

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

IN THE MATTER OF: )  
 )  
United National Casualty Insurance Company )  
900 Ridge Road, Suite J )  
Munster, Indiana 46321 )

Examination of United National Casualty Insurance Company

**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of United National Casualty Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

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

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

June 30, 2014  
Date

Cynthia D. Donovan  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0034 7947 42**

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

IN THE MATTER OF: )  
 )  
United National Casualty Insurance Company )  
900 Ridge Road, Suite J )  
Munster, Indiana )

Examination of United National Casualty Insurance Company

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the United National Casualty Insurance Company (hereinafter "Company") for the time period January 1, 2008 through December 31, 2012.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on February 24, 2014.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on May 23, 2014 and was received by the Company on June 2, 2014.

On June 9, 2014, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

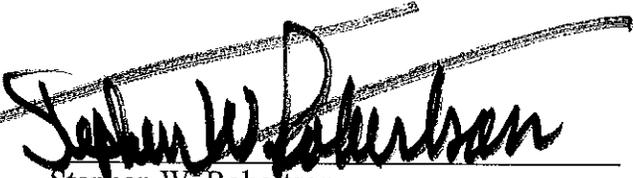
1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2012.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 30 day of  
June, 2014.

  
\_\_\_\_\_  
Stephen W. Robertson  
Insurance Commissioner

## ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

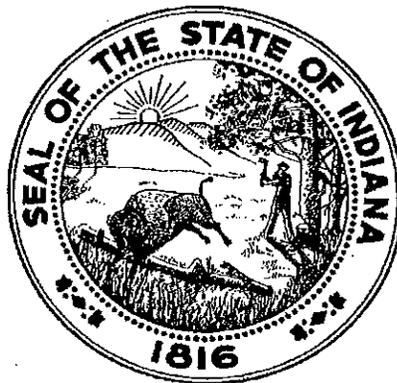
**OF**

**UNITED NATIONAL CASUALTY INSURANCE COMPANY**

**NAIC COMPANY CODE 11445**

As of

December 31, 2012



## TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION.....	2
HISTORY.....	2
CAPITAL AND SURPLUS.....	2
DIVIDENDS TO STOCKHOLDERS.....	3
TERRITORY AND PLAN OF OPERATION.....	3
GROWTH OF THE COMPANY.....	3
LOSS EXPERIENCE.....	4
MANAGEMENT AND CONTROL.....	4
Directors.....	4
Officers.....	5
Corporate Governance.....	6
CONFLICT OF INTEREST.....	6
OATH OF OFFICE.....	6
CORPORATE RECORDS.....	7
Articles of Incorporation.....	7
Bylaws.....	7
Minutes.....	7
AFFILIATED COMPANIES.....	7
Organizational Structure.....	7
Organizational Chart.....	9
Affiliated Agreements.....	10
FIDELITY BOND AND OTHER INSURANCE.....	10
STATUTORY AND SPECIAL DEPOSITS.....	11
REINSURANCE.....	11
Reinsurance Ceded.....	11
Intercompany Pooling.....	13
Reinsurance Assumed.....	13
RESERVES.....	13
ACCOUNTS AND RECORDS.....	14
FINANCIAL EXHIBITS.....	15
FINANCIAL STATEMENTS.....	16
Assets.....	16
Liabilities, Surplus and Other Funds.....	17
Summary of Operations.....	18
Capital and Surplus Account.....	19
COMMENTS ON THE FINANCIAL STATEMENTS.....	20
OTHER SIGNIFICANT FINDINGS.....	20
Required Officer - President.....	20
Oath of Office.....	20
Shareholder Meetings.....	20
SUBSEQUENT EVENTS.....	20
Company's Acquisition and Change of Control.....	20
MANAGEMENT REPRESENTATION.....	21
AFFIDAVIT.....	22



# STATE OF INDIANA

# IDOI

MICHAEL R. PENCE, Governor

**Indiana Department of Insurance**

311 W. Washington Street, Suite 300

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

Fax: (317) 232-5251

Stephen W. Robertson, Commissioner

February 24, 2014

Honorable Stephen W. Robertson  
Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3745, an examination has been made of the affairs and financial condition of:

**United National Casualty Insurance Company**  
**900 Ridge Road, Suite J**  
**Munster, Indiana 46321**

an Indiana domestic, stock, property and casualty insurance company hereinafter referred to as the "Company." The examination was conducted at the corporate offices of the Company at 3 Bala Plaza, Suite 300E, Bala Cynwyd, PA 19004.

The Report of Examination, showing the status of the Company as of December 31, 2012, is hereby respectfully submitted.

ACCREDITED BY THE  
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES (317) 232-2413    COMPANY COMPLIANCE (317) 233-0697    CONSUMER SERVICES (317) 232-2395    EXAMINATIONS/FINANCIAL SERVICES (317) 232-2390    MEDICAL MALPRACTICE (317) 232-2402    SECURITIES/COMPANY RECORDS (317) 232-1991    STATE HEALTH INSURANCE PROGRAM 1-800-332-4674  
1-800-622-4461

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance ("INDOI" or "Department") as of December 31, 2007. The present multi-state risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2008 through December 31, 2012, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. This examination was coordinated with the examination of the insurer subsidiaries of Global Indemnity, plc (GBLI) which was conducted by the Pennsylvania Insurance Department (Lead State), the Virginia Bureau of Insurance, and the Wisconsin Department of Insurance.

The actuarial firm of Merlinos & Associates, Inc. was engaged by the Lead State, through Thomas Consulting, to conduct a review of the Company's Loss Reserves and Loss Adjustment Expenses as of December 31, 2012.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by PricewaterhouseCoopers, LLP for each year of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

In accordance with the NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, the examiners performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code.

There were no comments or recommendations made in the previous INDOI report of examination.

## HISTORY

The Company was incorporated on August 24, 2001, as United National Insurance Company of Indiana and commenced business on June 6, 2002 as an Indiana domiciled property and casualty insurer. Effective June 20, 2002, the Company changed its name to United National Casualty Insurance Company. On July 2, 2010, the Company's parent, United America Indemnity, Ltd. ("United America"), redomesticated from the Cayman Islands to Ireland at which time GBLI replaced United America as the parent company, and United America became a wholly owned subsidiary of GBLI.

## CAPITAL AND SURPLUS

As of December 31, 2012, the Company had common capital stock of \$5,000,000 comprised of 1,000,000

shares of issued and outstanding with a par value of \$5 per share, gross paid-in and contributed surplus of \$15,000,000, unassigned funds of \$215,971 for a total surplus as regards policyholders of \$20,215,971.

### DIVIDENDS TO STOCKHOLDERS

During the examination period, the Company made the following dividend payments to its sole shareholder, Diamond State Insurance Company (DSIC):

2008	\$750,000
2009	2,432,000
2010	2,300,000
2011	2,328,000
2012	<u>2,207,712</u>
Total Dividends Paid	<u>\$10,017,712</u>

All dividends were approved by the Board of Directors, and proper and timely notification was provided to the Department pursuant to IC 27-1-23-1.5. None of the dividends paid during the examination period were deemed to be extraordinary under the provisions of IC 27-1-23-4(h).

### TERRITORY AND PLAN OF OPERATION

The Company, as part of the U.S. insurance operations of Global Indemnity, was licensed in thirty-six (36) states and was authorized as a surplus lines writer in the state of Pennsylvania as of December 31, 2012. The Company marketed its products through professional general agencies that have specific quoting and binding authority, as well as wholesale insurance brokers who sold the products through retail insurance brokers. The Company operated in the surplus lines marketplace and targeted various homogenous groups and insured segments generally not served by the standard lines marketplace.

On a net premium written basis, the Company's top three (3) lines of business were Commercial Multiple Peril, Inland Marine and Other Liability.

### GROWTH OF THE COMPANY

Comparative financial data, as reported in the Company's filed Annual Statements for the period under examination, was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total admitted assets	\$37,470,598	\$41,665,128	\$45,376,106	\$50,856,067	\$40,873,749
Total liabilities	17,254,627	19,588,006	22,090,568	27,570,018	16,543,850
Surplus	20,215,971	22,077,122	23,285,538	23,286,049	24,329,899
Net income	450,627	1,155,623	2,301,514	999,358	(322,804)
Direct premiums written	184	4,980	36,719	-	-
Net premiums written	4,245,957	4,810,838	4,685,411	6,617,955	3,768,478

The Company began writing direct business in the 3rd quarter of 2010. However, most of its premium was derived from its participation in the inter-company pooling arrangement with members of the Global Indemnity Group of insurance companies. The decrease in surplus as reported in each year of the examination period is primarily attributable to the payment of stockholder dividends.

### LOSS EXPERIENCE

The following exhibit shows the underwriting results of the Company for the period under examination. The amounts were compiled from the Company's filed Annual Statements and from examination results:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses and Loss Expenses Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Loss and Loss Adjustment Expense Ratio</u>	<u>Combined Ratio</u>
2012	\$ 4,278,962	\$ 3,233,151	\$ 1,709,025	75.56%	115.50%
2011	5,201,925	3,695,635	2,051,109	71.04%	110.47%
2010	4,602,683	1,521,970	2,075,473	33.07%	78.16%
2009	5,810,185	3,654,158	2,181,798	62.89%	100.44%
2008	4,688,963	4,892,991	1,391,776	104.35%	134.03%

With the exception of 2010, the Company reported underwriting losses in each of the years covered by this examination. However, as indicated in the Growth of the Company table above, the Company reported net income in all years from 2009 to 2012 as a result of net investment income in each of those years.

### MANAGEMENT AND CONTROL

#### **Directors**

The Company's Amended and Restated Bylaws specify the number of Directors of the Company shall be at least five (5) and no more than fifteen (15) members. The following is a listing of persons serving as Directors at December 31, 2012:

#### Name and Residence

#### Principal Business Affiliation

Indiana Department of Insurance  
NAIC Accredited

4

United National Casualty Insurance Company  
Financial Examination as of 12/31/2012

Joseph R. Lebens Burlington, Connecticut	Executive Vice President - Chief Underwriting & Actuarial Officer Global Indemnity Group, Inc.
Thomas M. McGeehan King of Prussia, Pennsylvania	Executive Vice President & Chief Financial Officer Global Indemnity, plc
Mathew B. Scott Berwyn, Pennsylvania	Executive Vice President - Chief Marketing Officer Global Indemnity Group, Inc.
Joseph Stalmack Munster, Indiana	Attorney, Partner, Owner Joseph Stalmack & Associates
Cynthia Y. Valko Collegeville, Pennsylvania	Chief Executive Officer Global Indemnity, plc

### Officers

The Company's daily operations were managed by the following senior officers including their respective titles as of December 31, 2012:

<u>Name</u>	<u>Office</u>
Joseph R. Lebens	Executive Vice President - Chief Underwriting & Actuarial Officer
Linda C. Hohn	Vice President, Associate General Counsel & Secretary
Thomas M. McGeehan	Executive Vice President & Treasurer
William J. Devlin	Executive Vice President - Chief Operations & Claims Officer
Matthew B. Scott	Executive Vice President - Chief Marketing Officer
Peter J. Livaich	Senior Vice President - Property
Mark DiGiovanni	Vice President - Claims
David Elliot	Vice President - Claims
Robert L. Johnson	Vice President - Underwriting
Mark A. Korman	Vice President - Underwriting
Noreen H. Marshall	Vice President - Operations
Kevin McCracken	Vice President - Underwriting - North Region
Brian J. Riley	Vice President & Controller
Andrea Seuren	Vice President - Product Management
Caroline Makowski Tate	Vice President - Human Resources
Patrick Walton	Vice President - Reinsurance
Scott A. Witt	Vice President - Brokerage
Robert L. Sykes	Vice President - Property Brokerage

As of December 31, 2012, the Company did not have a President. In accordance with the requirements of

IC 23-17-14-1(a), unless otherwise provided in articles of incorporation or bylaws, a corporation must have a president, a secretary, a treasurer, and other officers appointed by the board of directors. Article V, Section 1, of the Company's Bylaws specifies that one of the officers of the Company shall be a President. Please see the "Other Significant Findings" section of this report regarding this issue.

### **Corporate Governance**

The Company's Bylaws provide that the directors may designate one or more board committees. The two standing board committees and the member directors that were elected to serve as of December 31, 2012 were as follows:

#### **Executive Committee**

Seth J. Gersch  
Matthew B. Scott  
Cynthia Y. Valko

#### **Finance Committee**

Seth J. Gersch  
Thomas M. McGeehan  
Cynthia Y. Valko

In addition to its Board of Directors and board committees, the Company receives oversight from the Board and board committees of GBLI. The GBLI board committees included an Audit Committee, Compensation Committee, Enterprise Risk Management Committee, Executive Committee, Investment Committee, and a Nominating & Governance Committee.

### **CONFLICT OF INTEREST**

The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any director, officer, or key employee, which is likely to conflict with their official duties. From a review of the officers and directors signed statements, there were no conflicts of interest reported by any of the officers or directors.

### **OATH OF OFFICE**

Indiana Code 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. The Company could not provide an Oath of Office for certain directors for the years 2011 and 2012. Please see the "Other Significant Findings" section of this report regarding this issue.

## CORPORATE RECORDS

### **Articles of Incorporation**

The Board of Directors approved an amendment to Article II of the Company's Articles of Incorporation on February 24, 2009. The amendment changed its principal office location from Hammond, Indiana to Munster, Indiana. The Department approved the amendment to the Company's Articles of Incorporation on June 22, 2009.

### **Bylaws**

Effective February 9, 2009, the Board of Directors approved an amendment to Article I, Section 1, of the Bylaws to change its principal office location from Hammond, Indiana to Munster, Indiana. The change to the Amended and Restated Bylaws was adopted by a resolution of the Board on February 24, 2009.

### **Minutes**

The board of directors and shareholder meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. It was noted that the board meetings were held in accordance with the Company's Bylaws. However, shareholder meetings were not held by the Company for the years of 2010 and 2012 contrary to the requirements of IC-27-1-7-7 (b). Please see the "Other Significant Findings" section of this report regarding this issue.

## AFFILIATED COMPANIES

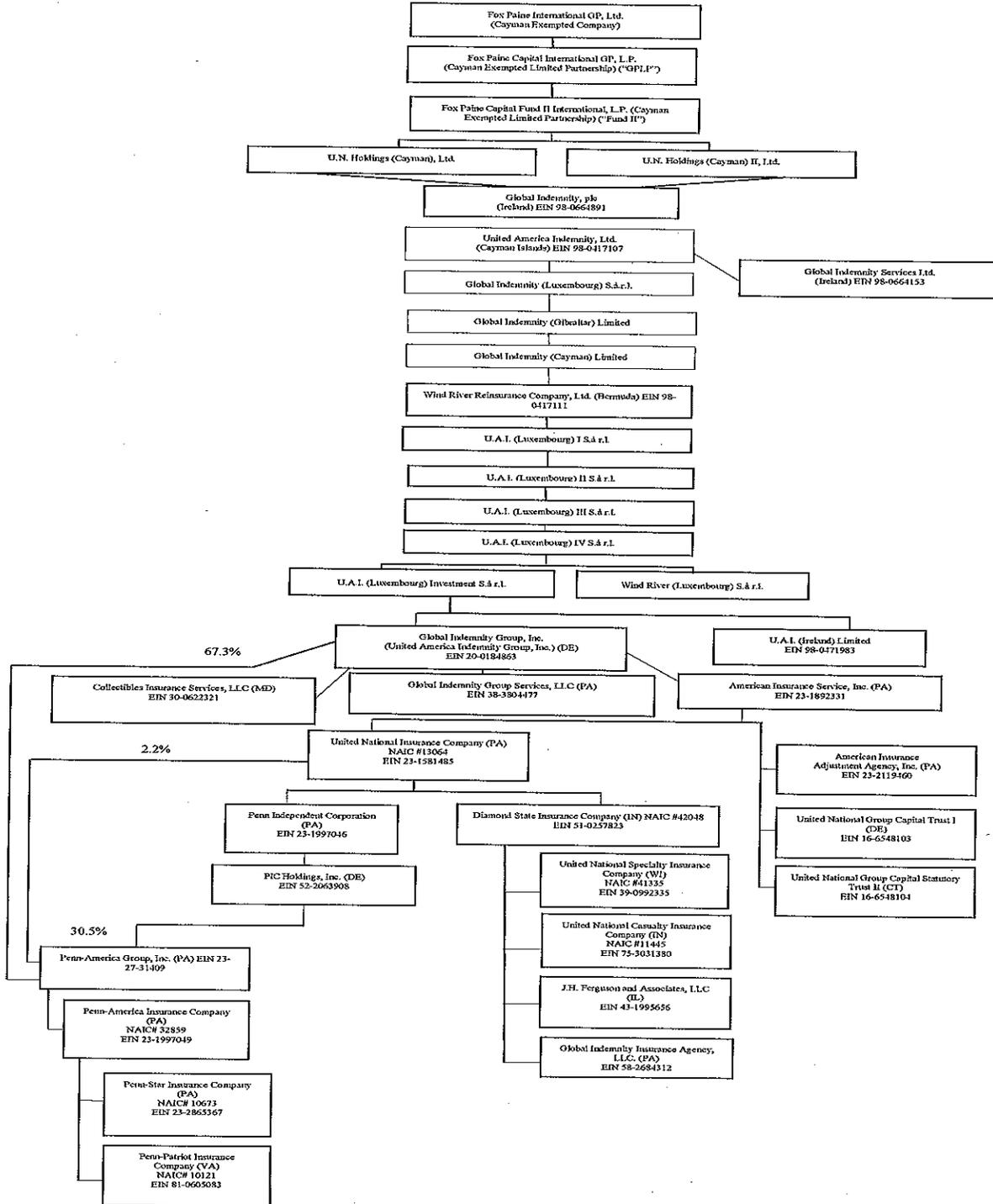
### **Organizational Structure**

The Company is part of a holding company system in which it is a wholly-owned subsidiary of DSIC. DSIC is 100% owned by United National Insurance Company (UNIC), a stock property and casualty insurance company that is owned by American Insurance Service, Inc. ("AIS"), an insurance holding company incorporated in Pennsylvania. AIS is a 100% owned subsidiary of Global Indemnity Group, Inc. Global Indemnity Group, Inc., a Delaware corporation, is an indirect subsidiary of GBLI. GBLI was incorporated on March 9, 2010, and is domiciled in Ireland. GBLI replaced its predecessor, United America, as the parent company as a result of a re-domestication transaction. United America was incorporated on August 26, 2003, and is domiciled in the Cayman Islands. United America is now a subsidiary of GBLI and an Irish tax resident. The Fox Paine Capital Fund II International, L.P. ("Fund II") is considered the beneficial owner of the Company. However, the Ultimate Controlling Person is Fox Paine International GP, Ltd. ("Fox Paine") which has the voting control. GBLI's class "A" ordinary shares are publicly traded on the NASDAQ Global Select Market.

Global Indemnity Group, Inc. is the top U.S. holding company for the U.S. operations of GBLI and has both insurance and non-insurance subsidiaries. The insurance subsidiaries are as follows: UNIC and its direct and indirect subsidiaries including DSIC, DSIC's wholly owned subsidiaries United National Specialty Insurance Company ("UNSI") and United National Casualty Insurance Company ("UNCIC"),

Penn-America Insurance Company (“PAIC”) and its wholly owned subsidiaries Penn-Star Insurance Company (“PSIC”) and Penn-Patriot Insurance Company (“PPIC”). An organizational chart of the holding company system at December 31, 2012, is included below:

# Organizational Chart



## **Affiliated Agreements**

As of December 31, 2012, the Company operated under the following intercompany agreements which have been filed with the INDOI:

### **Cost Allocation Agreement**

The insurers within the holding company system, including the Company, participated in a cost allocation agreement among themselves and with their non-insurance affiliates of GBLI, including: Global Indemnity Group, Inc., AIS, Global Indemnity Group Services, LLC, a Pennsylvania Limited Liability Company; American Insurance Adjustment, Agency, Inc.(AIAA), a Pennsylvania Corporation; Global Indemnity Insurance Agency, LLC., a Pennsylvania Limited Liability Company; J.H. Ferguson & Associates, LLC, an Illinois Limited Liability Company (“Ferguson”), Penn-America Group, Inc., a Pennsylvania Corporation (“PAG”), Penn Independent Corporation, a Pennsylvania Corporation (“PIC”) and Global Indemnity Collectibles Insurance Services, LLC, a Maryland Limited Liability Company. The parties agreed to share in the purchase of certain goods and services from third parties, and to allocate such expenses in a fair and equitable manner. Effective, January 1, 2010, the Billing and Settlement section of the agreement was amended to provide that each affiliate will pay all amounts due to each party, as showing in such affiliate’s books as of the end of each calendar quarter reporting period, within sixty (60) days after the end of each calendar quarter.

### **Tax Sharing Agreement**

The Company was party to a Tax Sharing Agreement dated January 25, 2005, and amended on August 12, 2010, by and among the affiliates of Global Indemnity Group, Inc. Under this Tax Sharing Agreement the federal tax liability determined at the end of the taxable year of any individual insurer member of the affiliated group will not be more than it would have paid if it had filed on a separate return basis. Intercompany tax balances are settled with payments made within thirty days of the filing of the affiliated groups’ return and refunds are paid within thirty (30) days after receipt of any tax refund.

Please refer to the “Reinsurance” section of the report for a summary of intercompany reinsurance agreements.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company was protected against loss from any fraudulent or dishonest acts by any employees through the GBLI fidelity bond whereby the Company was a named insured as of December 31, 2012. The Company was insured for a single loss up to \$15,000,000 and an aggregate limit of \$30,000,000, with a \$500,000 deductible. The fidelity bond coverage limit was adequate to meet the prescribed minimum coverage specified by the NAIC.

Other significant insurance coverages in force as of December 31, 2012, included errors & omissions, directors & officers, fiduciary liability, employment practices liability, and umbrella liability. All other coverages were determined to be adequate as of December 31, 2012.

## STATUTORY AND SPECIAL DEPOSITS

The Company reported the following special deposits with various states as of December 31, 2012:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	\$2,756,106	\$2,909,617
All Other Special Deposits:		
Arizona	\$120,074	\$124,387
Georgia	100,061	103,656
Idaho	258,161	275,449
Indiana	79,478	79,478
Massachusetts	154,896	165,270
Nevada	309,793	330,539
North Carolina	458,283	482,762
Oregon	400,246	414,625
Virginia	550,338	570,109
Total Deposits	<u>\$5,187,436</u>	<u>\$5,455,892</u>

## REINSURANCE

As of December 31, 2012, the Company's reinsurance program included excess of loss, quota share, surplus share, casualty clash, property catastrophe, and facultative agreements. The Company obtained these coverages through reinsurance intermediaries, third party reinsurers and through agreements with its reinsurer affiliate, Wind River Reinsurance Company, Ltd. ("Wind River"). The Company was also a participant in an intercompany pooling agreement with its insurer affiliates. The reinsurance program is described below:

### **Reinsurance Ceded**

The Company ceded reinsurance under various contracts. A description of the most significant of these reinsurance contracts in effect as of December 31, 2012 is as follows:

#### **Property Catastrophe Excess of Loss Reinsurance Contract**

Effective June 1, 2012, the Company was reinsured under a property catastrophe excess of loss treaty which provided occurrence coverage for losses of \$80.0 million in excess of \$20.0 million through three layers. For the first and second layers, the Company retained 50% of \$20.0 million in excess of \$20.0 million and 20% of \$50.0 million in excess of \$40.0 million respectively. The Company did not retain any liability for the third layer which provided \$10.0 million in excess of \$90.0 million. This treaty

replaced the treaty that expired on May 31, 2012, which provided occurrence coverage for 100% of losses of \$80.0 million in excess of \$20.0 million.

#### Property Per Risk Excess of Loss Reinsurance Contract

Effective March 1, 2012, the Company was reinsured under a property per risk excess of loss reinsurance contract which provided coverage of \$13.0 million per risk in excess of \$2.0 million per risk. The contract provided coverage in two layers: \$3.0 million per risk in excess of \$2.0 million per risk, and \$10.0 million per risk in excess of \$5.0 million per risk. This contract expired on December 31, 2012.

#### Casualty and Professional Liability Excess of Loss Reinsurance Contract

Effective May 1, 2012, the Company was covered under a casualty and professional liability excess of loss reinsurance contract. The casualty section provided coverage for \$2.0 million per occurrence in excess of \$1.0 million per occurrence for general liability and automobile liability. The professional liability section provided coverage of \$4.0 million per policy/occurrence in excess of \$1.0 million per policy/occurrence. For both sections, allocated loss adjustment expenses were included within the limits.

#### Casualty Clash Excess of Loss Reinsurance Contract

Effective May 1, 2012, the Company was reinsured by a casualty clash excess of loss reinsurance contract which provided coverage of \$10.0 million per occurrence in excess of \$3.0 million per occurrence, subject to a \$20.0 million limit for all loss occurrences.

#### Wind River Stop Loss Reinsurance Contract

Effective January 1, 2012, the Company renewed the stop loss reinsurance contract with its non-U.S. reinsurer affiliate Wind River. This reinsurance contract indemnified the Company for its Ultimate Net Loss for losses occurring and/or claims made on or after January 1, 2012 under policies in-force at the inception of the treaty. The Company retains an Ultimate Net Loss equal to 75% of Net Earned Premium for the term of the contract. Wind River indemnified the Company for 100% of the Company's Ultimate Net Loss in excess of 75% of Net Earned Premium, up to a maximum limit of liability of 95% of Net Earned Premium. The contract excludes workers compensation policies and losses and loss adjustment expenses for named catastrophe storms.

#### Wind River Quota Share Reinsurance Contract

Effective January 1, 2012, the Company renewed its quota share reinsurance contract with Wind River. Under this contract the Company ceded 50% of its net retained business to Wind River. For this contract, "Net Retained Insurance Liability" is defined as that portion of the amount insured which the Company retains net for its own account, after cessions to any other reinsurance agreements including cessions under the Wind River stop loss reinsurance contract. The contract has exclusions for workers compensation policies and losses and loss adjustment expenses for named catastrophe storms.

All reinsurance contracts were determined to have a proper insolvency clause as required by SSAP No. 62R, paragraph 8a and IC 27-6-10-7 (2).

In addition, as of December 31, 2012, the Company was utilizing the services of two reinsurance intermediaries. It was determined that both reinsurance intermediaries were properly licensed in

accordance with IC 27-6-9-12. The Company's two reinsurance intermediaries have properly executed written authorizations between the Company and each reinsurance intermediary in accordance with IC 27-6-9-18.

### **Intercompany Pooling**

Effective January 1, 2009, each of the Global Indemnity Group insurance companies (as listed below) participate in an intercompany pool whereby UNIC is the lead insurer. Under the terms of the Reinsurance Pooling Agreement, each of the insurers cedes 100% of their premiums and liabilities to UNIC net of third party reinsurance. UNIC then retrocedes net retained premiums and net retained liabilities to the pool members in the following participation percentages:

United National Insurance Company	40%
Diamond State Insurance Company	10%
United National Specialty Insurance Company	5%
<b>United National Casualty Insurance Company</b>	<b>5%</b>
Penn-America Insurance Company	25%
Penn-Star Insurance Company	10%
Penn-Patriot Insurance Company	5%
Total	<u>100%</u>

### **Reinsurance Assumed**

With the exception of the intercompany Reinsurance Pooling Agreement described above, the Company did not assume any reinsurance during the period covered by this examination.

### **RESERVES**

Brian Z. Brown, FCAS, MAAA, of Milliman, Inc., FCAS, MAAA, is the Company's Appointed Actuary. Mr. Brown was appointed by the Board of Directors to render an opinion on the reserves of the Company. He provided the Company's actuarial opinion for the year ended December 31, 2012. The Company's appointed actuary for the years of 2008 to 2011 was Christopher K. Bozman, FCAS, MAAA, of Towers Watson.

The scope of the opinion was to examine the loss and loss adjustment expense reserves of the Company. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. The 2012 opinion stated the reserves: A) meet the requirements of the insurance laws of the State of Indiana; B) are consistent with reserves computed in accordance with accepted loss reserving standards and principles; and C) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

During the examination, it was determined that the material actuarial items in the Annual Statement of the Company are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Indiana.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The internal control structure was reviewed through management interviews, review and testing of Company prepared process narratives, and through a review of the Sarbanes-Oxley documentation, and work prepared by the Company's internal audit department. The trial balance prepared from the Company's general ledger for the year ended December 31, 2012 was agreed to the 2012 Annual Statement without exception.

The Company's independent auditors issued unqualified opinions on the Company's audited Statutory Consolidated and Combined Financial Statements for each year during the examination period. The audited financial statement was agreed to the Combined Global Indemnity Group, Inc. Annual Statement for the year ended December 31, 2012, with no exceptions noted. All of the independent audit work papers were made available to the Examiners during the examination.

The Company's accounts and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger. The Company maintains adequate supporting work papers which were reviewed during the examination. From a review of the internal controls and the Company's disaster recovery plan, it was determined that the Company's current information systems possess most of the physical and internal controls as prescribed by the NAIC.

The Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

**FINANCIAL EXHIBITS**

Comparative Exhibit – Statutory Statement of Assets  
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds  
Comparative Exhibit - Statutory Statement of Income  
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

**UNITED NATIONAL CASUALTY INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Assets**

As of December 31, 2012

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Assets:</b>				
Bonds	\$ 34,355,918	\$ -	\$ 34,355,918	\$ 38,747,599
Cash \$1,061,565, cash equivalents \$0 and short-term investments	1,061,565	-	1,061,565	596,664
Receivable for securities	13,875	-	13,875	54,250
Subtotals, cash and invested assets	35,431,358	-	35,431,358	39,398,513
Investment income due and accrued	248,928	-	248,928	340,763
Uncollected premiums and agents' balances in the course of collection	1,185,364	-	1,185,364	1,124,686
Amounts receivable from reinsurers	-	-	-	2,598
Current federal and foreign income tax recoverable and interest thereon	22,243	-	22,243	15,246
Net deferred tax asset	522,805	-	522,805	627,866
Receivable from parent, subsidiaries and affiliates	59,900	-	59,900	155,456
<b>Total Admitted Assets</b>	<b>\$ 37,470,598</b>	<b>\$ -</b>	<b>\$ 37,470,598</b>	<b>\$ 41,665,128</b>

**UNITED NATIONAL CASUALTY INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

	As of December 31, 2012			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Liabilities:</b>				
Losses	\$ 9,482,387	\$ -	\$ 9,482,387	\$ 10,550,988
Reinsurance payable on paid losses and loss adjustment expenses	1,442,050	-	1,442,050	1,188,677
Loss adjustment expenses	4,277,768	-	4,277,768	4,717,335
Other expenses (excluding taxes, licenses and fees)	38,376	-	38,376	39,337
Unearned premiums	1,954,823	-	1,954,823	1,987,828
Remittances and items not allocated	17	-	17	81
Payable to parent, subsidiaries and affiliates	59,001	-	59,001	1,020,704
Aggregate write-ins for liabilities	205	-	205	83,056
<b>Total Liabilities</b>	<b>\$ 17,254,627</b>	<b>\$ -</b>	<b>\$ 17,254,627</b>	<b>\$ 19,588,006</b>
Common capital stock	\$ 5,000,000	\$ -	\$ 5,000,000	\$ 5,000,000
Gross paid in & contributed surplus	15,000,000	-	15,000,000	15,000,000
Unassigned funds (surplus)	215,971	-	215,971	2,077,122
<b>Surplus as regards policyholders</b>	<b>\$ 20,215,971</b>	<b>\$ -</b>	<b>\$ 20,215,971</b>	<b>\$ 22,077,122</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 37,470,598</b>	<b>\$ -</b>	<b>\$ 37,470,598</b>	<b>\$ 41,665,128</b>

**UNITED NATIONAL CASUALTY INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Summary of Operations**

	<b>As of December 31, 2012</b>			
	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Underwriting Income</b>				
Premiums earned	\$ 4,278,962	\$ -	\$ 4,278,962	\$ 5,201,925
Losses incurred	\$ 2,275,191	\$ -	\$ 2,275,191	\$ 2,648,471
Loss adjustment expenses incurred	957,960	-	957,960	1,047,164
Other underwriting expenses incurred	1,791,876	-	1,791,876	1,968,258
Aggregate write-ins for underwriting deductions	(82,851)	-	(82,851)	82,851
Total underwriting deductions	<u>\$ 4,942,176</u>	<u>\$ -</u>	<u>\$ 4,942,176</u>	<u>\$ 5,746,744</u>
Net underwriting gain (loss)	<u>\$ (663,214)</u>	<u>\$ -</u>	<u>\$ (663,214)</u>	<u>\$ (544,819)</u>
<b>Investment Income</b>				
Net investment income earned	\$ 920,179	\$ -	\$ 920,179	\$ 1,421,878
Net realized capital gains (losses) less capital gains tax	117,386	-	117,386	539,052
Net investment gain	<u>\$ 1,037,565</u>	<u>\$ -</u>	<u>\$ 1,037,565</u>	<u>\$ 1,960,930</u>
<b>Other Income</b>				
Net gain (loss) from agents' or premium balances charged off	\$ (9,176)	\$ -	\$ (9,176)	\$ (30,573)
Total other income	<u>\$ (9,176)</u>	<u>\$ -</u>	<u>\$ (9,176)</u>	<u>\$ (30,573)</u>
Net income after capital gains tax and before federal and foreign income taxes	\$ 365,175	\$ -	\$ 365,175	\$ 1,385,538
Federal and foreign income taxes incurred	(85,452)	-	(85,452)	229,915
<b>Net income</b>	<u><u>\$ 450,627</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 450,627</u></u>	<u><u>\$ 1,155,623</u></u>

**UNITED NATIONAL CASUALTY INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Capital and Surplus Account**

	<u>As of December 31, 2012</u>			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
<b>Capital and Surplus Account:</b>				
Surplus as regards policyholders December 31, prior year	\$ 22,077,122	\$ -	\$ 22,077,122	\$ 23,285,539
Net income	450,627	-	450,627	1,155,623
Change in net deferred income tax	(114,008)	-	(114,008)	(17,442)
Change in nonadmitted assets	9,942	-	9,942	(18,598)
Dividends to Stockholders	(2,207,712)	-	(2,207,712)	(2,328,000)
<b>Net change in capital and surplus for the year</b>	<b>\$ (1,861,151)</b>	<b>\$ -</b>	<b>\$ (1,861,151)</b>	<b>\$ (1,208,417)</b>
<b>Capital and surplus, December 31, current year</b>	<b>\$ 20,215,971</b>	<b>\$ -</b>	<b>\$ 20,215,971</b>	<b>\$ 22,077,122</b>

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2012, based on the results of this examination.

### OTHER SIGNIFICANT FINDINGS

The following accounts and records findings or concerns were noted:

#### **Required Officer - President**

As of December 31, 2012, the Company did not have a President. Pursuant to the requirements of IC 23-17-14-1(a), unless otherwise provided in articles of incorporation or bylaws, a corporation must have a president, a secretary, a treasurer, and other officers appointed by the board of directors. Article V, Section 1, of the Company's Bylaws specifies that one of the officers of the Company shall be a President.

**It is recommended that the Company comply with provisions of IC 23-17-14-1(a) by electing an officer as President or amend its Bylaws accordingly.**

**This examination exception was subsequently corrected as a result of a change in the ownership of the Company. Please see the Subsequent Events section of this report.**

#### **Oath of Office**

The Company could not provide an Oath of Office, as required by IC 27-1-7-10(i), for certain Directors for the years 2011 and 2012.

**It is recommended that the Company require all Directors to sign an Oath of Office in accordance with IC 27-1-7-10(i).**

#### **Shareholder Meetings**

Shareholder meetings were not held by the Company for the years of 2010 and 2012.

**It is recommended that the Company hold its Annual Shareholders meeting within five months of the previous fiscal close in accordance with IC-27-1-7-7 (b).**

## SUBSEQUENT EVENTS

#### **Company's Acquisition and Change of Control**

In anticipation of its sale, the Company filed a Form D with the INDOI for the purpose of removing it from all reinsurance and reinsurance trust agreements with the GBLI group of companies effective

January 1, 2013. The Company received non-disapproval from the INDOI for the Form D on April 24, 2013. The INDOI also non-disapproved the Company's removal from the Cost Allocation and Tax Sharing Agreements effective January 1, 2013, contingent on the finalized sale of the Company.

On September 16, 2013, CGB Enterprises, Inc. and its affiliates filed a Form A Statement with the INDOI regarding the proposed acquisition of control of United National Casualty Insurance Company by CGB Enterprises, Inc., ZEN-NOH Grain Corporation, ZEN-NOH Unico America Corporation, ITOCHU Corporation, and ITOCHU International, Inc. On December 13, 2013, the Commissioner approved the order for the acquisition of control of the Company effective December 31, 2013.

As disclosed in the Form A Statement, the Company intends to change its name to CGB Insurance Company. Under its new parent, the Company will write only crop insurance going forward, a line of business which it has not previously written. The Company will become a fully operational crop insurance company. In 2014, the Company will apply to become an Approved Insurance Provider with the Federal Crop Insurance Corporation for 2015. In 2014, until the Company is designated as an Approved Insurance Provider, it will produce multi-peril crop insurance as a policy issuing company. One hundred percent of this business will be ceded to GuideOne Companies and subsequently retroceded to the Federal Crop Insurance Corporation. The Insurer will ultimately be the issuing company for all crop insurance business.

#### **MANAGEMENT REPRESENTATION**

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the Examiners.

**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., hereinafter collectively referred to as the "Examiners" performed an examination of the **United National Casualty Insurance Company**, as of **December 31, 2012**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2012 NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of the **United National Casualty Insurance Company**, as of **December 31, 2012**, as determined by the undersigned.

\_\_\_\_\_  
**D. Patrick Huth, CFE**  
**The Thomas Consulting Group, Inc.**

State of:  
County of:

On this \_\_\_\_\_ day of \_\_\_\_\_, 2014, before me personally appeared, D. Patrick Huth, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires \_\_\_\_\_  
\_\_\_\_\_  
Notary Public

January 1, 2013. The Company received non-disapproval from the INDOI for the Form D on April 24, 2013. The INDOI also non-disapproved the Company's removal from the Cost Allocation and Tax Sharing Agreements effective January 1, 2013, contingent on the finalized sale of the Company.

On September 16, 2013, CGB Enterprises, Inc. and its affiliates filed a Form A Statement with the INDOI regarding the proposed acquisition of control of United National Casualty Insurance Company by CGB Enterprises, Inc., ZEN-NOH Grain Corporation, ZEN-NOH Unico America Corporation, ITOCHU Corporation, and ITOCHU International, Inc. On December 13, 2013, the Commissioner approved the order for the acquisition of control of the Company effective December 31, 2013.

As disclosed in the Form A Statement, the Company intends to change its name to CGB Insurance Company. Under its new parent, the Company will write only crop insurance going forward, a line of business which it has not previously written. The Company will become a fully operational crop insurance company. In 2014, the Company will apply to become an Approved Insurance Provider with the Federal Crop Insurance Corporation for 2015. In 2014, until the Company is designated as an Approved Insurance Provider, it will produce multi-peril crop insurance as a policy issuing company. One hundred percent of this business will be ceded to GuideOne Companies and subsequently retroceded to the Federal Crop Insurance Corporation. The Insurer will ultimately be the issuing company for all crop insurance business.

#### **MANAGEMENT REPRESENTATION**

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the Examiners.

**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., hereinafter collectively referred to as the "Examiners" performed an examination of the **United National Casualty Insurance Company**, as of **December 31, 2012**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2012 NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of the **United National Casualty Insurance Company**, as of **December 31, 2012**, as determined by the undersigned.



**D. Patrick Huth, CFE**  
**The Thomas Consulting Group, Inc.**

State of: Georgia  
County of: Cobb

On this 2 day of May, 2014, before me personally appeared, D. Patrick Huth, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires 10/14/17 Sheril L. Grice  
Notary Public

