

Report
of the
Examination of
Unigard Insurance Company
Sun Prairie, Wisconsin
As of December 31, 2017

TABLE OF CONTENTS

	Page
I. INTRODUCTION.....	1
II. HISTORY AND PLAN OF OPERATION	3
III. MANAGEMENT AND CONTROL	6
IV. AFFILIATED COMPANIES	8
V. REINSURANCE	21
VI. FINANCIAL DATA	40
VII. SUMMARY OF EXAMINATION RESULTS	50
VIII. CONCLUSION.....	54
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	55
X. SUBSEQUENT EVENTS	56
XI. ACKNOWLEDGMENT	57



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, Governor
Mark V. Afable, Commissioner

Wisconsin.gov

May 1, 2019

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

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:

UNIGARD INSURANCE COMPANY
Sun Prairie, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Unigard Insurance Company (UnigardIns, 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. Unigard Insurance 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 incorporated as Northwestern Security Insurance Company on September 29, 1960, under the laws of the State of Washington. The name of the company was changed to Unigard Insurance Company (UnigardIns) on September 14, 1968.

On December 22, 2006, Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company (Winterthur), a Swiss corporation, to AXA. Winterthur owned 100% of the company through its wholly owned direct subsidiary Winterthur U.S. Holdings, Inc., which acted as the holding company for Winterthur's U.S. operations.

On May 31, 2007, AXA finalized the sale of Winterthur U.S. Holdings, Inc., and its consolidated subsidiaries to Australian-based QBE Insurance Group Limited (QBE Limited) and QBE Holdings, Inc. The U.S. operations were renamed QBE Regional Companies (N.A.), Inc., (QBE Regional) and became part of QBE North America. On March 31, 2011, the company redomesticated from Washington to Wisconsin. Further information concerning the QBE Limited holding company group is included in the report under the section titled "Affiliated Companies."

Currently, the company records paid-up capital of \$3,000,000 consisting of 30,000 shares of common stock authorized, issued and outstanding, with a par value per share of \$100. The stock is owned by QBE Regional.

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."

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. QBE Americas, Inc., is the primary employer for its holding company subsystem, with approximately 2,300 employees nationwide at the time of this examination. QBE Management Services Pty Limited manages the companies' investment operations, subject to the Global Investment Services Master Agreement, and supervision of each of the companies' respective boards of directors. 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:

Washington	\$ 43,705,280	40.9%
California	41,176,679	38.5
Oregon	7,534,601	7.1
Montana	5,099,433	4.8
Idaho	4,106,796	3.8
All others	<u>5,231,893</u>	<u>4.9</u>
Total	<u>\$106,854,682</u>	<u>100.0%</u>

The company is licensed in Alaska, Arizona, California, Colorado, Idaho, Illinois, Montana, Nevada, New Mexico, New York, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Tennessee, Texas, Utah, Washington, West Virginia, Wisconsin, and Wyoming.

UnigardIns 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; General Casualty Company of Wisconsin (GC-WI), General Casualty Insurance Company (GCIIC), Hoosier Insurance Company (Hoosier), National Farmers Union Property and Casualty Company (NFU), NAU Country Insurance Company (NAU), North Pointe Insurance Company (North Pointe), Praetorian Insurance Company (Praetorian), QBE Insurance Corporation (QBEIC), QBE Reinsurance Corporation (QBE Re), QBE Specialty Insurance Company (Specialty), Regent Insurance Company (Regent), Southern Fire & Casualty Company (SFire), Southern Pilot Insurance Company (SPilot), Stonington Insurance Company, 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 products, 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	\$ 3,527,564	\$ 2,951,685	\$ 3,527,564	\$ 2,951,685
Allied lines	2,170,466	69,850,074	2,170,466	69,850,074
Farmowners multiple peril	4,447,973	2,050,720	4,447,973	2,050,720
Homeowners multiple peril	32,276,879	23,141,746	32,276,879	23,141,746
Commercial multiple peril	8,388,837	3,388,343	8,388,837	3,388,343
Ocean marine		(39,673)		(39,673)
Inland marine	994,179	3,190,692	994,179	3,190,692
Medical professional liability - claims made		1,153,866		1,153,866
Earthquake	240,540	587,085	240,540	587,085
Group accident and health		18,050,294		18,050,294
Other accident and health		368,293		368,293
Workers' compensation		15,415,802		15,415,802
Other liability – occurrence	4,094,019	5,055,787	4,094,019	5,055,787
Other liability – claims made		11,078,889		11,078,889
Excess workers' compensation		(220,810)		(220,810)
Products liability – occurrence	12,915	(50,263)	12,915	(50,263)
Products liability – claims made		(679)		(679)
Private passenger auto liability	26,661,580	3,883,089	26,661,580	3,883,089
Commercial auto liability	5,046,894	1,471,178	5,047,894	1,471,178
Auto physical damage	18,990,891	5,150,346	18,990,891	5,150,346
Aircraft (all perils)		4,257,178		4,257,178
Fidelity		96,744		96,744
Surety		847,411		847,411
Burglary and theft	1,945	8,490	1,945	8,490
Boiler and machinery		(6,009)		(6,009)
Credit		2,512,921		2,512,921
Reinsurance – non-proportional assumed property		3,469,490		3,469,490
Reinsurance – non-proportional assumed liability		5,386,991		5,386,991
Reinsurance – non-proportional assumed financial lines		4,755		4,755
Total All Lines	<u>\$106,854,682</u>	<u>\$183,054,435</u>	<u>\$106,854,682</u>	<u>\$183,054,435</u>

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

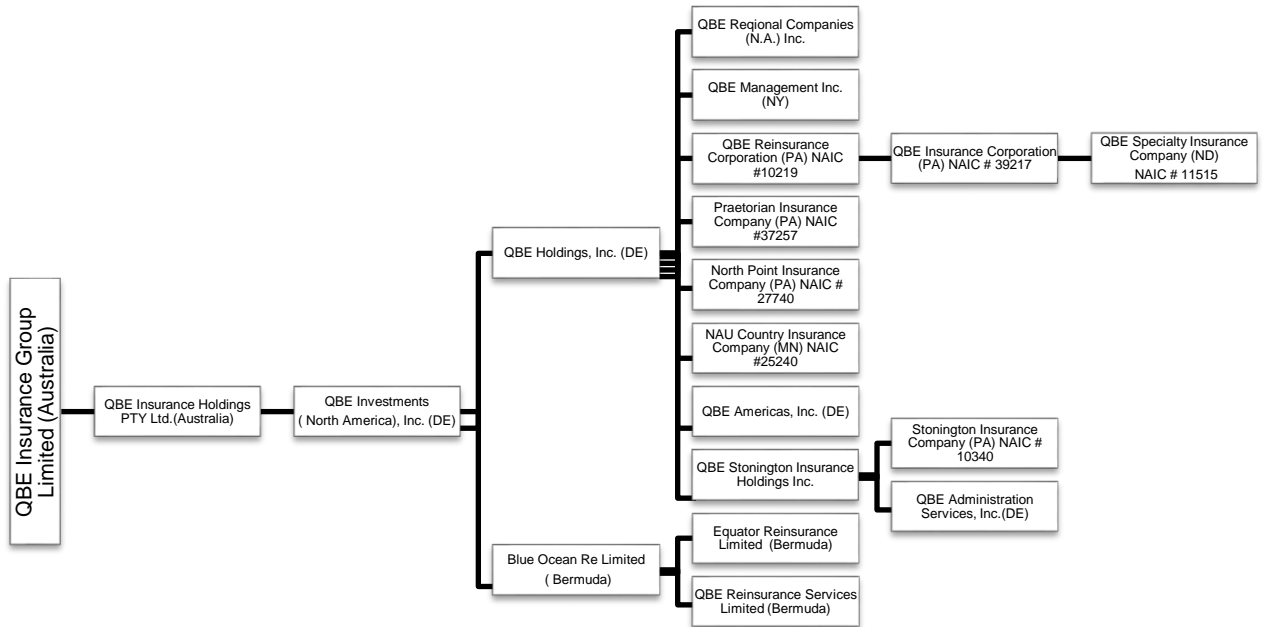
Marc Metcalf, Chair
Kris Hill
Russell Johnston
William Kronenberg III
John Langione

IV. AFFILIATED COMPANIES

UnigardIns 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.

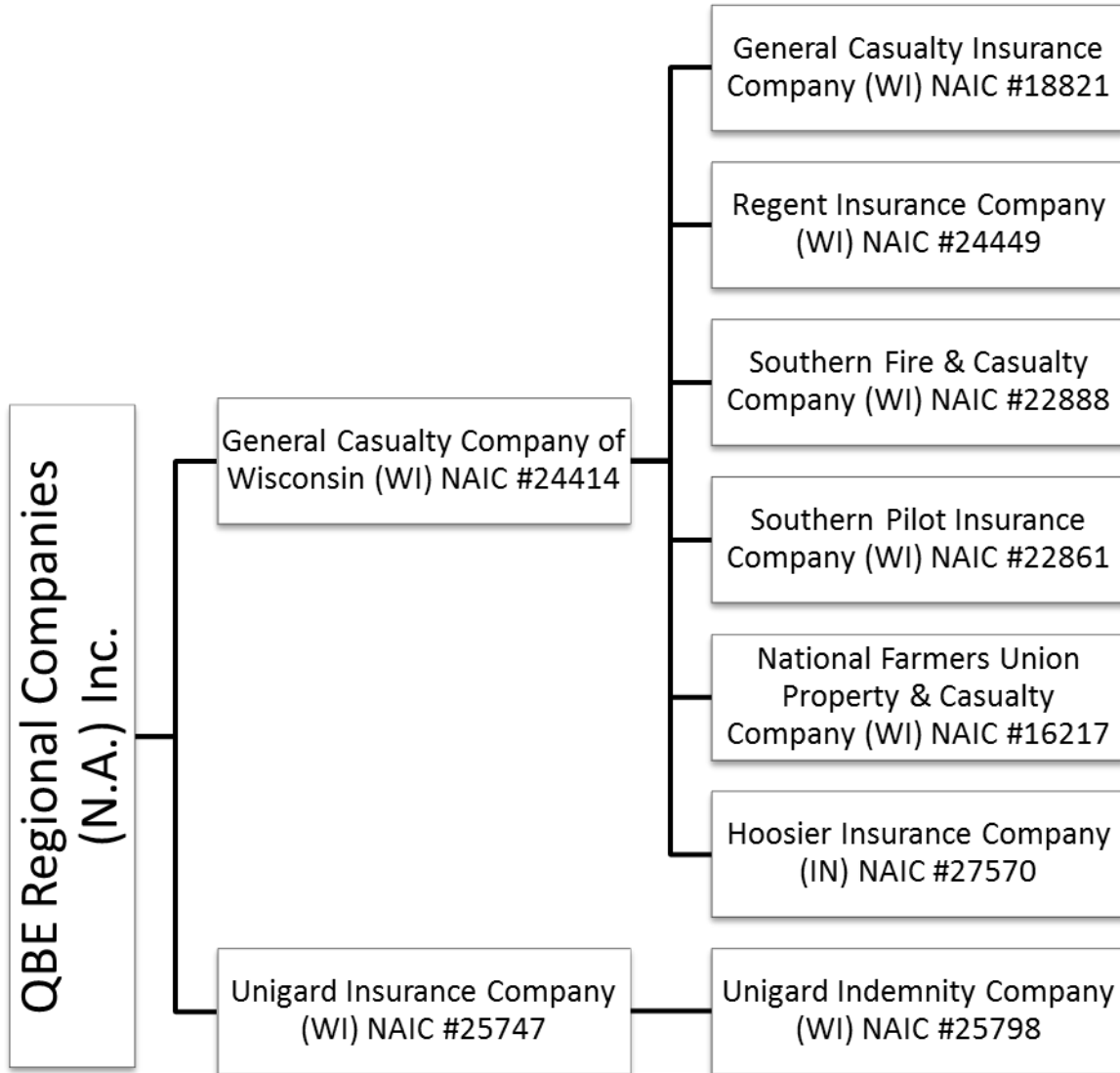
Organizational Chart

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



Organizational Chart

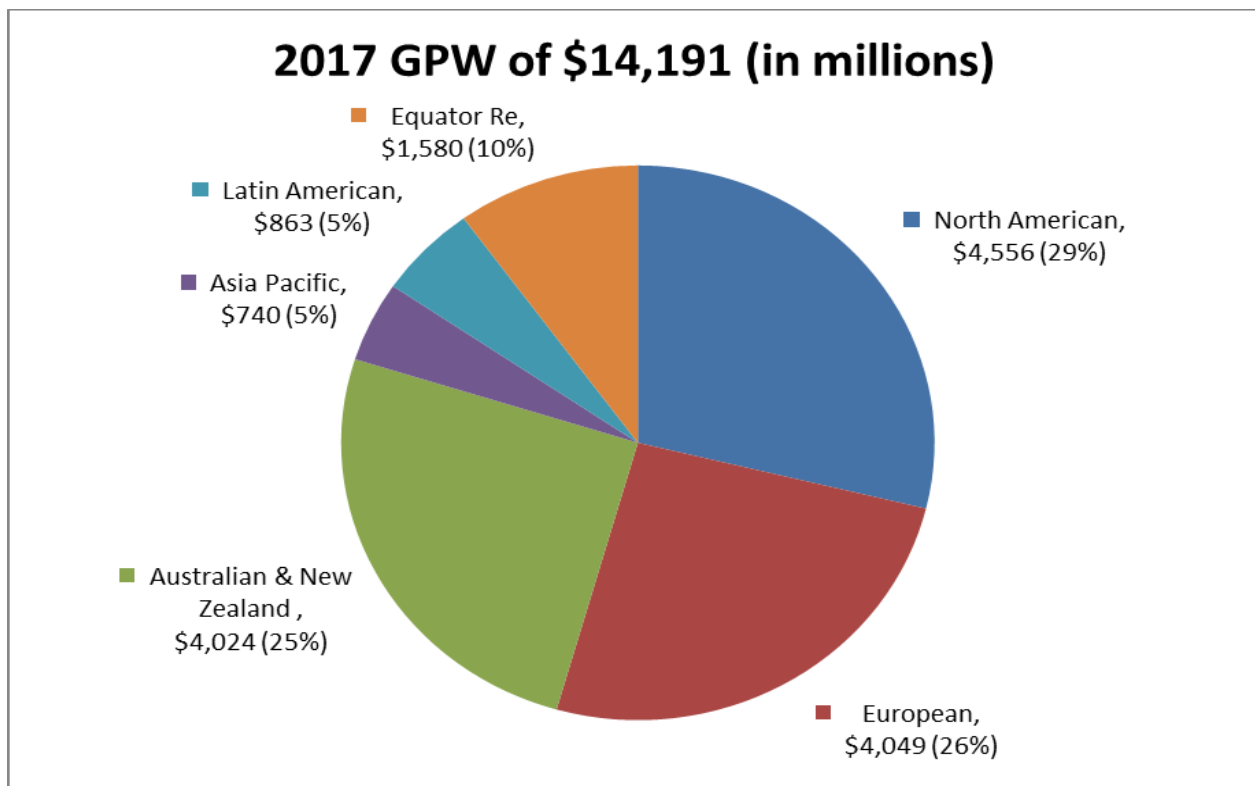
QBE Regional Companies (N.A.) Inc. and subsidiaries



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, consisting of 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. Headquarters are 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. Over 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 \$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 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 will be 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 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 \$1 billion, 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 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.

National Farmers Union Property and Casualty Company

NFU provides personal and commercial property and casualty insurance coverages to midwestern areas of the U.S. As of December 31, 2017, the combined audited financial statements of QBE North America reported NFU having assets of \$134.1 million, liabilities of \$92.0 million, and capital and surplus of \$42.1 million. Operations for 2017 produced a net loss of \$2.3 million on premiums of \$62.2 million and net investment loss of \$1.2 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 a 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 QBEASI 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.

QBE 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 U.S. 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. 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-US 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 replaced 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 the Multinational Cooperation Agreement, the QBE "Producing Offices" will provide business referrals to "Insurer" or "Servicing Offices", and the Servicing Office will issue and service the

local policies, in line with the requirements provided 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 with QBE Investments and subsidiaries. In accordance with this agreement, QBE Americas and UnigardIns provide actuarial, finance, accounting, legal, marketing, human resources, investment advice, internal audit, risk management, reinsurance, underwriting, claims, senior management and staff, information systems, group insurances, and policy services for the actual cost of the services performed. Within 30 days of the end of each month, the provider of service is to bill the receiver, 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 (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 with the latest amendment on 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 based on the tax members would be liable for if they 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 5 days before the due date for payment of additional tax liability. This agreement applies to all taxable years beginning with the effective date unless it is amended or terminated in writing by mutual agreement of all parties to the agreement.

V. REINSURANCE

The company's reinsurance portfolio and strategy 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, assigning 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 cessions are made prior to participation in the pooling arrangement. These reinsurance agreements are discussed below, as applicable to the company. Aside from these cessions, 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	36.5%
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 that 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

Blue Ocean Re 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 QBENA's 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 companies. Effective January 1, 2016, the agreement was amended a second time to change the terms of the agreement from a calendar-year basis to a 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, Equator Re and the cedents, GC-WI, North Pointe, Praetorian, QBEIC, Specialty, and Stonington 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, Equator Re, and 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 Re 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 the Blue Ocean Re 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, or 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: (i) 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 is paid or (ii) 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 Re Trade Credit Quota Share Agreement

In addition to the trade credit excess of loss reinsurance agreement described in the Exhibit A, effective January 1, 2018, subsidiaries and associated companies of QBE Limited entered into a quota share agreement with affiliate Blue Ocean Re. Blue Ocean Re 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 Re. Blue Ocean Re assumes all existing and future rights, liabilities, duties, and obligations of Equator Re under the 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, Equator Re is replaced by Blue Ocean as the reinsurer of any following affiliated ceding reinsurance agreements described in the “REINSURANCE” section of this report, 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, and NFU entered into three reinsurance trust agreements with Equator Re and Citibank, N.A. (the Trustee).

After the creation of Blue Ocean Re, 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 Re secures payments of amounts due to the company under any reinsurance agreements entered into by the beneficiaries and Blue Ocean Re 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 Re 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 Re 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. 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:	<p>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.</p> <p>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.</p> <p>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).</p>
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:	<p>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.</p> <p>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.</p>

Ceding Commission:

Business Segment	Ceding Commission
Policies issued for the corporate business unit covering referral risks	35%
Policies covering referral risks other than policies issued for the 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. 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. 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. 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:	Chateau Montelana LLC
Reinsurer:	National Indemnity Company, USA
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:	\$7.5 million in excess of \$2.5 million per occurrence
Premium:	\$33,750
Commissions:	NIL
Effective date:	May 1, 2018
Termination:	May 1, 2019
8. 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.

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.

Exhibit A

QBE North America

2018 Excess of Loss and Catastrophe Reinsurance Portfolio

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<p>Casualty Clash Excess of Loss Coverages for policies classified as casualty business with certain exceptions</p>	Blue Ocean Re	\$2,500,000	\$7,500,000 xs \$2,500,000 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 Terminate: 12/31/2018
<p>Commercial Inland Marine Per Risk Excess of Loss Coverages for policies classified as commercial inland marine</p>	Blue Ocean Re	5,000,000	\$5,000,000 xs \$5,000,000	5,000,000 one occurrence 15,000,000 aggregate	2 full	1.5% of net premium written 204,000 minimum 255,000 deposit premium	Effective: 1/1/2018 Terminate: 1/1/2019
<p>Healthcare Excess of Loss Covered for policies classified as healthcare</p>	Blue Ocean Re	3,000,000	\$3,000,000 xs \$3,000,000	3,000,000 one occurrence 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 350,060 minimum 411,835 deposit premium	Effective: 3/1/2017 Terminate: 12/31/2018
<p>Large Risk & Catastrophe Aggregate Excess of Loss 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)</p>	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 30,000,000 aggregate	No	4,000,000	Effective: 1/1/2018 Terminate: 12/31/2018

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

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<p align="center">Property Catastrophe Excess of Loss</p> <p>Coverages for policies classified as property business with certain exceptions</p>	Blue Ocean Re	200,000,000	200,000,000 xs 200,000,000	200,000,000 one occurrence	<p>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</p>	<p>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</p> <p>25,200,000 minimum</p> <p>31,500,000 deposit premium</p>	<p>Effective: 1/1/2018 Terminate: 1/1/2019</p>
		400,000,000	200,000,000 xs 400,000,000	200,000,000 one occurrence		<p>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</p> <p>16,080,000 minimum</p> <p>20,100,000 deposit premium</p>	
<p align="center">Property Per Risk Excess of Loss</p> <p>Coverages for policies classified as property business with certain exceptions</p>	Blue Ocean Re	10,000,000	10,000,000 xs 10,000,000	10,000,000 one occurrence 40,000,000 aggregate	3 full	<p>0.43% of net premium written</p> <p>4,114,145 minimum</p> <p>5,143,000 deposit premium</p>	<p>Effective: 1/1/2018 Terminate: 1/1/2019</p>
		20,000,000	30,000,000 xs 20,000,000	30,000,000 one occurrence 120,000,000 aggregate	3 full	<p>0.56% of net premium written</p> <p>5,357,956 minimum</p> <p>6,697,000 deposit premium</p>	

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
Overlying Property Per Risk Excess of Loss 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 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) 27,000,000 minimum 27,000,000 deposit premium	Effective: 1/1/2018 Terminate: 1/1/2019
		1,000,000,000	200,000,000 xs 1,000,000,000	200,000,000 one occurrence \$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) 9,500,000 minimum 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) \$450,000,000 aggregate	1 full	7,987,500 flat premium 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
<p>First Umbrella Excess of Loss Coverages for excess liability classified as umbrella, excess, following form excess and high limit primary business with certain exceptions</p>	Blue Ocean Re	4,000,000	6,000,000 xs 4,000,000	6,000,000 one policy, one occurrence 30,000,000 aggregate	4 full	9.66% of net premium earned 4,445,222 minimum 5,557,000 deposit premium	Effective: 1/1/2018 Terminate: 12/31/2018
<p>Second Umbrella Excess of Loss Coverages for excess liability classified as umbrella, excess, following form excess and high limit primary business with certain exceptions</p>	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. 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 1,940,493 minimum 2,426,000 deposit premium	Effective: 1/1/2018 Terminate: 12/31/2018
<p>Trade Credit and Surety Excess of Loss Coverages for business classified as credit risk, political risk, and surety risk</p>	Blue Ocean Re	5,000,000	5,000,000 xs 5,000,000	5,000,000 ultimate net each loss 25,000,000 aggregate	4 full	2.075% of gross net premium income 3,735,000 minimum 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 50,000,000 aggregate	4 full	2.525% of gross net premium income 4,545,000 minimum 5,681,000 deposit premium	
		20,000,000	30,000,000 xs 20,000,000	30,000,000 ultimate net each loss 60,000,000 aggregate	1 full	4.075% of gross net premium income 7,335,000 minimum 9,169,000 deposit premium	
		50,000,000	250,000,000 xs 50,000,000	250,000,000 ultimate net each loss 500,000,000 aggregate	1 full	2.975% of gross net premium income 5,355,000 minimum 6,694,000 deposit premium	

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<p>Whole Account Risk and Occurrence Excess of Loss Coverages for all business covered by the 2018 Blue Ocean Re underlying contracts including property, workers compensation, casualty clash, and umbrella</p>	Blue Ocean Re	50,000,000	50,000,000 xs 50,000,000	50,000,000 one occurrence 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 1,385,812 minimum 1,732,265 deposit premium	Effective: 1/1/2018 Term: 12 months
<p>Overlying Whole Account Risk and Occurrence Excess of Loss Coverages for all business covered by the 2018 Blue Ocean Re underlying contracts including property, workers compensation, casualty clash, and umbrella</p>	Blue Ocean Re	100,000,000	200,000,000 xs 100,000,000	200,000,000 one occurrence 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 2,463,666 minimum 3,079,582 deposit premium	Effective: 1/1/2018 Term: 12 months

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<p>Workers' Compensation Excess of Loss Coverages for excess liability for policies classified as workers' compensation with certain exceptions</p>	Blue Ocean Re	5,000,000	10,000,000 xs 5,000,000 5,000,000 xs 5,000,000 for employers liability business 10 year Sunset Clause	10,000,000 one occurrence 30,000,000 aggregate	2 full	0.943% of net premium earned 2,600,000 minimum 2,600,000 deposit premium	Effective: 1/1/2018 Terminate: 12/31/2018
<p>Workers' Compensation Catastrophe Excess of Loss Coverages for excess liability for policies classified as workers' compensation (including employers liability) with certain exceptions</p>	Blue Ocean Re	15,000,000	20,000,000 xs 15,000,000 10-year Sunset Clause	15,000,000 one occurrence for workers compensation 5,000,000 one occurrence for employers liability business 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 720,000 minimum 720,000 deposit premium	Effective: 1/1/2018 Terminate: 12/31/2018
		35,000,000	15,000,000 xs 35,000,000 10-year Sunset Clause	15,000,000 one occurrence for workers compensation 5,000,000 one occurrence for employers liability business 30,000,000 aggregate		0.087% of net premium earned 240,000 minimum 240,000 deposit premium	

	Reinsurer	Retention	Coverage	Limits	Reinstatement(s)	Premium Before Any Reinstatement	Term
<p><u>Large Risk and Catastrophe Aggregate Excess of Loss -</u> Covers all business written by QBENA except for: NAU, QBE Re. & TC&S</p>	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
<p><u>General Aviation Excess of Loss</u> Coverages for aviation and aerospace products liability with certain exceptions</p>	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.

Unigard Insurance Company
Assets
As of December 31, 2017

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$179,257,297	\$	\$179,257,297
Stocks:			
Preferred stocks			
Common stocks	18,399,263		18,399,263
Cash, cash equivalents, and short-term investments	18,973,853		18,973,853
Other invested assets	10,696,123		10,696,123
Investment income due and accrued	1,050,806		1,050,806
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	24,511,211	4,097,280	20,413,931
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	26,707,780		26,707,780
Accrued retrospective premiums and contracts subject to redetermination	242,597		242,597
Reinsurance:			
Amounts recoverable from reinsurers	24,267,000		24,267,000
Other amounts receivable under reinsurance contracts	109,688		109,688
Current federal and foreign income tax recoverable and interest thereon	675,059		675,059
Net deferred tax asset	6,919,734	1,556,059	5,363,675
Receivable from parent, subsidiaries, and affiliates	31,049,447		31,049,447
Write-ins for other than invested assets:			
Amounts billed and receivable deductible plans	1,480,544	330,199	1,150,346
Equities and deposits	3,157,617	24,498	3,133,119
Net receivable federally reinsured multi-peril crop insurance	53,059,981		53,059,981
Summary of remaining write-ins for line 25 from overflow page	440,566	371,554	69,013
Total	<u>58,138,709</u>	<u>726,250</u>	<u>57,412,458</u>
Total Assets	<u>\$400,998,567</u>	<u>\$6,379,589</u>	<u>\$394,618,978</u>

Unigard Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2017

Losses		\$130,428,845
Reinsurance payable on paid loss and loss adjustment expenses		998,680
Loss adjustment expenses		22,502,136
Commissions payable, contingent commissions, and other similar charges		10,626,446
Other expenses (excluding taxes, licenses, and fees)		859,794
Taxes, licenses, and fees (excluding federal and foreign income taxes)		(22,829)
Unearned premiums		64,806,122
Advance premium		233,763
Ceded reinsurance premiums payable (net of ceding commissions)		35,088,647
Amounts withheld or retained by company for account of others		206,261
Remittances and items not allocated		2,464,456
Provision for reinsurance		1,474,400
Payable to parent, subsidiaries, and affiliates		35,331,070
Write-ins for liabilities:		
Escheat reserve		335,393
Other liabilities		63,615
Claims clearing account		<u>(7,273,532)</u>
 Total Liabilities		 298,123,268
 Common capital stock	 \$ 3,000,000	
Gross paid in and contributed surplus	111,053,571	
Unassigned funds (surplus)	<u>(17,557,861)</u>	
 Surplus as regards policyholders		 <u>96,495,710</u>
 Total Liabilities and Surplus		 <u>\$394,618,978</u>

Unigard Insurance Company
Summary of Operations
For the Year 2017

Underwriting Income		
Premiums earned		\$186,485,771
Deductions:		
Losses incurred	\$124,319,421	
Loss adjustment expenses incurred	16,627,782	
Other underwriting expenses incurred	56,766,268	
Total underwriting deductions		<u>197,713,471</u>
Net underwriting gain (loss)		(11,227,700)
Investment Income		
Net investment income earned	3,352,731	
Net realized capital gains (losses)	<u>1,399,842</u>	
Net investment gain (loss)		4,752,573
Other Income		
Net gain (loss) from agents' or premium balances charged off	(681,684)	
Finance and service charges not included in premiums	180,046	
Write-ins for miscellaneous income:		
Other miscellaneous income	93,340	
Loss on disposal of fixed assets	<u>(4,018)</u>	
	89,322	
Total other income		<u>(412,316)</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(6,887,442)
Dividends to policyholders		<u>462,016</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(7,349,458)
Federal and foreign income taxes incurred		<u>(1,986,884)</u>
Net Loss		<u>\$ (5,362,574)</u>

Unigard Insurance Company
Cash Flow
For the Year 2017

Premiums collected net of reinsurance		\$164,915,952
Net investment income		3,699,794
Miscellaneous income		<u>(412,316)</u>
Total		168,203,430
Benefit- and loss-related payments	\$116,486,962	
Commissions, expenses paid, and aggregate write-ins for deductions	75,869,125	
Dividends paid to policyholders	462,016	
Federal and foreign income taxes paid (recovered)	<u>(503,697)</u>	
Total deductions		<u>192,314,406</u>
Net cash from operations		(24,110,976)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$234,352,997	
Stocks	39,227,591	
Other invested assets	82,312	
Net gains (losses) on cash, cash equivalents, and short-term investments	<u>(3,628)</u>	
Total investment proceeds		273,709,272
Cost of investments acquired (long-term only):		
Bonds	244,001,512	
Stocks	38,188,475	
Other invested assets	<u>10,223,864</u>	
Total investments acquired		<u>292,413,851</u>
Net cash from investments		(18,704,580)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>17,078,315</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		(25,737,240)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>44,711,093</u>
End of Year		<u>\$ 18,973,853</u>

**Unigard Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2017**

Assets		\$394,618,978
Less security surplus of insurance subsidiaries		7,502,922
Less liabilities		<u>298,123,268</u>
Adjusted surplus		88,992,788
Annual premium:		
Group accident and health	\$ 18,050,294	
Factor	<u>10%</u>	
Total		\$ 1,805,029
Lines other than accident and health	212,704,125	
Factor	<u>20%</u>	
Total		<u>42,540,825</u>
Compulsory surplus (subject to a minimum of \$2 million)		<u>44,345,854</u>
Compulsory surplus excess (deficit)		<u>\$ 49,349,856</u>
Adjusted surplus (from above)		\$88,992,788
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%)		<u>59,423,444</u>
Security surplus excess (deficit)		<u>\$ 34,272,266</u>

Unigard Insurance 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	\$107,375,850	\$114,635,259	\$111,297,127	\$111,839,000	\$157,804,733
Net income	(5,362,574)	3,963,454	7,441,624	642,993	(8,388,909)
Change in net unrealized capital gains/losses	539,214	1,683,250	(2,287,236)	21,038	(5,149,735)
Change in net deferred income tax	(4,397,555)	(1,179,739)	(2,529,122)	1,955	3,800,730
Change in nonadmitted assets	(166,037)	247,923	(233,777)	(1,272,206)	(918,786)
Change in provision for reinsurance	(1,462,800)	35,800	150,200	156,400	94,800
Cumulative effect of changes in accounting principles				10,958	263,668
Surplus adjustments:					
Paid in		(8,000,000)			
Dividends to stockholders					(35,000,000)
Write-ins for gains and (losses) in surplus:					
Change in defined benefit plan (net of tax)					(698,414)
Change in miscellaneous surplus	(109,024)	142,412	(10,968)	(9,828)	30,914
Special surplus – retroactive reinsurance movement		256,228	34,943	(93,182)	
Correction of errors	75,000	(4,374,768)	772,467		
Summary of remaining while-ins for Line 37 from overflow page	3,637	(33,968)			
Totals	<u>(30,387)</u>	<u>(4,010,096)</u>	<u>796,411</u>	<u>(103,011)</u>	<u>(667,500)</u>
Surplus, End of Year	<u>\$ 96,495,710</u>	<u>\$107,375,850</u>	<u>\$114,635,259</u>	<u>\$111,297,127</u>	<u>\$111,839,000</u>

Unigard Insurance 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	300%	276%	259%	283%	328%
#2 Net Premium to Surplus	190	162	110	115	162
#3 Change in Net Premiums Written	5	38*	-1	-30	29
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	99	94	101*	105*	109*

Ratio	2017	2016	2015	2014	2013
#6 Investment Yield	1.5*	1.5*	1.1*	0.7*	1.4*
#7 Gross Change in Surplus	-10*	-6	3	-0	-29*
#8 Change in Adjusted Surplus	-10*	1	3	-0	-29*
#9 Liabilities to Liquid Assets	129*	113*	99	110*	115*
#10 Agents' Balances to Surplus	21	19	12	15	24
#11 One-Year Reserve Development to Surplus	-6	-19	1	1	7
#12 Two-Year Reserve Development to Surplus	-20	-14	2	7	17
#13 Estimated Current Reserve Deficiency to Surplus	11	-19	-2	-11	18

Ratio No.3 (Change in Net Premiums Written) measures the change in net premiums written from the prior year. Net premium written increased by 38% in 2016 compared to 2015 as a result of the changes in the pooling agreement, where the company's percentage increased from 5.3% in 2015 to 7.5% in 2016.

Ratio No. 5 (Two-Year Overall Operating Ratio) measures the company's profitability over the previous two-year period. This ratio was exceptional for 2013 through 2015. 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. This ratio was considered exceptional in all years under examination. A large portion of the company's portfolio is allocated to 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 No. 8 (Change in Adjusted Policyholders' Surplus) was exceptional in 2013 and 2017. The exceptional results in 2013 were due to the extraordinary dividends of \$ 35.0 million that were paid to the parent company, QBE Regional. The exceptional ratio in 2017 was due to reduced operating results as a result of large catastrophe losses, and the reduction in federal corporate tax rates from 35% to 21% (resulting in reduced net admitted asset recovery).

Ratio No. 9 (Liabilities to Liquid Assets) measures the company's ability to meet financial demands. This ratio was considered exceptional in the years 2013, 2014, 2016, and

2017. The primary reasons for the exceptional results were the decreasing premium volume, the adverse prior year development, and seasonal fluctuations related to administration of the Federal Crop Business, which can periodically create large receivables that are not counted as liquid assets in this ratio. In 2016 and thereafter, Regent did not retain any pooled business and did not have a seasonal impact.

Growth of Unigard Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2017	\$394,618,978	\$298,123,268	\$ 96,495,710	\$ (5,362,574)
2016	397,855,806	290,479,956	107,375,850	3,963,454
2015	333,505,409	218,870,150	114,635,259	7,441,624
2014	365,504,316	254,207,188	111,297,127	642,993
2013	410,328,649	298,489,650	111,839,000	(8,388,909)
2012	466,238,955	308,434,223	157,804,733	33,138,506

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2017	\$289,909,117	\$183,054,435	\$186,485,771	75.6%	31.2%	106.8%
2016	296,820,322	174,198,358	150,736,415	58.8	34.1	92.9
2015	297,132,309	126,636,529	134,841,267	63.9	34.9	98.8
2014	315,054,697	127,473,330	138,366,692	69.2	35.0	104.2
2013	366,995,298	181,825,906	179,190,774	75.2	33.0	108.2
2012	345,691,339	140,650,775	179,421,705	73.5	38.8	112.3

During the period under examination, UnigardIns, as a member of the QBE North America sub-group, faced significant challenges due to the global economic conditions, unusual frequency and severity of claims, catastrophes, and difficult investment market conditions. During the period under examination, the company reported a 15.4% decrease in assets, a 3.3% decrease in liabilities and 38.9% decrease in surplus. The net operating results were unfavorable in the years 2013 and 2017.

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. However,

in 2017 the company reported a net loss of \$5.4 million, due to large catastrophe events experienced in that year.

From 2012 through 2017, gross premiums written decreased by 16.1%, mostly due to the reduction in the premium volume. Net premiums written increased by 30.1%, during that same time period, due to the increase in reinsurance retention and a decrease in premium ceded.

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

Corporate Insurance

A review of the corporate insurance policies noted that the General Liability Policy in place was issued on the name of QBE Investments N.A., Inc., with no language referring that the coverage is also applicable to subsidiaries and affiliates in the holding group. It is a best practice when a policy is issued to the parent company to include "and all subsidiaries associated or affiliated companies". It is recommended the company to revise its General Liability Policy to include a proper language clearly stating that the coverage applies to the subsidiaries or affiliated companies.

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

The company was incorporated as Northwestern Security Insurance Company on September 29, 1960, under the laws of the State of Washington. Effective December 22, 2006, Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company (former upstream parent of the company) to AXA. Effective May 31, 2007, AXA finalized the sale of Winterthur U.S. Holdings, Inc., (a former subsidiary of Winterthur Swiss Insurance Company) and its consolidated subsidiaries to QBE Holdings, Inc., a subsidiary of Australian-based QBE Insurance Group Limited. Winterthur U.S. Holdings, Inc., was renamed QBE Regional Companies (N.A.), Inc. On March 31, 2011, the company redomesticated from Washington to Wisconsin.

UnigardIns is one of the 16 companies that comprise the QBENA Pooled Entities at year-end 2017. As a part of QBENA, the company markets a broad range of property and casualty products, including personal, commercial, agriculture, crop, and specialty products.

From 2012 through 2017, UnigardIns's admitted assets decreased 15.4%, gross premiums decreased 16.1%, and surplus decreased by 38.9%. 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, QBE Regional. The decrease in gross premiums written was primarily attributable to the reduction in the premium volume. The company is well capitalized and financially stable with a surplus of \$96,495,710, assets of \$394,618,978, and liabilities of \$298,123,268.

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

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 51 - 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 51 - 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 52 - 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 52 - Corporate Insurance—It is recommended the company to revise its General Liability Policy to include a proper language clearly stating that the coverage applies to the subsidiaries or affiliated companies.
5. Page 52 - 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, including:
 - 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 U.S. 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 U.S. 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
Karl Albert, CFE	Quality Control Specialist

Respectfully submitted,

Ana Careaga
Examiner-in-Charge