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

IN THE MATTER OF:

Great Northern Insurance Company
15 Mountain View Road
Warren, New Jersey 07059

Examination of **Great Northern 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 **Great Northern 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 **Great Northern 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.

May 22, 2013
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0014 9496 36**

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

IN THE MATTER OF: )
)
Great Northern Insurance Company )
1099 North Meridian Street )
Indianapolis, Indiana 46204 )

Examination of **Great Northern Insurance Company**

## FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Great Northern Insurance Company** (hereinafter "Company") for the time period January 1, 2007 through December 31, 2011.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on February 21, 2012.

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 March 27, 2013 and was received by the Company on April 2, 2013.

On April 29, 2013, 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, 2011.
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 22nd day of May, 2013.

Stephen W. Robertson
Insurance Commissioner

# STATE OF INDIANA

## Department of Insurance

# REPORT OF EXAMINATION

# OF

# GREAT NORTHERN INSURANCE COMPANY

**NAIC CO. CODE 20303**
**NAIC GROUP CODE 0038**

As of

December 31, 2011

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**STATE OF INDIANA**

MICHAEL R. PENCE, Governor

**IDOI**

**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 21, 2013

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 3700, an examination has been made of the affairs and financial condition of:

**Great Northern Insurance Company**
**One Indiana Square**
**211 North Pennsylvania Street, Suite 1350**
**Indianapolis, Indiana 46204-1927**

hereinafter referred to as the "Company", or "Great Northern", an Indiana domestic, stock, property and casualty insurance company. The examination was conducted at the corporate offices of The Chubb Corporation in Warren, New Jersey.

The Report of Examination, reflecting the status of the Company as of December 31, 2011, is hereby respectfully submitted.

## SCOPE OF EXAMINATION

The Company was last examined by Noble Consulting Services, Inc. (Noble) as of the period ending December 31, 2006. The present risk-focused examination was conducted by Noble and covered the period from January 1, 2007 through December 31, 2011.

David M. Shepherd, FCAS, MAAA, of Merlinos and Associates, Inc., a consulting actuary appointed by the Indiana Department of Insurance (INDOI), conducted a review of the Company's loss and loss adjustment expense reserves as of December 31, 2011. There were no actuarial adjustments resulting from the review performed by Merlinos and Associates, Inc.

Noble conducted the examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform 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. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Chubb Corporation (the Corporation) was incorporated as a business corporation under the laws of the State of New Jersey in June, 1967. Its headquarters are in Warren, New Jersey. The Corporation is a holding company for a family of property and casualty insurance companies known informally as the Chubb Group of Insurance Companies (the Group). In addition to the thirteen (13) domestic property and casualty companies, the Group has various international affiliates.

The Company was organized and commenced business in 1913 under the Lloyd's plan of insurance underwriting as authorized by the general laws of the State of Minnesota. In 1952, the Subscribers unanimously adopted a resolution formulating and adopting a plan of reorganization for conversion of Underwriters at Lloyds of Minneapolis into a stock insurance company. The plan was carried out, and a stock insurance company was formed under the laws of the State of Minnesota known as Great Northern Insurance Company. During 1960, Federal Insurance Company (Federal) acquired all of the Company's authorized stock, with the Corporation as the ultimate parent. In 2007, Great Northern redomesticated to Indiana.

## CAPITAL AND SURPLUS

As of the examination date, the Company had 166,667 shares authorized, issued, and outstanding to its parent, Federal, with a par value of $25 per share.

## DIVIDENDS TO STOCKHOLDERS

The Company paid the following ordinary dividends to Federal during the examination period:

| Year | Total | Ordinary Dividends | Extraordinary Dividends |
|---|---|---|---|
| 2011 | $74,000,000 | $74,000,000 | $ - |
| 2010 | 89,000,000 | 89,000,000 | - |
| 2009 | 40,000,000 | 40,000,000 | - |
| 2008 | 40,000,000 | 40,000,000 | - |
| 2007 | 69,500,000 | 69,500,000 | - |
| Total | $312,500,000 | $312,500,000 | $ - |

In accordance with Indiana Code (IC) 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of 10% of the prior year's surplus or the net income of such insurer of the prior year. The dividends paid during the examination period were ordinary in nature and did not require prior regulatory approval. In accordance with IC 27-1-23-1.5, the Company notified the INDOI of all declared dividends to the parent during the examination period.

## TERRITORY AND PLAN OF OPERATION

The Corporation ranks among the largest insurance organizations in the United States and is recognized as an industry leader in providing specialized insurance coverages for select commercial customer groups, as well as, unique products and services for the upscale personal lines market. The Group is divided into three (3) strategic business units, Chubb Personal Insurance (CPI), Chubb Commercial Insurance (CCI), and Chubb Specialty Insurance (CSI). The business composition within these three (3) units is approximately 34% personal insurance, 43% commercial insurance, and 23% specialty insurance.

CPI offers coverages of fine homes, automobiles, and other personal possessions along with options for high limits of personal liability coverage. CPI also provides supplemental accident and health insurance in niche markets. CCI offers a full range of commercial insurance products, including coverage for multiple peril, casualty, workers' compensation, property, and marine. CSI offers a wide variety of specialized professional liability products for privately and publicly owned companies, financial institutions, professional firms, and healthcare organizations. CSI also includes surety business.

The Group offers products through independent insurance agencies and accepts business on a regular basis from insurance brokers. The Group's branch and service offices assist these agencies and brokers in producing and servicing the Group's business. Business for the Group is also produced through participation in certain underwriting pools and syndicates.

## GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

| Year | Admitted Assets | Liabilities | Surplus and Other Funds | Premiums Earned | Net Income |
|---|---|---|---|---|---|
| 2011 | $ 1,581,486,172 | $ 1,144,820,901 | $ 436,665,271 | $ 336,031,907 | $ 55,116,809 |
| 2010 | 1,574,764,630 | 1,115,512,235 | 459,252,395 | 330,638,807 | 74,322,546 |
| 2009 | 1,575,582,918 | 1,122,355,472 | 453,227,446 | 344,595,342 | 89,000,836 |
| 2008 | 1,554,236,716 | 1,168,361,657 | 385,875,059 | 357,426,423 | 68,755,529 |
| 2007 | 1,519,598,704 | 1,145,323,438 | 374,275,266 | 368,634,916 | 90,706,965 |

Invested assets are the largest asset of the Company and have increased by 5.9% throughout the exam period, to $1.2 billion. Invested assets decreased in 2011 by $1.6 million, primarily due to dividend payments to the parent of $74 million offset by $76 million of positive cash from operations. Bond holdings decreased $9.7 million, or 1%, and common stock holdings increased $6.8 million, or 28%, in 2011. Liabilities increased slightly in 2011, $29.3 million, or 2.6%, and unpaid losses and loss adjustment expense reserves are the largest liability of the Company. Loss and loss adjustment expenses reserves increased 1.9% in 2011, primarily due to an increase net written premium of $11 million or 3.4%.

Earned premiums increased $5.4 million, or 2%, in 2011, which appears reasonable given the increase in written premium. With the exception of 2011, earned premiums have decreased $63 million, or 8.9%, throughout the exam period. In 2011, net income of $55.1 million was down $19.2 million, or 26%, from 2010 primarily due to the deterioration in underwriting. However, the Company has had positive net income in each of the past five (5) years.

Surplus has grown to $436.7 million, an increase of $85.4 million, or 24.3%, since the prior exam in 2006. In 2011, surplus decreased $22.6 million, or 5%, primarily due to dividends of $74 million offset by net income of $55 million.

## MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors, the number of which shall be determined by resolution of the Board. The shareholders, at each annual meeting, elect the members of the Board of Directors.

The following is a listing of persons serving as directors at December 31, 2011, and their principal occupations as of that date:

| Name and Address | Principal Occupation |
| --- | --- |
| Gerard Michael Butler<br>Southlake, Texas | Executive Vice President<br>Chubb & Son, a Division of Federal Insurance Company |
| Paul Joseph Krump<br>Mendham, New Jersey | Executive Vice President<br>The Chubb Corporation |
| William Andrew Macan<br>Yardley, Pennsylvania | Vice President, Corporate Counsel, and Secretary<br>The Chubb Corporation |
| Allison Williams Meta<br>Fishers, Indiana | Vice President<br>Chubb & Son, a Division of Federal Insurance Company |
| Harold Lawrence Morrison, Jr.<br>Basking Ridge, New Jersey | Executive Vice President<br>The Chubb Corporation |
| Dino Ennio Robusto<br>Short Hills, New Jersey | Executive Vice President<br>The Chubb Corporation |
| Richard Glenn Spiro<br>White Plains, New York | Executive Vice President and Chief Financial Officer<br>The Chubb Corporation |
| April Ann Sterling<br>Fishers, Indiana | Elected Officer<br>Chubb & Son, a Division of Federal Insurance Company |

## Officers

The Bylaws state that the elected officers of the Company shall consist of a Chairman, a President, one (1) or more Vice Presidents, a Treasurer, and a Secretary. The Board of Directors may also elect one (1) or more Vice Chairman, and may designate Vice Presidents as Executive or Senior Vice Presidents and may elect from time to time such other officers as is deemed necessary. Each of these officers is elected by the Board of Directors and shall hold office one (1) year, or until such time as they might be removed.

The following is a list of key officers and their respective titles as of December 31, 2011:

| Name | Office |
|---|---|
| Paul Joseph Krump | Chairman |
| Dino Ennio Robusto | President |
| William Andrew Macan | Vice President and Secretary |
| Douglas Alan Nordstrom | Vice President and Treasurer |
| Walter Brian Barnes | Vice President and Actuary |
| Richard Glenn Spiro | Senior Vice President |

## CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that one (1) director and one (1) officer had not signed a 2011 Conflict of Interest statement. There were no other issues related to Conflict of Interest statements identified during the examination.

## OATH OF OFFICE

IC 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 Company and will not knowingly violate any of the laws applicable to such Company. It was determined that while each director does have an Oath of Office statement on file, not all were current as of their last elected date. There were no other issues related to Oaths of Office identified during the examination.

## CORPORATE RECORDS

### Articles of Incorporation

The Articles of Incorporation were amended on November 30, 2007, to reflect the redomestication to Indiana, which was approved by INDOI.

### Bylaws

The Bylaws were amended on November 30, 2007, to reflect the redomestication to Indiana, which was approved by INDOI.

Minutes

The Board of Directors' quarterly meeting and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

IC 27-1-7-7(b) states an annual meeting of Shareholders, Members, or Policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. It was noted that annual meetings were not held in accordance with the Company's Bylaws or IC 27-1-7-7(b).

The Corporation committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee, Corporate Governance and Nominating Committee, and Organization and Compensation Committee.

## AFFILIATED COMPANIES

Organizational Structure

The following abbreviated organizational chart shows the Company's upstream and downstream affiliates as of December 31, 2011:

| | NAIC Co. Code | Domiciliary State/Country |
|---|---|---|
| The Chubb Corporation | | |
| Federal Insurance Company | 20281 | IN |
| Executive Risk Indemnity Inc. | 35181 | DE |
| Executive Risk Specialty Insurance Company | 44792 | CT |
| **Great Northern Insurance Company** | **20303** | **IN** |
| Chubb Custom Insurance Company | 38989 | DE |
| Pacific Indemnity Company | 20346 | WI |
| Texas Pacific Indemnity Company | 20389 | TX |
| Northwestern Pacific Indemnity Company | 20338 | OR |
| Chubb Insurance Company of New Jersey | 41386 | NJ |
| Chubb National Insurance Company | 10052 | IN |
| Chubb Indemnity Insurance Company | 12777 | NY |
| Chubb Lloyds Insurance Company of Texas (A) | 27774 | TX |
| Vigilant Insurance Company | 20397 | NY |
| Chubb De Colombia Compania De Seguros, S.A. (B) | | Colombia |
| *Chubb Investment Holdings, Inc.* | | NJ |
| Chubb Argentina De Seguros, S.A. (C) | | Argentina |
| *Chubb Insurance Investment Holdings, Ltd.* | | UK |
| *Chubb European Investment Holdings, SLP (D)* | | Scotland |
| Chubb Insurance Company of Australia, Ltd. | | Australia |
| *Chubb Pacific Underwriting Management Services PTE, Ltd.* | | Singapore |
| PT Asuransi Chubb Indonesia (E) | | Indonesia |
| *CC Canada Holdings, Ltd.* | | Canada |
| Chubb Insurance Company of Canada | | Canada |
| Chubb De Chile Compania De Seguros Generales, S.A. (F) | | Chile |
| Chubb De Mexico Compania Afianzadora, S.A. DE C.V. | | Mexico |
| Chubb De Mexico Compania De Seguros, S.A. DE C.V. | | Mexico |
| *Federal Insurance Company Escritorio De Representacao No Brasil, Ltd. (G)* | | Brazil |
| Chubb Financial Solutions (Bermuda), Ltd. | | Bermuda |
| Chubb Insurance (China) Company, Ltd. | | China |

(A) Lloyds Company/Syndicate
(B) 88.31% Owned by Vigilant, 6.13% Owned by Federal, 4.22% Owned by The Chubb Corporation, 0.92% Owned by Pacific Indemnity, 0.42% Owned by Great Northern
(C) 99.9% Owned by Federal
(D) Scottish Limited Partnership. Two partners: Federal Insurance Company - Founding Partner; Vigilant Insurance Company - General Partner
(E) 80% owned.
(F) 99.97% Owned by Federal, 0.03% Owned by The Chubb Corporation
(G) 99.99% Owned by Federal.
Note: *Non-insurance affiliate/subsidiary in italics*

Affiliated Agreements:

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

Management Agreement

The Company has a Management Agreement with Federal, whereby Federal, through its Chubb & Son division, acts as manager of the insurance business and provides financial advisory services. An addendum was effective December 31, 2007, (filed with the INDOI February 19, 2008) updating settlements to be performed utilizing quarterly statements and payments to be made within sixty (60) days following quarter end, as well as, to comply with SSAP #96. During 2011, the Company incurred $90,977,000 for services provided pursuant to this agreement.

Consolidated Federal Income Tax Allocation Agreement

The Corporation, per the Consolidated Federal Income Tax Allocation Agreement dated July 30, 1981, and addendums, files a consolidated federal income tax return on behalf of the Company and various affiliates. Under the terms of the agreement, each company's income tax liability is calculated in accordance with the ratio of its taxable income to the total taxable income of group members having taxable income.

Intercompany Pooling Agreement

The Company is a member of an Intercompany Pooling Agreement with affiliated insurers. The Intercompany Pooling Agreement dated October 1, 2006, covers substantially all business. Business is apportioned among the member companies based upon pre-determined rates of participation. As of December 31, 2011, the Company's pooling percentage was 4.0%.

## FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Westchester Fire Insurance Company. The bond has a single loss coverage limit of $15,000,000, with a $25,000,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2011, including but not limited to management indemnity/directors and officers liability, professional indemnity liability (E&O), commercial property liability, ERISA liability, employment practices liability, and workers' compensation liability.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Corporation has a sponsored non-contributory defined benefit pension plan, which covers U.S. employees of the Group. The benefits are currently based on a cash balance formula where a notional account for each employee is credited twice a year with amounts based on eligible compensation, age, and years of service. Employees hired prior to 2001 have the option of receiving benefits based on average compensation for their last five (5) years of service (pre-2001 benefit calculation method) or the current method, whichever is higher.

Certain other postretirement benefits, principally health care and life insurance, are provided to retired employees and their beneficiaries and covered dependents. Substantially all employees hired before January 1, 1999, may become eligible for these benefits upon retirement if they meet minimum age and years of service requirements. Health care coverage is contributory. Retiree contributions vary based upon a retiree's age, type of coverage, and years of service. Life insurance coverage is non-contributory.

In addition to the defined benefit plan, the Corporation has a defined contribution benefit plan, the Capital Accumulation Plan, in which substantially all U.S. employees of the Corporation are eligible to participate. Under this plan, the employer makes an annual matching contribution equal to 100% of each eligible employee's pre-tax elective contributions, up to 4% of the employee's eligible compensation. Contributions are invested at the election of the employee in the Corporation's common stock or in various other investment funds.

## STATUTORY DEPOSITS

The Company reported the following statutory deposits at December 31, 2011:

| State | Book Value | Fair Value |
|---|---|---|
| For All Policyholders: | | |
| Indiana | $ 2,720,741 | $ 2,982,972 |
| All Other Special Deposits: | | |
| Arizona | 716,822 | 829,225 |
| California | 22,533,332 | 24,220,670 |
| Delaware | 100,917 | 104,464 |
| District of Columbia | 3,609,245 | 3,706,596 |
| Georgia | 85,779 | 88,794 |
| Massachusetts | 151,375 | 156,696 |
| Montana | 25,050 | 25,964 |
| Nevada | 302,839 | 334,440 |
| North Carolina | 291,532 | 341,976 |
| Oregon | 647,330 | 710,555 |
| South Carolina | 266,759 | 295,809 |
| Virginia | 50,458 | 52,232 |
| Total Deposits | $ 31,502,179 | $ 33,850,393 |

## REINSURANCE

Chubb Reinsurance Pool:

The Company and eight (8) affiliates participate in an Intercompany Pooling Agreement, the Chubb Group Reinsurance Pool (the Chubb Pool). The Intercompany Pooling Agreement covers substantially all business with the exception of foreign business and the run-off of an old aircraft voluntary pool. Federal is the lead company with a 68.5% participation in the Chubb Pool and the Company has a 4.0% share of the Chubb Pool.

The Chubb Pool differs from traditional pooling arrangements whereby participants cede all of their business to a lead reinsurer, and the lead reinsurer retrocedes to each company a portion of all net business written. In the case of the Chubb Pool, each participating company retains a designated percentage of their own business, ceding the remainder of their business to the participating companies. Each participating company also assumes a designated percentage of all other pool participants' business. To illustrate, the Company, which has a 4.0% share of the Chubb Pool, cedes 96.0% of their business to the other eight (8) pool participants. The Company, in turn, then assumes 4.0% of the subject business from each of the remaining eight (8) pool participants. Although the methodology utilized by Chubb management differs from a "traditional" pooling arrangement, the net financial results are identical.

The following is a list of the companies within the Chubb Pool and their respective contract percentages:

| Names of Pool Members | Percentage of Pool | State of Domicile |
|---|---|---|
| Federal Insurance Company | 68.5% | Indiana |
| Pacific Indemnity Company | 17.0% | Wisconsin |
| Executive Risk Indemnity Inc. | 8.0% | Delaware |
| Great Northern Insurance Company | 4.0% | Indiana |
| Chubb Custom Insurance Company | 0.5% | Delaware |
| Chubb Indemnity Insurance Company | 0.5% | New York |
| Chubb National Insurance Company | 0.5% | Indiana |
| Executive Risk Specialty Insurance Company | 0.5% | Connecticut |
| Vigilant Insurance Company | 0.5% | New York |
| Total | 100.0% | |

There are four (4) other affiliated companies which cede 100% of their business to one (1) of the participating pool members where it is, in turn, then included within the Chubb Pool. These companies are: Texas Pacific Indemnity Company and Northwestern Pacific Indemnity Company, both wholly owned subsidiaries of Pacific Indemnity, which cede 100% of their business to Pacific Indemnity, who retains 17% and cedes the remaining 83% of their business to the other eight (8) pool participants, Chubb Insurance Company of New Jersey which cedes 100% of its business to Federal, who retains 68.5% and cedes the remaining 31.5% to the other eight (8) pool participants, and Chubb Lloyds Insurance Company of Texas, which cedes 100% of its business to the Company, who retains 4% and cedes the remaining 96% to the other eight (8) pool participants.

Ceded Reinsurance:

The Group purchases ceded reinsurance on a combined group basis and apportions the cost among each participating pool member in proportion to their designated pool share. The most significant component of the Group's ceded reinsurance program is directed at per-risk (excess of loss) and per-event (catastrophe) risks associated with property risks. Additional specifics regarding each of these elements of the Group ceded reinsurance program follow:

Property Per-Risk Reinsurance
The Group also reinsures property limits above $25 million through a series of reinsurance layers providing approximately $625 million excess of $25 million per risk. During 2011, the Group placed all but a negligible portion of this reinsurance with various reinsurers.

Property Per-Event (Catastrophe) Reinsurance
The Group's primary reinsurance program involves the placement of catastrophe protection covering its North American (i.e. United States and Canadian) property business. The Group maintains an initial per catastrophe retention of $500 million per event and places approximately 64% of the excess above this retention, between $500 million and $1.65 billion, with various reinsurers.

The Group also reduces their overall exposure through a combination of area specific supplemental reinsurance contracts, as well as two (2) catastrophe bond arrangements consisting of: a $150 million arrangement expiring in March, 2012, providing coverage for homeowners-related hurricane losses in Florida and a $475 million arrangement, a portion of which expires in March, 2014, and the remainder in March, 2015, which provides coverage for homeowners and commercial exposures for loss events in the Northeastern United States. On a combined basis for catastrophic events in the Northeastern United States, the combination of the North American Catastrophe treaty, catastrophe bond arrangements, and other area-specific supplemental reinsurance provide coverage of approximately 64% of losses (net of recoveries from other available reinsurance) between $500 million and $3.55 billion.

Assumed Reinsurance:

With the exception of business assumed from the various participants of the Chubb Pool as discussed on the preceding page, the Company reported no financially significant assumed reinsurance balances or activity during the current examination period.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2010 and 2011, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2007 through December 31, 2011, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

## GREAT NORTHERN INSURANCE COMPANY

## FINANCIAL STATEMENTS

### Assets

| | As of December 31, 2011 | | | |
|---|---|---|---|---|
| | Per Annual Statement | Examination Adjustments | Per Examination | December 31, Prior Year |
| **Assets:** | | | | |
| Bonds | $ 1,175,847,007 | $ - | $ 1,175,847,007 | $ 1,185,503,379 |
| Stocks: | | | | |
| Common stocks | 31,020,831 | - | 31,020,831 | 24,258,696 |
| Cash, cash equivalents and short-term investments | 11,221 | - | 11,221 | 6,700 |
| Other invested assets | 1,862,494 | - | 1,862,494 | 2,048,644 |
| Receivables for securities | 1,451,764 | - | 1,451,764 | 1,250 |
| Subtotals, cash and invested assets | $ 1,210,193,317 | $ - | $ 1,210,193,317 | $ 1,211,818,669 |
| Investment income due and accrued | 16,308,215 | - | 16,308,215 | 16,704,309 |
| Premiums and considerations: | | | | |
| Uncollected premiums and agents' balances in the course of collection | 116,472,132 | - | 116,472,132 | 112,295,529 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 194,571,846 | - | 194,571,846 | 189,855,270 |
| Reinsurance: | | | | |
| Amounts recoverable from reinsurers | 3,592,661 | - | 3,592,661 | 5,140,955 |
| Current federal and foreign income tax recoverable and interest thereon | 31,338 | - | 31,338 | - |
| Net deferred tax asset | 29,164,782 | - | 29,164,782 | 28,139,180 |
| Aggregated write-ins for other than invested assets | 11,151,881 | - | 11,151,881 | 10,810,718 |
| Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts | 1,581,486,172 | - | 1,581,486,172 | 1,574,764,630 |
| **Total** | **$ 1,581,486,172** | $ - | **$ 1,581,486,172** | **$ 1,574,764,630** |

## GREAT NORTHERN INSURANCE COMPANY

## FINANCIAL STATEMENTS

### Liabilities, Surplus and Other Funds

| | As of December 31, 2011 | | | |
|---|---|---|---|---|
| | Per Annual Statement | Examination Adjustments | Per Examination | December 31, Prior Year |
| **Liabilities:** | | | | |
| Losses | $ 489,669,716 | $ - | $ 489,669,716 | $ 479,320,603 |
| Loss adjustment expenses | 165,062,849 | - | 165,062,849 | 162,927,455 |
| Commissions payable, contingent commissions and other similar charges | 5,505,167 | - | 5,505,167 | 4,628,451 |
| Other expenses | 10,103,727 | - | 10,103,727 | 11,248,041 |
| Taxes, licenses and fees | 1,949,528 | - | 1,949,528 | 1,962,658 |
| Current federal and foreign income taxes | - | - | - | 928,902 |
| Unearned premiums | 182,347,281 | - | 182,347,281 | 177,214,451 |
| Dividends declared and unpaid: | | | | |
| Policyholders | 2,980,209 | - | 2,980,209 | 3,111,482 |
| Ceded reinsurance premiums payable | 196,085,647 | - | 196,085,647 | 191,710,627 |
| Funds held by company under reinsurance treaties | 1,235,686 | - | 1,235,686 | 1,173,715 |
| Amounts withheld or retained by company for accounts of others | 835,734 | - | 835,734 | 837,756 |
| Provision for reinsurance | 3,492,793 | - | 3,492,793 | 2,766,028 |
| Payable to parent, subsidiaries and affiliates | 83,535,592 | - | 83,535,592 | 76,990,624 |
| Payable for securities | 1,985,850 | - | 1,985,850 | - |
| Aggregate write-ins for liabilities | 31,122 | - | 31,122 | 691,442 |
| **Total liabilities** | **$ 1,144,820,901** | **$ -** | **$ 1,144,820,901** | **$ 1,115,512,235** |
| Aggregate write-ins for special surplus funds | 5,263,689 | - | 5,263,689 | 5,155,702 |
| Common capital stock | 4,166,675 | - | 4,166,675 | 4,166,675 |
| Gross paid in and contributed surplus | 83,700,350 | - | 83,700,350 | 83,700,350 |
| Unassigned funds (surplus) | 343,534,557 | - | 343,534,557 | 366,229,668 |
| **Surplus as regards policyholders** | **436,665,271** | **-** | **436,665,271** | **459,252,395** |
| **Totals** | **$ 1,581,486,172** | **$ -** | **$ 1,581,486,172** | **$ 1,574,764,630** |

## GREAT NORTHERN INSURANCE COMPANY

## FINANCIAL STATEMENTS

### Summary of Income

| | As of December 31, 2011 Per Annual Statement | Examination Adjustments | Per Examination | December 31, Prior Year |
|---|---|---|---|---|
| Premiums earned | $ 336,031,907 | $ - | $ 336,031,907 | $ 330,638,807 |
| DEDUCTIONS: | | | | |
| Losses incurred | 177,752,016 | - | 177,752,016 | 150,592,701 |
| Loss adjustment expenses incurred | 52,005,336 | - | 52,005,336 | 53,272,915 |
| Other underwriting expenses incurred | 99,436,208 | - | 99,436,208 | 97,362,068 |
| Aggregate write-ins for underwriting deductions | 21,472 | - | 21,472 | 19,524 |
| Total underwriting deductions | 329,215,032 | - | 329,215,032 | 301,247,208 |
| **Net underwriting gain (loss)** | **6,816,875** | **-** | **6,816,875** | **29,391,599** |
| Net investment income earned | 52,097,453 | - | 52,097,453 | 52,747,807 |
| Net realized capital gains (losses) less capital gains tax | 1,675,426 | - | 1,675,426 | 1,118,796 |
| **Net investment gain (loss)** | **53,772,879** | **-** | **53,772,879** | **53,866,603** |
| Net gain (loss) from agents' or premium balances charged off | (183,482) | - | (183,482) | (242,982) |
| Aggregate write-ins for miscellaneous income | 9,956 | - | 9,956 | 15,398 |
| Total other income | (173,526) | - | (173,526) | (227,584) |
| Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 60,416,228 | - | 60,416,228 | 83,030,618 |
| Dividends to policyholders | 1,247,075 | - | 1,247,075 | 1,103,312 |
| Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes | 59,169,153 | - | 59,169,153 | 81,927,306 |
| Federal and foreign income taxes incurred | 4,052,344 | - | 4,052,344 | 7,604,760 |
| **Net income** | **$ 55,116,809** | **$ -** | **$ 55,116,809** | **$ 74,322,546** |

**Capital & Surplus Account:**

| | Per Annual Statement | Examination Adjustments | Per Examination | December 31, Prior Year |
|---|---|---|---|---|
| Surplus as regards policyholders, December 31 prior year | $ 459,252,395 | $ - | $ 459,252,395 | $ 453,227,446 |
| Net income | 55,116,809 | - | 55,116,809 | 74,322,546 |
| Change in net unrealized capital gains or (losses) less capital gains tax | (437,012) | - | (437,012) | 2,423,312 |
| Change in net deferred income tax | 1,420,799 | - | 1,420,799 | (1,245,070) |
| Change in nonadmitted assets | (4,068,942) | - | (4,068,942) | 19,410,497 |
| Change in provision for reinsurance | (726,765) | - | (726,765) | 199,859 |
| Dividends to stockholders | (74,000,000) | - | (74,000,000) | (89,000,000) |
| Aggregate write-ins for gains and losses in surplus | 107,987 | - | 107,987 | (86,195) |
| **Change in surplus as regards policyholders for the year** | **(22,587,124)** | **-** | **(22,587,124)** | **6,024,949** |
| **Surplus as regards policyholders, December 31 current year** | **$ 436,665,271** | **$ -** | **$ 436,665,271** | **$ 459,252,395** |

# GREAT NORTHERN INSURANCE COMPANY

## FINANCIAL STATEMENTS

### Capital and Surplus Reconciliation

| CAPITAL AND SURPLUS ACCOUNT | As Of 12/31/2011 | As Of 12/31/2010 | As Of 12/31/2009 | As Of 12/31/2008 | As Of 12/31/2007 |
|---|---|---|---|---|---|
| Capital and surplus, Dec 31, prior year | $ 459,252,395 | $ 453,227,446 | $ 385,875,059 | $ 374,275,266 | $ 351,273,368 |
| Net income | 55,116,809 | 74,322,546 | 89,000,836 | 68,755,529 | 90,706,965 |
| Change in net unrealized capital gains (losses) | (437,012) | 2,423,312 | 5,573,072 | (6,832,487) | (730,865) |
| Change in net deferred income tax | 1,420,799 | (1,245,070) | (5,605,146) | 3,367,509 | 2,190,072 |
| Change in nonadmitted assets | (4,068,942) | 19,410,497 | 5,551,821 | (10,097,070) | (4,391,205) |
| Change in provision for reinsurance | (726,765) | 199,859 | 1,560,274 | 2,435,945 | 4,726,931 |
| Dividends to stockholders | (74,000,000) | (89,000,000) | (40,000,000) | (40,000,000) | (69,500,000) |
| Aggregate write-ins for gains and losses in surplus | 107,987 | (86,195) | 11,271,530 | (6,029,633) | - |
| Net change in capital and surplus for the year | (22,587,124) | 6,024,949 | 67,352,387 | 11,599,793 | 23,001,898 |
| **Capital and surplus, Dec 31, current year** | **$ 436,665,271** | **$ 459,252,395** | **$ 453,227,446** | **$ 385,875,059** | **$ 374,275,266** |

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2011, based on the results of this examination.

## OTHER SIGNIFICANT ISSUES

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that one (1) director and one (1) officer had not signed a 2011 Conflict of Interest statement. All officers and directors should review and sign Conflict of Interest statements on an annual basis in accordance with Company policy.

IC 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 Company and will not knowingly violate any of the laws applicable to such Company. It was determined that while each director does have an Oath of Office statement on file, not all were current as of their last elected date. It is recommended that every director shall take and subscribe to an Oath of Office at the time of annual election to the Board of Directors.

IC 27-1-7-7(b) states an annual meeting of Shareholders, Members, or Policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. It was noted that annual meetings were not held in accordance with the Company's Bylaws or IC 27-1-7-7(b). It is recommended that annual meetings of the Shareholders shall be held in accordance with IC 27-1-7-7(b) and the Company's Bylaws.

## SUBSEQUENT EVENTS

Hurricane Sandy

In October 2012, the Northeastern United States suffered a catastrophic impact from Hurricane Sandy. In early December, the Corporation announced that it anticipated eventual losses from this event to be approximately $880 million on a pre-tax basis and $570 million on a net-of-tax basis. Each individual member of the Chubb Pool will incur losses approximate to their share of the Chubb Pool. For the Company, this equates to gross and net losses of approximately $35 million gross and $23 million net of tax respectively.

## AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Merlinos and Associates, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of Great Northern Insurance Company, as of December 31, 2011.

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

This examination was performed in accordance with those procedures required by the 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 standards 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 Great Northern Insurance Company as of December 31, 2011, as determined by the undersigned.

Nadine Treon

Nadine Treon, CFE
Noble Consulting Services, Inc.

State of:
County of:

On this 22 day of February 2013, before me personally appeared, Nadine Treon, to sign this document.

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

[illegible] DOUGHERTY
Notary Public, State of Indiana
Hendricks County
Commission # 627605
My Commission Expires
July 04, 2019

My commission expires:

Notary Public