STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

HOMESITE INSURANCE COMPANY
OF THE MIDWEST
MANDAN, NORTH DAKOTA

AS OF
DECEMBER 31, 2011

STATE OF NORTH DAKOTA

DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota, do hereby certify that I have compared the annexed copy of the Report of Examination of the

Homesite Insurance Company of the Midwest

Mandan, North Dakota

as of December 31, 2011, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

COMMISSIONER OF INSURANCE SEAL STATE OF NORTH DAKOTA

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this 15th day of October, 2012.

Adam Hamm
Insurance Commissioner

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Boston, Massachusetts
August 28, 2012

Honorable Adam Hamm
Insurance Commissioner
State of North Dakota
600 East Boulevard Avenue
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records, and financial condition of

Homesite Insurance Company of the Midwest

Mandan, North Dakota

hereinafter referred to as the "Company" or "Homesite-Midwest". The examination was conducted at the Company's main administrative office located at 99 Bedford Street, Boston, Massachusetts. The Company was last examined as of December 31, 2007, by the North Dakota Insurance Department.

SCOPE OF EXAMINATION

This examination was a risk focused financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the National Association of Insurance Commissioners' (NAIC) *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the four-year period from January 1, 2008, to and including December 31, 2011, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Our examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, we planned and performed the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination also included assessment of the accounting principles used and significant estimates made by management as well as evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Work papers provided by the Company's independent auditor, Ernst and Young, L.L.P., were reviewed and where deemed appropriate, certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

This exam was conducted concurrently with North Dakota and Connecticut serving as co-lead states in the coordinated examination of the insurance companies that are part of the Homesite Group Incorporated (HGI) as shown below:

Homesite Insurance Company (Connecticut) – Pool member
Homesite Indemnity Company (Kansas) – Pool member
Homesite Insurance Company of California (California) – Pool member
Homesite Insurance Company of Georgia (Georgia) – Pool member
Homesite Insurance Company of Illinois (Illinois) – Pool member
Homesite Insurance Company of New York (New York) – Pool Member
Homesite Insurance Company of Florida (Florida)
Homesite Lloyds of Texas (Texas) – Pool Member

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of the four exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2006, to December 31, 2007. We determined that the Company had satisfactorily addressed all of these items.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

Effective January 1, 2012, HGI added Homesite Insurance Company of Florida to the Homesite Pool.

The following are the member company participation percentages in effect as of January 1, 2012:

	Pooling Percentages
Homesite Insurance Company of the Midwest	32.0
Homesite Insurance Company	26.0
Homesite Insurance Company of California	11.0
Homesite Indemnity Company	12.0
Homesite Insurance Company of New York	5.0
Homesite Insurance Company of Florida	4.0
Homesite Insurance Company of Georgia	4.0
Homesite Insurance Company of Illinois	3.0
Homesite Lloyd's of Texas	3.0
Pool Total	100%

HISTORY

General

The Company was incorporated October 9, 1969, as Dawson Hail Insurance Company. The Company was licensed to write multiple-line property and casualty insurance. On July 14, 1995, Crop Growers Corporation, an indirect subsidiary of Fireman's Fund Insurance Company, acquired all of the outstanding common stock. On May 5, 1999, Crop Growers Corporation sold the common stock of Dawson Hail Insurance Company to Homesite Group Incorporated (formerly Homeowners Direct Corporation), a Delaware corporation. Simultaneously, the current title was adopted.

Prior to finalization of the sale, the Department approved a Reinsurance and Liabilities Assumption Agreement between the Company and Fireman's Fund Insurance Company under which the Company ceded all of its liabilities and obligations to Fireman's Fund Insurance Company.

Capital Stock

The Company's Articles of Incorporation authorize the Company to issue 15,000 shares of common capital stock with a par value of $215 per share. At December 31, 2011, the Company had issued an outstanding 14,000 shares of common stock held by its immediate parent, Homesite Securities Company L.L.C.

On December 29, 2006, Homesite Group Incorporated entered into a stock purchase agreement with Alleghany Corporation under which Alleghany acquired 85,714 shares of common stock of Homesite Group for a purchase price of $120,000,000. On the same date, $120,000,000 was transferred from Alleghany to HGI. As a result of this transaction, HGI made a capital infusion of $20,000,000 into the Company in 2006. The total capital infused into the Company by HGI in 2006 was $25,300,000.

Homesite Securities Company, LLC made additional capital contributions totaling $26,950,000 in 2011 and $1,500,000 in 2010.

Dividends to Stockholders

The Company paid no dividends during the period under examination.

MANAGEMENT AND CONTROL

Stockholders

The Company's Bylaws establish the date of the annual meeting of stockholders on or before the second Thursday in April or at such other time as determined by the Board of Directors.

Board of Directors

The Bylaws specify that the business and affairs of the Company shall be managed by a Board of Directors consisting of not less than one nor more than nine directors. Each director shall hold office until the next annual shareholder meeting or until a successor is elected and qualified. Annual meetings of the Board of Directors shall be held immediately following the annual shareholders' meetings. Regular meetings of the Board may be held at such times and places within or without the State of North Dakota as the Directors shall determine.

The directors serving as of December 31, 2011, are as follows:

Name and Residence	Principal Business Affiliation
Douglas A. Batting Boston, MA	President Homesite Group, Inc.
Kenneth F. Flaherty Westmont, IL	Relationship Manager National Financial
Fabian J. Fondriest Concord, MA	Chief Executive Officer Homesite Group, Inc.
Michael D. Lorion Millbury, MA	Chief Financial Officer and Treasurer Homesite Group, Inc.
Anthony Scavongelli Duxbury, MA	General Counsel and Secretary Homesite Group, Inc.
Mike T. Southworth Springfield, IL	Attorney Hart, Southworth and Witsman
Samuel J. Witsman Springfield, IL	Attorney Hart, Southworth and Witsman

Officers

The Bylaws provide that the elected officers of the Company shall be a Chairman of the Board, a President, a Vice President, a Treasurer, and a Secretary. Officers serving at December 31, 2011, were as follows:

Name	Title
Fabian J. Fondriest	Chief Executive Officer, Chairman
Douglas A. Batting	President
Michael D. Lorion	Treasurer and Chief Financial Officer
Anthony M. Scavongelli	General Counsel and Secretary
Stephen D. Stayton	Vice President and Chief Actuary
Andrew A. McElwee, Jr.	Executive Vice President Underwriting
Christopher L. Conti	Vice President Operations
James T. Morahan, Jr.	Vice President Finance and Administration
Alex E. Punsalan	Vice President Claims
Jenifer L. Rinehart	Vice President Human Resources
Peter B. Settel	Vice President Technology

Committees

The committees of the Board during the period under examination included an Investment Committee. The members appointed and serving on the Investment committee at December 31, 2011, were as follows:

Douglas Batting
Fabian Fondriest
Michael Lorion
James Morahan, Jr.
Anthony Scavongelli

Conflict of Interest

The Company has a conflict of interest policy for officers and conflict of interest statements are completed annually. The review of signed conflict of interest statements found no material conflicts.

Corporate Records

There were no amendments to the Bylaws or Articles of Incorporation during the period under examination. On September 12, 2008, the Company filed a "Statement of Correction" with the Secretary of State which corrected Article IV of the Amended and Restated Articles of Incorporation, dated January 3, 2000, to read: "The previously issued 800 Class "A" common shares and 13,000 Class "B" common shares with a par value of $180.00 per share shall be cancelled."

The minutes of the meetings of the stockholders and Board of Directors for the period under examination were reviewed. All minutes were appropriately approved and authorized. The Board received and reviewed the North Dakota Insurance Department Report of Examination of the Company dated December 31, 2005.

It was noted that the investment transactions were consistently approved by the Board of Directors in accordance with the provisions of N.D.C.C. § 26.1-05-18.

AFFILIATED COMPANIES

General

The Company is wholly owned by Homesite Securities Corporation, L.L.C., a Delaware limited liability company, which, in turn, is owned by Homesite Group Incorporated (HGI). The ultimate parent is Alleghany Corporation. The holding company structure as it pertains to the Company as of December 31, 2011, is depicted below:

Company	Domicile
Alleghany Corporation	Delaware
Alleghany Insurance Holdings LLC (owns 32.9%)*	Delaware
Homesite Group Incorporated	Delaware
Homesite Indemnity Company	Kansas
Homesite Securities Company LLC	Delaware
Homesite Insurance Company	Connecticut
Homesite Insurance Company of California	California
Homesite Insurance Company of the Midwest	**North Dakota**
Homesite Insurance Agency, Inc.	Massachusetts
Homesite Insurance Company of Pennsylvania	Pennsylvania
Homesite Insurance Company of New York	New York
Homesite Insurance Company of Illinois	Illinois
Homesite Insurance Company of Florida	Florida
Texas-South of Homesite, Inc.	Texas
Homesite Lloyd's of Texas	Texas

* In addition to Alleghany Insurance Holdings, LLC, other entities holding more than 10% of Homesite Group Incorporated's stock are Morgan Stanley Capital Partners, III, LP with 26% and HDC Investors, LP with 17.61%. The Plymouth Rock Company Inc., parent of SRB, has a 9.82% ownership interest.

According to the holding company system annual registration statement for 2011, on December 5, 2006, HGI entered into a stock purchase agreement with Alleghany Insurance Holding, LLC. Following the closing of the transaction on December 29, 2006, the shareholders owning 10% or more of HGI stock are as follows:

- The Alleghany Insurance Holding LLC held 85,714 common stock constituting 32.90% of the total of all shares.
- Morgan Stanley Capital Partners III, L.P. held 67,752.87 common stock constituting 26.00% of the total of all shares.
- HDC Investors, L.P. c/o Metalmark Capital LLC, held 45,869.40 common stock constituting 17.61% of the total of all shares.

Morgan Stanley Capital Partners III, L.P., HDC Investors, L.P. and The Plymouth Rock Company Incorporated, which formerly owned 14.64% of the shares and as a result of the stock purchase by Alleghany Insurance Holding LLC (AIH), now owns 9.82%, filed Disclaimers of Affiliation or Control in regard to Homesite Group Incorporated (HGI) dated January 21, 1999. AIH filed a formal Disclaimer of Control with regard to HGI on December 7, 2006. See subsequent events for approval of Form A and change to the partner agreement and controlling entity.

INTERCOMPANY AGREEMENTS

The Company does not have any employees. All services are provided by HGI through an administrative agreement. The intercompany agreements are described below.

Intercompany Services Agreement

Effective July 26, 1999, the Company entered into an administrative services agreement with HGI to provide facilities and services. Such services include personnel, management services, and facilities support. General legal and advice are also provided. All services provided by HGI are reimbursed on a cost basis, and such services are subject to the ultimate authority, control, review and limit by the Company. Settlements are to be made monthly between the parties to the agreement. In 2011, the Company incurred costs of $26,761,000 for services provided by HGI under this agreement.

Consolidated Federal Income Tax Allocation Agreement

The Company and the other entities of the Homesite Group holding company system are participants in an agreement dated April 21, 2002, to fairly allocate the liability from the consolidated federal income tax return of the Homesite Group of companies.

The agreement provides for the total tax liability to be apportioned among members of the group by applying the appropriate current tax rate following the determination of the separate current taxable income or loss for each member of the group. If the total of the separate tax charges or credits does not equal the consolidated tax, equitable adjustment among the participants will be made by the ultimate parent.

Investment Management Agreement

On June 22, 1999, the Company entered into an investment management agreement with SRB Corporation (SRB). SRB has been contracted to provide investment management services to the Company including, but not limited to; investment accounting, cash management, and the development of investment objectives, policies and guidelines. SRB is compensated quarterly based upon a fee schedule relating to the Company's asset mix. Investment fees paid by the Company to SRB in 2011 under this agreement were $748,544.

Agency Agreement

On December 17, 2004, the Company entered into an agency agreement with Homesite Insurance Agency, Inc. (HIA). Under this agreement, HIA agrees to serve as an agent for the Company. Currently only business not acceptable to the Homesite Group is placed through this agency.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured under fidelity bond coverage issued to HGI. The coverage exceeds the NAIC recommended minimum amount of fidelity bond coverage for the Company. Other insurance coverages maintained by the HGI appeared adequate.

EMPLOYEE WELFARE

The Company leases employees from its ultimate parent under the Intercompany Services Agreement.

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2011:

Location	Type of Asset	Statement Value	Market Value
Arkansas	Bond	$ 108,450	$ 108,312
Georgia	Bond	35,146	35,101
Maine	Bond	256,062	255,737
Massachusetts	Bond	100,416	100,289
New Hampshire	Bond	502,081	501,446
South Carolina	Bond	130,541	130,376
Tennessee	Bond	205,853	205,593
North Dakota *	Bond	1,497,667	1,521,095
Total Deposits		$2,844,794	$2,841,191

* Held for the benefit of all policyholders.

TERRITORY AND PLAN OF OPERATION

HGI was formed in 1997 with substantial capital from Morgan Stanley Dean Witter Capital Partners (MSCP), with the intention of establishing a national presence in the marketing of homeowners insurance and related coverages. By focusing on one line of business, HGI utilizes relationships with insurance companies that seek to offer homeowners insurance through an affinity partner. HGI also leverages technological advances in delivering homeowners products directly to the consumer, thereby eliminating wasteful delays and related expenses. Direct parent of the Company is Homesite Securities Company, LLC, a Delaware corporation.

At December 31, 2011, the Company was licensed in 23 states and the District of Columbia. The Company writes only homeowners multi-peril insurance coverage. The five states providing the largest amounts of direct written premiums (64.6%) in 2011 were as follows.

Michigan	$28,020,849
Ohio	27,595,215
Maryland	16,564,535
Minnesota	15,910,342
Indiana	11,852,686
Total all direct written premiums	$154,650,028

GROWTH OF COMPANY

The following represents the Company's direct written premium activity as it relates to surplus over the period of our examination:

Premiums Written

	2011	2010	2009	2008	2007
Direct	$154,650,028	$141,418,052	$114,064,680	$89,146,920	$71,274,383
Assumed	346,401,372	278,004,072	210,100,702	184,999,897	88,178,713
Ceded	383,036,401	308,764,088	234,627,562	205,130,804	95,714,414
Total Premiums	$118,014,999	$110,658,036	$89,537,820	$69,016,013	$63,738,682
Surplus	71,670,976	51,446,087	51,720,190	48,547,839	50,003,884
Premium-to-Surplus Ratio	164.7%	215.1%	173.1%	142.2%	127.5%

The Company assumes the business of the other pool participants and then, after obtaining reinsurance, the Company retrocedes 72% of the remainder to the pool participants according to their pooling percentages.

LOSS EXPERIENCE

The following represents the five-year history of the Company's loss reserves:

	2011	2010	2009	2008	2007
Loss reserves	$28,727,606	$30,989,949	$21,579,789	$16,331,321	$14,600,295
LAE reserves	6,043,192	4,647,399	5,267,537	5,019,677	4,594,019
Total Reserves	$34,770,798	$35,637,348	$26,847,326	$21,350,998	$19,194,314
Losses and LAE Incurred	$103,898,152	$83,016,711	$61,328,119	$43,398,712	$37,847,975

The pool has experienced significant CAT losses in 2011 and losses have increased during the last three years due to a higher than normal number of storms in the Midwestern states.

REINSURANCE

As part of its catastrophe management program, HGI and its insurance company affiliates purchase external reinsurance intended to limit the net underwriting exposure of all pool and non-pool participants.

The following reinsurance agreements were in place as of December 31, 2011:

A.	Type:	Property Per Risk Excess of Loss
	Reinsurer:	Hannover Ruckversicherung AG Lloyd's of London The TOA Reinsurance Company of America
	Scope:	Homeowners Multiple Peril and Dwelling Fire business

The treaty is contracted each year and became effective on July 1, 2011. The Company retains and is liable for the first $1,000,000 of Ultimate Net Loss as respects any one Risk, each loss. The Reinsurer is then liable for the amount by which such Ultimate Net Loss exceeds the Company's retention, but the liability of the Reinsurer shall not exceed $1,500,000 as respects any one Risk, each loss, and $1,500,000 as respects all Risks involved in any one Loss Occurrence.

	Termination:	The Company may terminate a Subscribing Reinsurer's percentage share at any time by giving written notice in the event of specified circumstances.

B.	Type:	Quota Share (10.5%)
	Reinsurer:	Multiple Reinsurers
	Scope:	Homeowners Multiple Peril and Dwelling Fire business

The reinsurers receive premium on new and renewal policies on an attaching basis and absorb 100% of non-PCS CAT-related losses. For reinsurers through broker, Homesite receives a ceding commission equal to a flat 40.25% of the premium and an additional 5% allowance for loss adjustment expenses, while absorbing catastrophe losses which receive a PCS Catastrophe Code from ISO. For direct reinsurer a sliding scale commission is used, with a provisional commission set at 41%.

C.	Type:	Property Catastrophe Excess of Loss
	Reinsurer:	Multiple Reinsurers
	Scope:	Property - Homeowners Multiple Peril and Dwelling Fire Business

The Property Catastrophe Excess of Loss treaty is contracted each year with a start date of April 1 and is effective for a term of one year. The following summarizes the program effective April 1, 2011:

$30,000,000 Excess of $70,000,000 per occurrence
$100,000,000 Excess of $100,000,000 per occurrence
$200,000,000 Excess of $200,000,000 per occurrence (Excluding FL and CA)

HGI reviews the accumulation of catastrophic exposure on a monthly basis using various catastrophe models.

Termination: The Company may terminate a Subscribing Reinsurer's percentage share at any time by giving written notice in the event of specified circumstances.

D. Type: Intercompany Pooling Agreement

Each participant in the Homesite Pool cedes to Homesite-Midwest, and Homesite-Midwest accepts, assumes, and reinsures 100% of each participant's net underwriting liabilities. Homesite-Midwest then cedes to each of the other participants, and each of such participants accepts, assumes and reinsures its proportionate shares, as identified below:

Assumed: Company assumes 100% of direct net written premiums and losses under homeowners multi-peril policies from ceding companies.

Ceded: Company retrocedes pooled direct net written premiums, losses and unearned premiums to the parties according to the following percentages and retains 28%:

Homesite Insurance Company	27%
Homesite Indemnity Company	13%
Homesite Insurance Company of California	16%
Homesite Insurance Company of New York	6%
Homesite Insurance Company of Georgia	4%
Homesite Insurance Company of Illinois	3%
Homesite Lloyd's of Texas	3%

Commission: Actual

Effective Date: January 1, 2011; renewal is annual

.All treaties had appropriate transfer of risk and contained an insolvency clause as required by N.D.C.C. § 26.1-02-21.

INFORMATION SYSTEMS AND CONTROLS

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of this review, findings were noted in controls over information technology governance and operations, logical security, physical security, program change, and business continuity and disaster recovery. These findings were presented to the Company along with recommendations to strengthen its controls. **It is recommended that the Company establish and implement appropriate control policies and procedures to strengthen its information system controls.**

In conclusion, it was determined that while there are control deficiencies within the Company's IT environment, there is a sufficient control structure in place to warrant reliance on the IS controls.

ACCOUNTS AND RECORDS

The Finance Department of HGI oversees the day-to-day accounting functions for three noninsurance companies and nine licensed insurance entities. HGI utilizes the following Stone River Group products to record GAAP and statutory financial activity on a daily, monthly and annual basis:

- general ledger
- accounts payable
- financial reporting
- eFreedom annual statement and bank reconciliation system

General ledger data is mapped to complete the quarterly and annual statements and then manually entered eFreedom.

The year-end trial balance for 2011 was reconciled to the annual statement.

FINANCIAL STATEMENTS

The following pages present the Company's financial statements as of December 31, 2011, and an analysis of examination changes in the following order:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2011

Statement of Income, Year Ended December 31, 2011

Reconciliation of Capital and Surplus, January 1, 2008, through December 31, 2011

Homesite Insurance Company of the Midwest
Statement of Assets, Liabilities, Surplus, and Other Funds
as of December 31, 2011

Assets

	Ledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	$128,161,628		$128,161,628
Common stocks	18,804,506		18,804,506
Cash and short-term investments	2,224,570		2,224,570
Other invested assets	14,242,130		14,242,130
Investment income due and accrued	1,174,501		1,174,501
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	32,541,707		32,541,707
Deferred premiums, agents' balances and installments booked but deferred and not yet due	12,307,885		12,307,885
Reinsurance:			
Amounts recoverable from reinsurers	24,249,914		24,249,914
Current federal tax recoverable			
Net deferred tax asset	9,152,581	$1,029,770	8,122,811
Total	$242,859,422	$1,029,770	$241,829,652

Homesite Insurance Company of the Midwest
Statement of Assets, Liabilities, Surplus, and Other Funds
as of December 31, 2011

Liabilities, Surplus and Other Funds

Losses	$ 28,727,606
Reinsurance payable on paid loss and loss adjustment expenses	20,464,941
Loss adjustment expenses	6,043,192
Commissions payable, contingent commissions and other similar charges	633,121
Other expenses	34,801
Taxes, licenses and fees	1,623,277
Current federal income taxes	397,313
Unearned premiums	66,136,505
Advance premiums	2,853,266
Ceded reinsurance premiums payable	21,486,281
Amounts withheld or retained by company for account of others	491,169
Payable to parent, subsidiaries and affiliates	14,600,102
Deferred commission income	6,667,102
Total liabilities	$170,158,676
Additional admitted deferred tax assets	2,707,604
Common capital stock	3,010,000
Gross paid in and contributed surplus	64,591,916
Unassigned funds (surplus)	1,361,456
Surplus as regards policyholders	$ 71,670,976
Totals	$241,829,652

Homesite Insurance Company of the Midwest
Statement of Income
for the Year Ended December 31, 2011

Underwriting Income		
Premiums earned		$113,288,805
Deductions		
Losses incurred	$90,580,698	
Loss expenses incurred	13,317,454	
Other underwriting expenses incurred	24,307,193	
Total underwriting deductions		128,205,345
Net underwriting gain or (loss)		$(14,916,540)
Investment Income		
Net investment income earned	$3,058,083	
Net realized capital gains or (losses)	323,892	
Net investment gain or (loss)		3,381,975
Other Income		
Net gain or (loss) from agents or premium balances charged off	$(687,422)	
Finance and service charges not included in premiums	1,938,762	
Total other income		1,251,340
Net gain from operations before dividends to policyholders and federal and foreign income taxes		$(10,283,225)
Federal and foreign income taxes incurred		(534,097)
Net income		$(9,749,128)

Homesite Insurance Company of the Midwest
Reconciliation of Capital and Surplus Account

	2011	2010	2009	2008
Surplus as regards policyholders, December 31 prior year	$51,446,087	$51,720,190	$48,547,839	$ 50,003,884
Net income	(9,749,128)	(4,004,889)	(253,839)	2,293,762
Change in net unrealized capital gains or (losses)	430,908	610,882	1,456,233	(2,671,153)
Change in net deferred income tax	3,474,731	1,613,497	300,611	556,960
Change in non-admitted assets	(949,622)	(69,593)	1,671,059	(1,681,614)
Change in provision for reinsurance	68,000	76,000	2,000	46,000
Surplus adjustments: Paid in	26,950,000	1,500,000	0	0
Dividends to Stockholders				
Aggregate write-ins	0	0	(3,173)	0
Change in surplus as regards policyholders for the year	20,224,889	(274,103)	3,172,351	(1,456,045)
Surplus as regards policyholders, December 31 current year	$71,670,976	$51,446,087	$51,720,190	$48,547,839

CONCLUSION

The financial condition of the Company, as of December 31, 2011, as determined by this examination is summarized as follows:

Admitted Assets			$241,829,652
Total Liabilities		$170,158,676	
Common Capital Stock	$ 3,010,000		
Gross Paid In & Contributed	64,591,916		
Unassigned Funds	1,361,456		
Surplus as Regards Policyholders		71,670,976	
Liabilities, Surplus, and Other Funds			$241,829,652

Since the last examination conducted as of December 31, 2008, the Company's admitted assets have increased $123,770,567, its total liabilities have increased $94,694,806, and its surplus as regards policyholders has increased $29,075,761.

The courteous cooperation extended by the officers and employees of the Company during the course of this examination is gratefully acknowledged.

In addition to the undersigned, Mike Andring, ACAS, MAAA, Actuary for the North Dakota Insurance Department, participated in this examination.

Respectfully submitted,

Edward J. Moody

Edward J. Moody, CFE
Examiner-In-Charge
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

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12 <u>Information Systems and Controls</u>

It is recommended that the Company establish and implement appropriate control policies and procedures to strengthen its information system controls.