary of Operations
For the Year 2012

Underwriting Income		
Premiums earned		$4,278,962
Deductions:		
Losses incurred	$2,275,190	
Loss adjustment expenses incurred	957,961	
Other underwriting expenses incurred	1,791,876	
Write-ins for underwriting deductions:		
Change in premium deficiency reserve	(82,851)	
Total underwriting deductions		4,942,176
Net underwriting gain (loss)		(663,214)
Investment Income		
Net investment income earned	2,144,195	
Net realized capital gains (losses)	36,258	
Net investment gain (loss)		2,180,453
Other Income		
Net gain (loss) from agents' or premium balances charged off	(9,179)	
Total other income		(9,179)
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		1,508,060
Federal and foreign income taxes incurred		199,785
Net Income		$1,308,275

United National Specialty Insurance Company
Cash Flow
For the Year 2012

Premiums collected net of reinsurance			$ 4,311,870
Net investment income			2,314,758
Miscellaneous income			(9,179)
Total			6,617,449
Benefit- and loss-related payments		$ 1,982,805	
Commissions, expenses paid, and aggregate write-ins for deductions		3,107,344	
Total deductions			5,090,149
Net cash from operations			1,527,300
Proceeds from investments sold, matured, or repaid:			
Bonds	$15,960,013		
Miscellaneous proceeds	14,250		
Total investment proceeds		15,974,263	
Cost of investments acquired (long-term only):			
Bonds	12,190,979		
Total investments acquired		12,190,979	
Net cash from investments			3,783,284
Cash from financing and miscellaneous sources:			
Dividends to stockholders		(1,286,391)	
Other cash provided (applied)		(3,895,145)	
Net cash from financing and miscellaneous sources			(5,181,536)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			129,048
Cash, cash equivalents, and short-term investments:			
Beginning of year			5,512,339
End of Year			$ 5,641,387

United National Specialty Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2012

Assets		$78,480,951
Less: Asset adjustment for excess investments in certain securities		1,147,733*
Less liabilities		18,852,112
Adjusted surplus		58,481,106
Annual premium:		
Lines other than accident and health	$6,171,809	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (or Deficit)		$56,481,106
Adjusted surplus (from above)		$59,628,839
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%)		2,800,000
Security Surplus Excess (or Deficit)		$55,681,106

***** This consists of the adjustment discussed in the "Summary of Current Examination Results" section of the report under the caption "Compulsory and Security Surplus Calculation." It should be noted that this is an adjustment to the company's calculation of the extent to which it exceeds Wisconsin's compulsory and security surplus requirements only and has no bearing on admitted assets or policyholders' surplus, as reported in the company's statutory financial statements.

United National Specialty Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2012

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

	2012	**2011**	**2010**	**2009**	**2008**
Surplus, beginning of year	$59,761,313	$60,776,682	$59,362,963	$59,173,340	$59,563,687
Net income	1,308,275	1,982,186	4,038,342	2,325,770	550,319
Change in net unrealized capital gains/losses	0	0	0	0	4,985
Change in net deferred income tax	(126,481)	(116,138)	(277,175)	373,248	(377,348)
Change in nonadmitted assets	(26,259)	192,576	221,154	(24,434)	611,895
Change in provision for reinsurance	(1,618)	12,008	(18,602)	15,039	(5,198)
Dividends to stockholders	(1,286,391)	(3,086,000)	(2,550,000)	(2,500,000)	(1,175,000)
Surplus, End of Year	$59,628,839	$59,761,313	$60,776,682	$59,362,963	$59,173,340

United National Specialty Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2012

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

	Ratio	**2012**	**2011**	**2010**	**2009**	**2008**
#1	Gross Premium to Surplus	15%	17%	19%	23%	19%
#2	Net Premium to Surplus	7	8	8	11	6
#3	Change in Net Premiums Written	(12)	3	(29)	76*	(46)*
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	67	41	24	46	43
#6	Investment Yield	2.9*	3.1	3.8	4.7	4.8
#7	Gross Change in Surplus	0	(2)	2	0	(1)
#8	Change in Adjusted Surplus	0	(2)	2	0	(1)
#9	Liabilities to Liquid Assets	26	27	32	41	27
#10	Agents' Balances to Surplus	2	2	3	3	1
#11	One-Year Reserve Development to Surplus	(1)	(1)	(3)	(1)	2
#12	Two-Year Reserve Development to Surplus	(1)	(4)	(4)	(1)	0
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0	0	(2)

In 2008 and 2009, Ratio No. 3, which measures the change in net premiums written over the course of the year, resulted in two exceptional IRIS ratios. In 2008 the 46% decrease was driven largely by a 36.9% decline in gross premiums written by the Pool. This decrease was primarily due to terminations of business that did not meet the group's profitability requirements, a reduction of premiums from agents that write business in coastal catastrophe prone areas, price decreases in the aggregate of approximately 3%, as well as other market factors.

In 2009, the 76% increase was the result of three additional companies (Penn-America, Penn-Star, and Penn-Patriot) being added to the intercompany pool. (The portion of the pool assumed by UNSIC at the time, 5%, was unchanged from the previous years.) This lead to a significant increase in the pooled premiums to be allocated.

Ratio No. 6 measures the company's investment yield over a two-year period. The exceptional result in 2012 was 0.1% below the minimum threshold of 3.0%. This was attributable to the company investing in highly rated bonds in a low interest rate environment.

Growth of United National Specialty Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2012	$78,480,951	$18,852,112	$59,628,839	$1,308,275
2011	80,879,687	21,118,374	59,761,313	1,982,186
2010	86,688,270	25,911,588	60,776,682	4,038,342
2009	93,624,708	34,261,745	59,362,963	2,325,770
2008	77,869,902	18,696,562	59,173,340	550,319
2007	82,309,744	22,746,058	59,563,686	3,617,378

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2012	$ 8,962,280	$4,245,957	$4,278,962	75.6%	40.5%	116.1%
2011	10,093,126	4,810,838	5,201,926	71.0	43.3	114.3
2010	11,293,008	4,685,413	4,602,682	33.1	44.3	77.4
2009	13,792,662	6,617,953	5,810,182	62.9	33.0	95.9
2008	11,175,364	3,768,476	4,688,962	97.5	36.9	134.4
2007	32,284,339	6,937,212	7,491,185	78.4	4.1	82.5

During the period under examination gross premiums written decreased 72% from $32,284,339 during 2007 to $8,962,280 during 2012. This shift was the result of a restructuring plan of the group's U.S. insurance operations. The plan was to exit business that did not meet the group's profitability requirements and focus the company's resources on business that can produce long-term profitable growth. Surplus has remained at healthy levels, with year-end levels ranging from $59,173,340 to $60,776,682 during the period. No changes were made to the company's participation percentage in the affiliated reinsurance pooling agreement. The company's loss and loss adjustment expense ratio has averaged 68% during the period under examination, varying from a high of 97.5% in 2008 to a low of 33.1% in 2010. The expense ratio has been as high as 44.3% in 2011 and as low as 4.1% in 2007 with its average over the last five years at 39.6%. The combined ratio has averaged 107.6% during the period under examination, varying from a high of 134.4% in 2008 and a low of 77.4% in 2010. The high combined ratios, notably since implementation of the restructuring plan in 2010, are the result of decreasing business and small levels of earned premium.

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, 2012, 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. Management and Control—It is recommended that the company report biographical data relating to officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

   Action—Noncompliance. Further comment is contained in the section of this report captioned “Management and Control.”

2. Investments – Custodial Agreements—It is recommended that the company maintain its custodial agreement pursuant to the language suggested by the NAIC Financial Condition Examiners Handbook and update it when the custodian changes its ownership and name.

   Action—Compliance.

3. Financial Reporting—It is recommended that the company prepare the asset and liabilities pages of its annual statement, in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

   Action—Compliance.

Summary of Current Examination Results

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

Management and Control

Section Ins 6.52, Wis. Adm. Code, requires that companies file a biographical report on any new director or officer within 15 days of their election or appointment. The compliance examination as of December 31, 2007, noted that such reports had not been timely supplied in most instances. It was noted that in all instances the director and officer change notifications sent during the period under examination took more than 15 days. Many times it took around 30 days to receive the notification letters. It is again recommended that the company report biographical data relating to officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

During a review of the company's board of directors' meeting minutes it was found that there were no recorded minutes supporting the occurrence of an annual meeting of the sole shareholder for the years 2010 and 2012. This is in violation of ss. 611.40 (1) and 180.0701 (1), Wis. Stat. It was also noted that financial results were not being discussed with the board. It is recommended that the company comply with ss. 611.40 (1) and 180.0701 (1), Wis. Stat., by holding annual shareholder meetings and preparing minutes thereon. It is further recommended that the board of directors' meeting minutes evidence that management provides periodic summaries of financial results to the board of directors.

While reviewing a list of the company's officers it was noted that during years 2011 and 2012 there was no president. This is contrary to Chapter 4, Section 4.1, of the company's bylaws that state that one of the principal offices of UNSIC is that of president. It is recommended that the company act in accordance with its bylaws by establishing the position of president or amend its bylaws to reflect the ending of the position.

Actuary Appointment

A review of the company's annual statement filing noted a change in the appointed actuary. OCI had not been notified of this change. Furthermore it was noted that the opining actuary had not been approved by the company's board of directors. It is recommended that the company timely notify OCI of any change in its appointed actuary in accordance with s. Ins 50.75 (3), Wis. Adm. Code.

Conflict of Interest Questionnaire

In accordance with a directive of the Commissioner of Insurance, each Wisconsin-domiciled insurance company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. As part of the examination conflict of interest statements were reviewed for directors for all years under examination. It was noted that conflict of interest statements were missing for three directors during 2011 and one director during 2012. It is recommended that the company establish procedures to ensure that all directors, officers, and key employees sign conflict of interest statements annually.

Reinsurance Trust Agreement

In connection with OCI's granting credit for unauthorized reinsurance from the company's Bermuda-domiciled affiliate, Wind River Reinsurance Company, Ltd., or any other affiliated reinsurer domiciled in a jurisdiction outside of the United States of America for purposes of computing the company's compulsory and security surplus pursuant to ss. 623.11 and 623.12, Wis. Stat., the company and OCI mutually agreed to enter into a Stipulation and Order in the Matter of Case No. 04-C29004. This Stipulation and Order requires, among other matters, that the company furnish OCI with Wind River Reinsurance Company, Ltd.'s annual audited financial statements and quarterly unaudited financial statements, as well as a copy of the trustee's quarterly report of the financial position of the related reinsurance credit trust account by March 1 for each calendar year end and within 45 days after the end of each interim calendar quarter. The examination noted that the company was not regularly providing to OCI the financial statements and trust account statements as agreed and required under the Stipulation and Order in the Matter of Case No. 04-C29004. It is recommended that the company comply with the Stipulation and Order in the Matter of Case No. 04-C29004 by providing the required financial statements and quarterly trustee reports to OCI on a timely basis.

Approval of Custody Agreement

During the period under examination, the majority of UNSIC's investments were held under a custody agreement effective April 2, 2009. However, this custody agreement was not authorized by a resolution of either the company's board of directors or an authorized committee of the board of directors. It is recommended that the company's board of directors approve of this and future custody agreements.

Unclaimed Funds

It was noted that the company was failing to submit unclaimed funds to the state of Wisconsin in a timely manner. Chapter 177, Wis. Stat., provides that certain forms of abandoned property be forwarded to the custody of the state. Chapter 177, Wis. Stat., is the Uniform Unclaimed Property Act.

The Uniform Unclaimed Property Act is not designed primarily to benefit the state. Upon receipt of unclaimed property, the state "assumes custody and responsibility for [its] safekeeping . . .," s. 177.20 (1), Wis. Stat. Property which escheats to the state is held by the state and continues to be available to the person entitled to it. That person has a continuing right to claim it from the state after it has been reported abandoned and delivered to the state.

It is recommended that the company comply with ch. 177, Wis. Stat., and the equivalent laws of other states in which it operates. It is further recommended that unclaimed funds be remitted to the company's state of domicile in those instances where the payee's state of domicile is unknown.

Compulsory and Security Surplus Calculation

Review of the company's investment portfolio indicated that investments in countries other than the United States or Canada exceeded the 2% of assets limitation established by s. Ins 6.20 (8) (k), Wis. Adm. Code. A further additional "basket" allocation of 5% of admitted assets for any excess investment is permitted by s. 620.22 (9), Wis. Stat. Based on the company's $78,480,951 in admitted assets as of December 31, 2012, the limitation on non-U.S. and Canadian investments was $1,569,619 and the "basket" limitation was $3,924,048, for a total limitation of $5,493,667. As of December 31, 2012, the company reported non-U.S. and Canadian investments in the amount of $6,641,400, thereby exceeding applicable investment limitations by $1,147,733.

Investments that exceed limitations set forth in the Wisconsin Statutes and the Wisconsin Administrative Code cannot be counted towards satisfaction of the compulsory surplus requirement of s. 623.11, Wis. Stat., or the security surplus standard of s. 623.12, Wis. Stat. Insurers licensed in Wisconsin have the flexibility to invest in assets prudently in the amount by which policyholders' surplus exceeds the Wisconsin security surplus standard for the company, provided that such investment decisions are properly reflected in the compulsory and security surplus calculation filed by the company. The required adjustment to the compulsory and security surplus calculation as of December 31, 2012, in the amount of $1,147,733 was not made. Accordingly, this examination determined that the company's calculation of policyholders' surplus in excess of the compulsory surplus requirement and the security surplus standard were both equally overstated by $1,147,733. The compulsory surplus excess is adjusted to $56,481,106 from the reported $57,628,839. The security surplus excess is adjusted to $55,681,106 from the reported $56,628,839. This adjustment for investment in excess of applicable statutory and regulatory limitations is reflected in this examination report's compulsory and security surplus calculation, which is included in the section of this report captioned "Financial Data."

It is recommended that the company deduct the aggregate value of investments in excess of applicable statutory and regulatory limitations from assets on the Compulsory and

Security Surplus Calculation form, which is filed as a state-specific supplement to the annual and quarterly financial statements.

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 officers and employees whose compensation exceeds specified amounts. The company completed this form disclosing employees with compensation over $250,000. However, since the company completes the form on a consolidated basis and due to the size of the largest company in the group, United National Insurance Company, the compensation of each officer or employee whose annual compensation exceeds $175,000 must be disclosed.

It was noted that the compensation received by officers was not being reported in its entirety in the Report of Executive Compensation. It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees whose annual compensation is in excess of the amount stated on the Report on Executive Compensation.

VIII. CONCLUSION

Policyholders' surplus has increased from $59,563,687 as of year-end 2007, to $59,628,839 as of year-end 2012. This represents an increase of 0.1% during the period under examination.

The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2007, when policyholders' surplus was last verified by examination, to December 31, 2012:

Policyholders' surplus, December 31, 2007	$59,563,687
Dividends to stockholder	(10,597,391)
Net income	10,204,892
Change in nonadmitted assets	974,932
Change in net deferred income tax	(523,894)
Change in net unrealized capital gains	4,985
Change in provision for reinsurance	1,629
Policyholders' Surplus, December 31, 2012	$59,628,839

During the period under examination gross premiums written decreased dramatically, decreasing 72% from $32,284,339 during 2007 to $8,962,280 during 2012. This shift was the result of a restructuring plan of the group's U.S. insurance operations. The plan was to exit business that did not meet the group's profitability requirements and focus the company's resources on business that can produce long-term profitable growth. Surplus has remained at healthy levels, with year-end levels ranging from $59,173,340 to $60,776,682 during the period. No changes were made to the company's participation percentage in the affiliated reinsurance pooling agreement. The company's loss and loss adjustment expense ratio has averaged 68% during the period under examination, varying from a high of 97.5% in 2008 to a low of 33.1% in 2010. The expense ratio has been as high as 44.3% in 2011 and as low as 33.0% in 2009 with its average over the last five years at 39.6%. The combined ratio has averaged 107.6% during the period under examination, varying from a high of 134.4% in 2008 and a low of 77.4% in 2010. The high combined ratios, notably since implementation of the restructuring plan in 2010, are the result of decreasing business and small levels of earned premium.

The current examination made ten recommendations, including one repeated from the prior examination. Areas of improvement recommended by this examination centered around issues of management and control, regulatory reporting, and the remittance of unclaimed funds.

The examination determined that there were no material misstatements of account balances as reported by the company in its 2012 statutory financial statements and did not make any adjustments or reclassifications of reported account balances. The examination determined that as of December 31, 2012, the company had admitted assets of $78,480,951, liabilities of $18,852,112, and policyholders' surplus of $59,628,839.

While the company is a separate legal entity, it derives all of its net retained business through a pooling arrangement with certain affiliates led by United National Insurance Company. All of the company's operations are conducted by employees of Global Indemnity Group Services, LLC, an affiliated service company, and the results of the company's operations, other than investments, taxes, and certain types of underwriting expenses, are pooled with participants in the Global Indemnity Group Pool. The experience of the company relative to net premiums, liabilities, and net underwriting results will largely, though not precisely, follow the experience of the affiliated pool as a whole. Therefore, the practices and procedures of pool participants, especially United National Insurance Company, which manages the pool, are critical to the operating results of the company.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 35 - Management and Control—It is again recommended that the company report biographical data relating to officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

2. Page 35 - Management and Control—It is recommended that the company comply with ss. 611.40 (1) and 180.0701 (1), Wis. Stat., by holding annual shareholder meetings and preparing minutes thereon. It is further recommended that the board of directors' meeting minutes evidence that management provides periodic summaries of financial results to the board of directors.

3. Page 35 - Management and Control—It is recommended that the company act in accordance with its bylaws by establishing the position of president or amend its bylaws to reflect the ending of the position.

4. Page 36 - Actuary Appointment—It is recommended that the company timely notify OCI of any change in its appointed actuary in accordance with s. Ins 50.75 (3), Wis. Adm. Code.

5. Page 36 - Conflict of Interest Questionnaire—It is recommended that the company establish procedures to ensure that all directors, officers, and key employees sign conflict of interest statements annually.

6. Page 37 - Reinsurance Trust Agreement—It is recommended that the company comply with the Stipulation and Order in the Matter of Case No. 04-C29004 by providing the required financial statements and quarterly trustee reports to OCI on a timely basis.

7. Page 37 - Approval of Custody Agreement—It is recommended that the company's board of directors approve of this and future custody agreements.

8. Page 37 - Unclaimed Funds—It is recommended that the company comply with ch. 177, Wis. Stat., and the equivalent laws of other states in which it operates. It is further recommended that unclaimed funds be remitted to the company's state of domicile in those instances where the payee's state of domicile is unknown.

9. Page 38 - Compulsory and Security Surplus Calculation—It is recommended that the company deduct the aggregate value of investments in excess of applicable statutory and regulatory limitations from assets on the Compulsory and Security Surplus Calculation form, which is filed as a state-specific supplement to the annual and quarterly financial statements.

10. Page 39 - Executive Compensation—It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees whose annual compensation is in excess of the amount stated on the Report on Executive Compensation.

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**
Marisa Rodgers	Insurance Financial Examiner
David Jensen	IT Specialist

Respectfully submitted,

Margaret Callahan
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

Sale of Subsidiary

Effective December 31, 2013, the company's affiliate, United National Casualty Insurance Company, was sold to CGB Enterprises, Inc., a Louisiana corporation and its affiliates.

As a result of the proposed sale of UNCIC, the company amended its intercompany agreements effective January 1, 2013, to remove UNCIC as a party to intercompany agreements which included: Stop Loss Reinsurance Contract with Wind River, Quota Share Reinsurance Contract with Wind River, Reinsurance Pooling Agreement, Cost Allocation Agreement, and the Tax Sharing Agreement.

Notice of Appointed Actuary

At year-end 2012 the company had employed an actuary other than the one on file with OCI as its appointed actuary to perform an assessment of the company's year-end reserves. Section 50.75 (3), Wis. Adm. Code, requires Wisconsin insurers to provide timely notice to OCI of changes to their appointed actuary. On May 31, 2013, the company sent notice to OCI of the change in actuaries.

Extraordinary Dividend and Subsequent Capital Contribution

On December 19, 2013, OCI approved the company's request to pay a dividend to its parent, United National Insurance Company, in the amount of $50,400,000. The dividend was considered to be an "extraordinary" dividend as defined by s. 600.03, Wis. Stat. The dividend was paid from the company's paid-in and contributed surplus in the amount of $24,432,000 and from its unassigned funds in the amount of $25,968,000.

Documentation provided to OCI by the company indicated that the dividend was requested primarily to redeploy capital within its holding company structure for the purpose of restructuring holding company debt and to make capital available for potential acquisition opportunities, business growth, and protection from catastrophes.

Minimum capital and surplus requirements for surplus lines insurance companies in Pennsylvania stipulate that such insurers maintain a minimum of $15 million of surplus. In order to meet this requirement, on March 7, 2014, Diamond State Insurance Company proposed to make a capital contribution of $8 million to the company. On March 10, 2014, OCI declined to disapprove the contribution.