

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**QBE SPECIALTY INSURANCE COMPANY
BISMARCK, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2012**

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

**QBE Specialty Insurance Company
Bismarck, North Dakota**

as of December 31, 2012 with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.



IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this 2nd day of June, 2014.



Adam Hamm
Insurance Commissioner

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Bismarck, North Dakota
March 14, 2014

Honorable Adam Hamm
Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, an Association Examination has been made of the books, records and financial condition of

**QBE Specialty Insurance Company
Bismarck, ND 58501**

hereinafter referred to as the "Company" or "QBE Specialty". 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 its corporate affairs and insurance operations. This statutory examination covers the five-year period from January 1, 2008, to and including December 31, 2012, 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, annual statement instructions and, when applicable, to domestic state regulations.

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

Concurrent examinations were made of the following affiliated property and casualty insurance companies within the QBE Holdings Inc.:

<u>Participating Companies</u>	<u>State of Domicile</u>	<u>Pool %</u>
QBE Insurance Corporation *	PA	23.7%
NAU Country Insurance Company	MN	15.7%
Praetorian Insurance Company	PA	14.5%
QBE Reinsurance Corporation	PA	10.4%
OBE Specialty Insurance Company	ND	9.7%
General Casualty Company of Wisconsin	WI	9.6%
Unigard Insurance Company	WI	5.1%
National Farmers Union P&C Company	WI	2.7%
Regent Insurance Company	WI	1.8%
Southern Guaranty Insurance Company	WI	1.7%
General Casualty Insurance Company	WI	1.3%
Hoosier Insurance Company	IN	1.1%
North Pointe Insurance Company	PA	1.0%
Unigard Indemnity Company	WI	0.8%
Southern Pilot Insurance Company	WI	0.4%
Blue Ridge Indemnity Company	WI	0.3%
Southern Fire and Casualty Company	WI	<u>0.2%</u>
		<u>100%</u>

* Lead Company

James Call of INS Services, Inc. coordinated the financial examiners' portion of the actuarial key activity with the following examining actuaries:

Bob Gardner, FCAS, MAAA – Reserving
 Jackie Lewis, FCAS, MAAA – Pricing
 John Pedrick, FCAS, MAAA - Pricing

These actuaries were contracted to perform an independent pricing and reserve analysis for the Pennsylvania companies, QBE Insurance Corporation, and QBE Reinsurance Company. The independent review included program reserves of QBE Specialty Insurance Company.

Additional efficiencies were achieved as part of the coordination examination process by relying on the review of the information systems, Exhibit C controls by INS Consultants, Inc.

This examination was conducted by contract examiners for the Pennsylvania Insurance Department. A full review of the work relating to the Company completed by the contracted examiners was completed by North Dakota Insurance Department staff.

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, 2004, to December 31, 2007. We determined that the Company had satisfactorily addressed all of these items, except the following:

Recommendation

It is recommended that the Company prepare actuarial report documentation that is required to be in conformity with NAIC Annual Statement Instructions for property and casualty insurance companies relative to issues to be addressed in the Statement of Actuarial Opinion.

Response

The Company did not comply. Actuarial report documentation was not in conformity with NAIC instructions.

Findings and recommendations related to the above areas are addressed under various captions below for the current period under examination.

SUMMARY OF SIGNIFICANT FINDINGS

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

SUBSEQUENT EVENTS

Effective August 1, 2013, QBE Specialty became a domestic surplus lines insurer in North Dakota.

HISTORY

General

The Company was incorporated on August 5, 2002, under N.D.C.C. ch. 10-19.1, the North Dakota Business Corporation Act, and N.D.C.C. ch. 26.1-05, Organization and Operation of Domestic Companies. The Company's primary purpose is to engage in the business of property and casualty insurance. The Company is a wholly-owned subsidiary of QBE Insurance Group Limited, a publicly traded corporation listed on the Australian Stock Exchange, and QBE Insurance Corporation, an insurance company domiciled in Pennsylvania, as of the date of this examination.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Articles of Incorporation and Bylaws and all amendments thereto were read by the examiner. Neither the Articles nor the Bylaws were amended during the period under examination.

Minutes of Meetings of the Shareholders and Board of Directors

The minutes of meetings of the shareholders and Board of Directors were reviewed for the period under examination and subsequent period. The minutes reflected the elections of

directors and officers, approvals of investment transactions, and approvals of other pertinent matters requiring corporate review.

Conflict of Interest

The Board of Directors has adopted a code of conduct and a policy statement on conflict of interest for disclosure of any possible conflicts. The procedure requires all directors, officers, and key employees to annually complete and sign a questionnaire indicating all possible conflicts.

The conflict of interest statements for the years under examination were reviewed and all conflicts were noted and accepted.

MANAGEMENT AND CONTROL

Annual Shareholder Meetings

The Bylaws provide that the annual meeting of the shareholders shall be held on the second week of March each year for the purpose of electing directors and for the transaction of such other business as may come before the members.

Special meetings of the shareholders may be called by the Chief Executive Officer and shall be called by the President or Secretary of the Corporation and shall be called at the request of the Board or shareholders owning a majority of the capital stock of the Corporation.

At any meeting the holders of a majority of all shares entitled to vote shall constitute a quorum.

Board of Directors

The Bylaws specify that the business shall be managed by the Board of Directors. The number of directors shall not be less than seven. Directors shall hold office until the next annual election when their successors are duly elected.

The Bylaws state an annual meeting of the directors shall be held as soon as practical after the annual meeting of the shareholders. Regular meetings of the Board of Directors may be held without notice at a time and place determined by the Board. Special meetings of the Board of Directors may be called by the Chief Executive Officer on five days' notice and shall be called by the President or Secretary in like manner on the written request of two directors. Directors duly elected and serving at December 31, 2012, together with their addresses and business affiliations, are as follows:

<u>Name and Address</u>	<u>Business Affiliations</u>
Harvey J. Bazaar North Caldwell, NJ	Retired; Independent Director
Christopher Colin Fish Montvale, NJ	Chief Financial Officer QBE Holdings, Inc.
Gregory James Deal Minnetonka, MN	President & CEO NAU Country Insurance Company
Anthony Robert Przybyszewski Brooklyn, NY	Retired; Independent Director
Rodney Paul Farrell Daufuskie Island, SC	Retired; Independent Director
Christopher Daniel Davies Sunset, SC	CEO QBE Financial Institution Risk Services, Inc. dba QBE FIRST
Marc Gabler Metcalf San Francisco, CA	Independent Director Self Employed
John Rumpler New York, NY	President & CEO QBE Holdings, Inc.
Michael Norman Scala New York, NY	Senior Vice President QBE Holdings, Inc.
Susan Smith Harnett New York, NY	Chief Operating Officer QBE Holdings, Inc.
John David Neal Sydney, Australia	Chief Executive Officer, Global Underwriting Ops QBE Insurance Group Limited
John Glenn Langione Allentown, NJ	Chief Risk Officer QBE Holdings, Inc.

Officers

Pursuant to the Bylaws, the officers of the Company shall be elected by the Board of Directors and serve until a replacement is chosen. The officers of the Company shall consist of the President, Vice President, Secretary and Treasurer and such other officers as the Board may elect. Elected officers serving with respective duties as of December 31, 2012, are as follows:

<u>Officer</u>	<u>Title</u>
John Rumpler	President, Chief Executive Officer
Christopher Colin Fish	Chief Financial Officer
Peter T. Maloney	Chief Legal Officer, Corporate Secretary

Committees

In accordance with the Bylaws, the board of directors may, by resolution, designate one or more committees, composed of not less than two directors of the Board of Directors of the Corporation. Serving the Board at December 31, 2012, was an Administrative Committee and an ERISA Benefits Committee. Also in place is an Investment Subcommittee, ERISA Benefits Investment Subcommittee, and an ERISA Appeals Subcommittee. Listed below are the members of the Executive Committee and the Joint Audit and Risk Committee:

Joint Audit & Risk Committees

John Rumpler
Harvey Bazaar*
Rod Farrell*
Anthony Przybyszewski
Marc Metcalf

Executive Committee

Susan Harnett
John Neal
John Rumpler
Christopher C. Fish
John Langione

*Harvey Bazaar, Rod Farrell, Marc Metcalf and Anthony Przbyszewski are independent members of the Audit Committee. Both Harvey Bazaar and Rod Farrell serve as members that qualify as "financial experts".

AFFILIATED COMPANIES

The Company is a member of the QBE Insurance Group Limited, a widely held, publicly traded company, listed on the Australian Stock Exchange. No individual or corporation owns or holds 10% or more of its common stock, other than as a nominee or custodian. This organizational listing is not all-inclusive of the entire QBE Group corporate structure:

QBE Insurance Group Limited
 QBE Holdings (Americas) Pty Limited
 QBE Investments (North America), Inc.
 QBE Atlantic LLC
 QBE Holdings, Inc.
 Praetorian Insurance Company
 QBE Stonington Insurance Holdings, Inc.
 Stonington Insurance Company
 Stonington Lloyds Insurance Company
 QBE Stonington Services Inc.
 Lantana Insurance Ltd.
 North Pointe Financial Services, Inc.
 North Pointe Insurance Company
 NAU Holdings Company, LLC
 NAU Country Insurance Company
 QBE Regional Companies (N.A.), Inc.
 General Casualty Company of Wisconsin
 Blue Ridge Indemnity Company
 General Casualty Insurance Company
 Hoosier Insurance Company
 National Farmers Union Property and Casualty Company
 Regent Insurance Company
 Southern Fire & Casualty Company
 Southern Guaranty Insurance Company
 Southern Pilot Insurance Company
 Unigard Insurance Company
 Unigard Indemnity Company
 QBE Reinsurance Corporation
 QBE Insurance Corporation
 QBE Specialty Insurance Company

Intercompany Agreements

QBE the Americas Pooling Agreement

Effective January 1, 2012, QBE Specialty Insurance Company (“QBESIC”) entered into an agreement with QBE Insurance Corporation (“QBEIC”), and the other property and casualty insurance companies within the QBE Americas Holding group to cede 100% of the Company’s net written premiums to QBEIC. QBEIC then retrocedes premiums, net losses, net expenses, and net loss adjustment expenses back to the QBE Americas Holding Group Companies on a pro rata basis, calculated by each entities’ proportion of surplus within the group. As of December 31, 2012, the Company’s participation percentage was 9.7 percent.

Investment Management Agreement

QBE Reinsurance Corporation and its subsidiaries QBE Insurance Corporation and QBE Specialty Insurance Company (“QBESIC”) (collectively “QBE” or “Company”) entered into an Investment Management Agreement (“IMA”), effective April 15, 2010, with Minister Court Asset Management Pty Limited (“Minister”). The purpose of the IMA is to set forth the terms and conditions under which certain investment management services are provided by Minister on behalf of QBESIC. Per the terms of this agreement, Minister is to act as an investment manager of the Company’s portfolio and may manage, invest, realize and/or reinvest all or any part of the

portfolio based upon the terms of the agreement. These actions are subject to the Company's investment guidelines. Compensation paid to Minister is calculated by applying varying basis points to the assets under management. On March 31, 2011, Minister changed its name to QBE Investment Management Pty Limited ("QIM"). Effective December 31, 2012, QBESIC entered into a Novation Agreement ("Agreement") with QIM and QBE Management Services Pty Limited ("QMS"). Under this Agreement, QIM will be dissolved and QMS will be utilized as the investment management services provider to the QBE companies going forward.

Intercompany Cost Allocation and Management Services Agreement

Effective January 1, 2010, QBESIC entered into the Intercompany Cost Allocation and Management Services Agreement ("Agreement") with QBE Americas, Inc. and its affiliates in order to achieve operating economies and to ensure that the charges for services, certain property, equipment, and facilities incurred reflect actual costs as determined in a fair and equitable manner. Within 30 days of the end of each month, QBE Americas Inc. will prepare and forward an itemized accounting of all expenses, with payment due from QBESIC within 15 days of its receipt of the itemized accounting statement. The Agreement was amended during the exam period to comply with State Insurance Department requirements, the 2010 changes to the Insurance Company Model Act and to add or remove additional participants.

Claims Administration Agreement

Effective January 1, 2009, QBESIC and QBEIC were added as parties to the Claims Administration Agreement ("CAA") effective April 1, 2008, entered into by QBESIC, affiliated insurers PIC, QBEIC (collectively "QBE"), and affiliated agency QBE FIRST Insurance Agency, Inc. ("QBE FIRST"). Under this agreement, QBE FIRST will administer and adjust claims arising under the policies arising out of the Underwriting Partnership Agreements, as listed in the agreement, between QBE and QBE FIRST. QBE will pay QBE FIRST fees and other compensation in return.

Tax Sharing Agreement

Effective January 1, 2008, QBESIC entered into a Tax Sharing Agreement. This Agreement sets forth the methods for allocating consolidated, combined or unitary income taxes among the members and provisions concerning the administration of such returns. This agreement provides for the participants to file a consolidated tax return, with the parent taking the primary responsibility for the filing and all related correspondence. Each subsidiary computes its federal income tax liability as if the subsidiary was filing a separate return and settles such amounts with QBE Investments (North America) Inc., the designated remittance agent. There have been seven subsequent amendments to this agreement to add and remove companies due to mergers, sales, acquisitions or dissolutions.

These agreements have been submitted to the North Dakota Insurance Commissioner as required pursuant to N.D.C.C. § 26.1-10-05.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2012, the Company was a named insured on a financial institution bond issued to QBE Holdings, Inc. by the National Union Fire Insurance Company of Pittsburgh, Pa. The bond has an aggregate loss limit of \$10 million. The coverage amount meets the minimum amount recommended in the NAIC Examiner's Handbook.

The Company is also a named insured on other types of coverage including, but not limited to, commercial property and directors and officers liability.

PENSION AND INSURANCE PLANS

The Company has no employees. Services are provided under the Intercompany Cost Allocation and Management Services Agreement (“Service Agreement”). Under the Service Agreement, all personnel are employees of QBE Americas Inc.

Retirement Plan

QBE Reinsurance Corporation sponsors a defined benefit pension plan and a defined contribution saving plan covering substantially all of its employees. QBE Reinsurance Corporation allocates plan costs to its affiliates based on the service agreement. The Company has no legal obligations for benefits under these plans.

TERRITORY AND PLAN OF OPERATION

At December 31, 2012, the Company was licensed in North Dakota, and was writing specialty lines of property and casualty business in 49 states and the District of Columbia. Effective August 1, 2013, the Company became licensed as a domestic surplus lines insurer in North Dakota under N.D.C.C. § 26.1-44-03.2.

The Company operates under the general agency and managing general agency system. In 2012, the five states with the largest dollar amounts of premiums written were Florida, California, Texas, Louisiana, and North Carolina.

REINSURANCE

The Company’s significant reinsurance treaties in force at December 31, 2012, are summarized below.

Ceding Contracts

Affiliates

QBESIC entered into a Quota Share Reinsurance Agreement (“Agreement”) with affiliated insurers QBEIC, PIC, North Pointe Insurance Company (collectively the “Company”), and affiliated reinsurer Equator Re, effective January 1, 2012. The purpose of this Agreement is to create a standard 40% quota share, with the same terms and conditions, between all U.S. domiciled QBE insurers and Equator Re.

Other protections inuring to the cover above are:

- Per risk excess of loss risk attaching
(\$2.5 million excess of \$2.5 million excess of \$7.5m AAD , \$25 million aggregate per term)
(\$5 million excess of \$5 million, \$40 million aggregate per term)
(\$10 million excess of \$10 million, \$40 million aggregate/ term)
(\$30 million excess of \$20 million, \$120 million aggregate/ term)
- Per risk excess of loss run off cover Losses Occurring
(\$2.5 million excess of \$2.5 million excess of \$2.5m AAD , \$25 million aggregate per term)
(\$5 million excess of \$5 million, \$40 million aggregate per term)
(\$10 million excess of \$10 million, \$40 million aggregate/ term)
(\$30 million excess of \$20 million, \$120 million aggregate/ term)
- Property Cat
(\$50 million excess of \$150 million Wind only, \$100 million aggregate per term)
(\$100 million excess of \$200 million Wind only, \$100 million aggregate per term)
(\$50 million excess of \$100 million in excess of \$50 million otherwise recoverable
Wind only, \$50 million aggregate term)
(\$50 million excess of \$75 million excluding wind, \$100 million aggregate/ term)
(\$75 million excess of \$125 million, \$150 million aggregate/ term)

Non-Affiliates

As part of coverage for the Company and a number of its affiliates, the Company had the following external reinsurance contracts in place (limits shared with affiliates) as of December 31, 2012:

- Per risk excess of loss risk attaching \$200 million excess of \$50 million, \$1 billion aggregate per term)
- Property cat \$1.3 billion excess of \$200 million , \$2.6 billion aggregate per term
- Per risk aggregate cover \$200 million excess of \$400 million in the aggregate with a \$5 million Franchise Deductible , 82.5% placed
- Catastrophe aggregate cover \$200 million excess of \$1 billion Aggregate with the first \$5 million of loss not applied to the net contributing loss (further subject to a per occurrence limit of \$450 million).
- Casualty clash excess of loss (\$7.5 million excess of \$2.5 million) > 5% Equator Re
- Umbrella excess of loss (\$8 million excess of \$2 million excess of \$5.5m AAD) No aggregate limit.
- Umbrella excess of loss 2 (\$15 million excess of \$10 million) Not to exceed \$30 million for all occurrences.
- Workers' compensation excess of loss (\$5 million excess of \$5 million, not to exceed \$20 million for all occurrences) > 40% Equator Re
- Workers' compensation catastrophe excess of loss (\$20 million excess of \$10 million not to exceed \$40 million for all occurrences) > 37.5% Equator Re
- Terrorism catastrophe excess of loss (\$75 million excess of \$25 million, not to exceed \$80.150 million for all occurrences) > 15.3334% Equator Re

All of these contracts were procured with the assistance of reinsurance intermediaries, namely Aon Benfield and Guy Carpenter. Also, all treaties subject to reserve credit limitations contain an insolvency clause as required by N.D.C.C. § 26.1-02-21.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2012, was traced to the appropriate schedules of the Company's 2012 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to the extent deemed appropriate for this examination.

STATUTORY DEPOSITS

The statutory deposits of the Company at December 31, 2012, were confirmed with the applicable Insurance Departments and are as follows:

Where Deposited	Type of Security	Par Value	Statement Value	Fair Value
Massachusetts	Bond	\$ 880,000	\$ 886,447	\$ 887,494
New Hampshire	Bond	1,270,000	1,279,305	1,280,815
New Mexico	Bond	140,000	140,655	141,192
New York	Bond	2,600,000	2,619,049	2,622,142
North Dakota*	Bond	3,000,000	3,021,979	3,025,548
		<u>\$ 7,890,000</u>	<u>\$ 7,947,435</u>	<u>\$ 7,957,191</u>

*The bond on deposit with the State of North Dakota is held for the protection of all policyholders.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2012. This statement is followed by supporting statements and reconciliation presented in the following order:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2012
Summary of Operations, Year 2012
Reconciliation of Capital and Surplus, January 1, 2008 through December 31, 2012

QBE Specialty Insurance Company
Statement of Assets, Liabilities, Surplus, and Other Funds
as of December 31, 2012

	<u>Assets</u>		
	<u>Ledger Assets</u>	<u>Nonadmitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$311,006,473		\$311,006,473
Common stocks	0		0
Cash and short-term investments	166,089,884		166,089,884
Investment income due and accrued	995,140		995,140
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	36,974,181	\$3,173,416	33,800,766
Deferred premiums, agents' balances and installments booked but deferred and not yet due	62,271,689		62,271,689
Reinsurance:			
Amounts recoverable from reinsurers	60,374,494		60,374,494
Other reinsurance receivables	(139,440)		(139,440)
Current federal tax recoverable	10,784,227		10,784,227
Net deferred tax asset	16,068,261	1,678,782	14,389,479
Guaranty funds receivable or on deposit	22,156		22,156
Receivables from parents, subsidiaries and affiliates	23,512,762		23,512,762
Aggregate write-ins for other than invested assets	68,557,327	833,092	67,724,235
Total	<u>\$756,517,152</u>	<u>\$5,685,290</u>	<u>\$750,831,862</u>

QBE Specialty Insurance Company
Statement of Assets, Liabilities, Surplus, and Other Funds
as of December 31, 2012

Liabilities, Surplus and Other Funds

Losses	\$237,031,323
Reinsurance payable on paid losses and loss adjustment expenses	1,320,474
Loss adjustment expenses	44,876,530
Commissions payable, contingent commissions and other similar charges	13,323,991
Other expenses	845,763
Taxes, licenses and fees (excluding federal and foreign income)	2,325,191
Unearned premiums	116,473,209
Advance premium	366,397
Ceded reinsurance premiums payable (net of ceding commissions)	89,791,186
Funds held by company under reinsurance treaties	2,452,101
Amounts withheld or retained by company for account of others	(379)
Remittances and items not allocated	4,501,064
Provision for reinsurance	1,512,400
Drafts outstanding	15,906
Payable to parent, subsidiaries and affiliates	3,991,363
Aggregate write-ins for liabilities	(618,392)
Total liabilities	<u>\$518,208,127</u>
Aggregate write-ins for special surplus funds	\$ 1,129,828
Common capital stock	3,500,000
Gross paid in and contributed surplus	210,250,000
Unassigned funds (surplus)	<u>17,743,906</u>
Surplus as regards policyholders	<u>232,623,734</u>
Totals	<u>\$750,831,862</u>

QBE Specialty Insurance Company
Statement of Income
for the Year Ended December 31, 2012

Underwriting Income		
Premiums earned		\$341,253,047
Deductions		
Losses incurred	\$219,106,596	
Loss expenses incurred	31,771,313	
Other underwriting expenses incurred	<u>103,882,052</u>	
Total underwriting deductions		<u>354,759,961</u>
Net underwriting gain or (loss)		\$(13,506,914)
Investment Income		
Net investment income earned	\$3,275,429	
Net realized capital gains or (losses)	<u>(668,619)</u>	
Net investment gain or (loss)		\$2,606,811
Other Income		
Net gain or (loss) from agents' or premium balances charged off	\$(510,370)	
Finance and service charges not included in premiums	988,793	
Aggregate write-ins for miscellaneous income	<u>(508,521)</u>	
Total other income		<u>(30,098)</u>
Net gain from operations before dividends to policyholders and federal and foreign income taxes		\$(10,930,202)
Dividends to policyholders		<u>1,889,182</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		(12,819,384)
Federal and foreign income taxes incurred		<u>1,222,974</u>
Net income		<u><u>\$(14,042,358)</u></u>

QBE Specialty Insurance Company
Reconciliation of Capital and Surplus Account
January 1, 2008, through December 31, 2012

	2012	2011	2010	2009	2008
Surplus as regards policyholders, December 31 prior year	\$245,640,539	\$225,714,538	\$139,914,192	\$138,003,141	\$28,053,789
Net income	(\$14,042,358)	\$22,254,133	\$9,936,413	(\$5,880,946)	(\$3,367,843)
Change in net unrealized capital gains or (losses)	0	0	(378,850)	778,244	(815,661)
Change in net deferred income tax	6,861,514	(2,239,641)	1,124,837	8,128,487	1,480,834
Change in non-admitted assets	(4,494,290)	(359,491)	537,939	(131,734)	(402,978)
Change in provision for reinsurance	(719,400)	271,000	(72,000)	(983,000)	55,000
Surplus adjustments:					
Paid in	0	0	75,000,000	0	113,000,000
Dividends to stockholders	0	0	0	0	0
Aggregate write-ins for gains (losses) in surplus	(622,273)	0	(347,992)	0	0
Change in surplus as regards policyholders	\$(13,016,806)	\$19,926,001	\$85,800,346	\$1,911,051	109,949,352
Surplus as regards policyholders, December 31 current year	\$232,623,734	\$245,640,539	\$225,714,538	\$139,914,192	\$138,003,141

COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2012, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Loss and LAE Reserves

\$281,907,853

The Company's reported amounts for loss and loss adjustment expense reserves, as of December 31, 2013, are unchanged from those reported by the Company.

The Department relied on the work performed by INS Consultants, Inc., contractors retained by the Pennsylvania Insurance Department, for the analysis of the loss and loss adjustment expense reserves as of December 31, 2012. INS's work was reviewed by North Dakota's in-house actuary, Mike Andring, FCSA, MAAA. The actuarial department presented INS Consultants, Inc., the statement of actuarial opinion and the actuarial report supporting the opinion. The 2012 actuarial report documentation was incomplete, and INS Consultants opted to perform the reserve analysis by utilizing the Schedule P of the annual statement.

The actuarial report should serve as a self-contained document in complete support for the loss and loss adjustment reserves as opined in the actuarial opinion. The actuarial report should contain sufficient detail to clearly explain the findings, recommendations and conclusions. It should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. It should provide a mapping of the analysis from the basic loss development triangles to the conclusion. The Company's report is not in compliance with the specific requirements. The report does not contain a narrative or exhibits that bridge from the pricing exhibits, the basis of the reserve analysis, to the year-end reserve amounts. Also excluded are similar documents supporting the conversion from the accident year basis to the underwriting year basis.

It is again recommended that the Company prepare actuarial report documentation in conformity with NAIC Annual Statement Instructions for Property and Casualty Insurance Companies relative to issues to be addressed in the Statement of Actuarial Opinion.

CONCLUSION

The financial condition of the Company, as of December 31, 2012, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$750,831,862</u>
Total Liabilities	\$ 518,208,127	
Surplus as Regards Policyholders	<u>232,623,734</u>	
Liabilities, Surplus and Other Funds		<u>\$ 750,831,862</u>

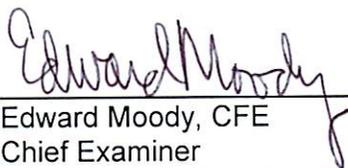
No changes were made to the balance sheet amounts reported by the Company in its 2012 annual statement.

Since the last examination conducted as of December 31, 2007, the Company's admitted assets have increased \$705,935,096, its total liabilities have increased \$501,365,150, and its surplus as regards policyholders has increased \$204,569,945.

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

In addition to the undersigned, the coordinated examination was performed by the contracted examiners from INS Services, Inc., INS Consultants, Inc., and by examiners from the States of Pennsylvania, Wisconsin, Minnesota, and Indiana.

Respectfully submitted,



Edward Moody, CFE
Chief Examiner
North Dakota Insurance Department

RECOMMENDATIONS

It is again recommended that the Company prepare actuarial report documentation in conformity with NAIC Annual Statement Instructions for Property and Casualty Insurance Companies relative to issues to be addressed in the Statement of Actuarial Opinion.