

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

IN THE MATTER OF:)
)
Yosemite Insurance Company)
601 NW Second Street)
Evansville, Indiana 47708-1013)

Examination of **Yosemite 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 **Yosemite Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on November 13, 2012, 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 **Yosemite 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.

December 28, 2012

Date

Cynthia D. Donovan

Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0008 2666 95

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

IN THE MATTER OF:)
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Yosemite Insurance Company)
601 NW Second Street)
Evansville, Indiana)

Examination of **Yosemite Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Yosemite 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 October 30, 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 November 13, 2012 and was received by the Company on November 16, 2012.

The Company did not file any objections.

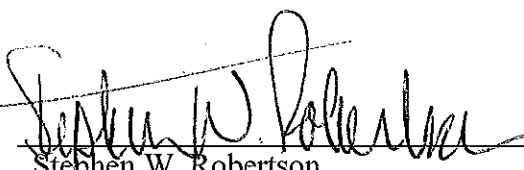
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the **Yosemite Insurance Company** as of December 31, 2011.
2. That the Examiner's Recommendations are reasonable and necessary in order for the **Yosemite Insurance Company** to comply with the 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, 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. 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 28th day of
December, 2012.



Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

YOSEMITE INSURANCE COMPANY

NAIC COMPANY CODE 26220

As of

December 31, 2011

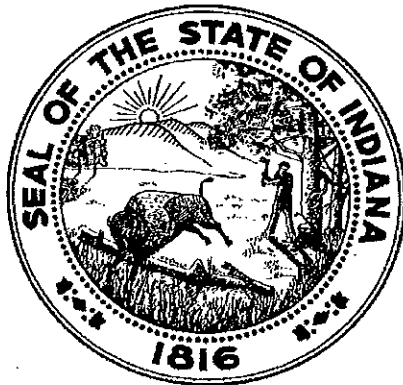


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., 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

October 30, 2012

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 3718, an examination has been made of the affairs and financial condition of:

Yosemite Insurance Company
601 NW 2ND ST
Evansville, IN 47708-1013

an Indiana domestic property and casualty insurance company, hereinafter referred to as the "Company." The examination was conducted at the corporate offices of Springleaf Finance Corporation located in Evansville, Indiana.

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

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2006. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (TTCGI) and covered the period from January 1, 2007 through December 31, 2011, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

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

Dave Shepherd, FCAS, MAAA, of Merlinos & Associates, a consulting actuary appointed by the INDOI, conducted a review of the Company's reserves as of December 31, 2011.

Additionally, TTCGI conducted a review of information systems controls, gained an understanding of the information systems utilized, and concluded that there would be moderate reliance on information systems.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). The Handbook requires that TTCGI 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 Company was incorporated on January 16, 1964, and commenced business on August 14, 1964. The Company redomesticated from California to Indiana on December 29, 1998. The Company is a wholly-owned, direct subsidiary of Springleaf Finance Corporation (SLFC), formally known as American General Finance Corporation (AGFC), which is the principal subsidiary of the financial services holding company SLFI, formally known as American General Finance, Inc. (AGFI). SLFC is recognized as one of the largest consumer finance companies in the United States. The credit insurance products provided by the Company supplement this consumer finance business.

The National Life and Accident Insurance Company (NLA) merged into the Company effective May 31, 2003. The Company assumed a minimal amount of accident and health business from Merit Life Insurance Company (MLIC), which was previously assumed by NLA. The main asset of NLA was its 100% ownership of CommoLoCo, Inc., a finance company domiciled in Puerto Rico.

From August 29, 2001 through November 30, 2010, AGFI was an indirect, wholly-owned subsidiary of American International Group, Inc. (AIG). On August 11, 2010, AIG announced that a definitive agreement was entered into, under which an 80% interest in the Company's indirect parent, AGFI, was being sold to Fortress Investment Group, LLC. On November 23, 2010, the INDOI approved the Form A

submitted on September 1, 2010. On November 30, 2010, FCFI Acquisition, LLC indirectly acquired an 80% economic interest in AGFI from AIG Capital Corporation (ACC). ACC, a direct wholly owned subsidiary of AIG retained the remaining 20% of the outstanding capital stock of AGFI. ACC and AIG filed an application for disclaimer of affiliation with the INDOI, which was accepted and not disallowed by the INDOI. As a result of the November 30, 2010 sale of AGFI by AIG, the "American General Finance" entities that were part of the sale changed their names to avoid being confused with AIG American General's domestic life insurance operations; the names of the "American General Finance" entities were changed to "Springleaf Finance" or some variation thereof.

CAPITAL AND SURPLUS

As of December 31, 2011, the Company had 2,000,000 shares of common stock, 1,000,000 of which were issued and outstanding with a par value of \$5.00 per share. The Company is a 100% owned subsidiary of SLFC. The Company paid \$291,000,000 in dividends to SLFC during the examination period. The following exhibit depicts the dividends paid to SLFC.

<u>Year</u>	<u>Dividends Paid</u>
2011	\$20,000,000
2010	000
2009	75,000,000
2008	196,000,000
2007	<u>000</u>
Total	<u>\$291,000,000</u>

TERRITORY AND PLAN OF OPERATION

The Company was licensed to transact business in forty-six (46) states as of December 31, 2011. Currently, the Company is not licensed in Alaska, Massachusetts, New York, Vermont, or the District of Columbia. Effective June 8, 2009, the Company surrendered its Certificate of Authority in the state of Massachusetts.

The Company writes through affiliated and non-affiliated insurance companies, credit-related property and casualty, and credit involuntary unemployment insurance. Principal insurance coverages include private passenger automobile physical damage, inland marine, involuntary unemployment insurance, fire and allied lines. The Company's credit-related property and casualty insurance policies are written to protect the lender's interest in property pledged as collateral for the finance receivable. The Company's credit involuntary unemployment insurance policies provide, to the lender, payment of the installments on the finance receivable coming due during a period of the borrower's involuntary unemployment.

The Company's business is produced through Springleaf Financial Services branch offices throughout the United States. Employees of Springleaf Finance Management Corporation provide all administrative services to the Company.

GROWTH OF COMPANY

The following exhibit depicts the Company's financial results throughout the examination period:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total admitted assets	\$376,601,467	\$373,964,395	\$357,791,126	\$411,562,157	\$558,607,533
Total liabilities	88,649,052	84,817,135	95,750,396	97,481,795	93,313,891
Policyholder surplus	287,952,415	289,147,260	262,040,730	314,080,362	465,293,642
Net income	19,914,088	27,164,071	22,674,999	44,539,775	41,066,279
Net premiums written	49,706,208	49,780,008	51,823,336	60,801,961	58,633,120

The Company has reported positive net income in each of the years under examination. The decrease in policyholder surplus is a result of dividends paid to the parent during the years under examination.

LOSS EXPERIENCE

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

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses & LAE</u> <u>Incurred</u>	<u>Expenses Incurred</u>	<u>Combined Ratio</u>
2011	\$46,548,627	\$18,053,015	\$13,407,783	67.59%
2010	53,001,592	19,476,540	11,231,918	57.94%
2009	59,629,507	28,309,470	10,434,887	64.98%
2008	61,015,042	20,225,628	11,816,020	52.51%
2007	56,922,674	16,307,582	12,101,656	49.91%

Premiums decreased significantly from 2007 through 2011. The decrease is primarily due to lower premiums for auto, fire and personal property, offset by an increase in involuntary unemployment premium. The Company recognized an underwriting gain in each year covered by this examination.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors consisting of not less than five (5) and no more than twenty (20) members. The shareholder, at its annual meeting, elects the members of the Board of Directors. The following is a listing of persons serving as Directors as of December 31, 2011:

<u>Name & Residence</u>	<u>Principal Occupation</u>
Bradford D. Borchers	Executive Vice President, Branch Operations

Evansville, Indiana	Springleaf Finance Management Corporation
Robert A. Cole Newburgh, Indiana	Senior Vice President Springleaf Finance Management Corporation
Jeffrey M. Boszor Newburgh, Indiana	Director – Insurance Marketing Services Springleaf Finance Management Corporation
George D. Roach Newburgh, Indiana	Senior Director of Operations Springleaf Finance Management Corporation
Donald R. Brevogel Jr. Evansville, Indiana	Senior Vice President and Chief Financial Officer Springleaf Finance Management Corporation

Officers

The Company's Bylaws state the officers of the Corporation shall consist of the Chairman of the Board, the Chief Executive Officer, the President, one or more Vice Presidents (whose seniority and titles, including Executive Vice Presidents, and Senior Vice Presidents, may be specified by the Board of Directors), the Chief Financial Officer, the Treasurer, the Secretary and such other subordinate officers as may be chosen by the Board of Directors. Any two (2) or more offices may be held by the same person, except the duties of the Secretary shall not be performed by the Chairman of the Board or the President. The following is a list of key officers and their respective titles as of December 31, 2011:

<u>Name</u>	<u>Office</u>
Robert A. Cole	Chairman, Chief Executive Officer and President
Jack R. Erkill	Senior Vice President, Secretary and General Counsel
Bryan A. Binyon	Vice President and Treasurer
Donald R. Breivogel Jr.	Senior Vice President and Chief Financial Officer
Raymond S. Brown	Senior Vice President and Chief Compliance Officer
Vincent T. Ciuffetelli	Senior Vice President and Chief Information Officer
George W. Kennedy	Vice President
Matthew K. Kreyling	Vice President
Lenis J. McClain	Vice President and General Auditor
Leonard J. Winiger	Vice President and Controller

Effective February 1, 2011, Frederick W. Geissinger resigned as President and his title remained as Director and Chairman for the Company. On February 1, 2011, the Board of Directors elected Robert A. Cole as President. On September 13, 2011, Frederick W. Geissinger, Chairman and Chief Executive Officer announced his retirement from his positions effective October 1, 2011. Effective October 1, 2011, the Board of Directors elected Robert A. Cole as Chairman and CEO, in addition to President of the Company.

Corporate Governance

As of December 31, 2011, directors serving on the committees of the board were as follows:

Audit Committee:

Douglas L. Jacobs	Chairman
-------------------	----------

Investment Committee:

Donald R. Breivogel Jr.	Chairman
Jeffrey M. Boszor	Member
Bryan A. Binyon	Member
Robert A. Cole	Member

The Company also receives oversight from its other committees that were comprised of but not limited to, Asset-Liability Investment Management Committee, Financial Standards Committee, Compliance Committee, Business Policy Administration Committee, Standing Committee, Marketing Policy Committee and Senior Management Committee.

CONFLICT OF INTEREST

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

OATH OF OFFICE

Indiana Code 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation, and will not knowingly violate any of the laws applicable to such corporation. Each Director signed an "Oath of Office" statement when elected.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the period under examination.

Bylaws

The Company amended and restated its Bylaws on October 9, 2009. The amendment relates to a number of current corporate practices. Significant changes to the Bylaws were as follows:

1. Directors can participate in Board meetings electronically.
2. The Board consisting of not less than 5, but not more than 20 Directors.
3. The requirement that new directors to take an "oath" regarding good faith, and contain citizenship requirements of the Board members.
4. The locations for the principal office and other offices.
5. The authorization of dividends, and the maintenance of reserves for contingencies.

Minutes

The Board of Directors and Shareholders meeting minutes were reviewed for the period under examination through the fieldwork completion date, and significant actions taken during each meeting were noted. The Company's 2008 Annual Shareholders meeting wasn't held until October 9, 2008. This is in violation of IC-27-1-7-7(b) which requires the Annual Shareholders meeting to be held within 5 months of the fiscal close of December 31, 2007. See the "Other Significant Findings" section of this report for further explanation on this exception.

AFFILIATED COMPANIES

Organizational Structure

The Company is a member of an insurance holding company system as defined within IC 27-1-23 and Regulation of Insurance Holding Company Systems. The Company is wholly owned by SLFC, an Indiana domiciled corporation. The following organizational chart depicts the Company's relationship within the holding company system.

Fortress Investment Group, LCC

- FCFI Acquisition LLC (DE) (80%) and (AIG Capital Corporation (DE) 20%)
- AFG Holding Inc.
 - Springleaf Finance Inc. (IN)
 - Springleaf Finance Corporation (IN)
 - Merit Life Insurance Company (IN)
 - **Yosemite Insurance Company (IN)**
 - CommoLoCo (PR)
 - Credit Thrift of Puerto Rico Inc. (PR)

Affiliated Agreements

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

Administration Services Agreement

Effective November 30, 2010, upon the Company ceasing to be a subsidiary of AIG, the Company's participation in the amended AIG Service and Expense Agreement, dated February 1, 1974, automatically terminated. The Company entered into a Shared Services Agreement with an affiliate, Springleaf Finance Management Corporation (SLFMC), effective upon the closing date of the acquisition by FCFI. This new shared Services Agreement called for the Company to reimburse SLFMC for the services provided by SLFMC at cost, allocated in conformity with customary insurance accounting practices consistently applied. Shared service expenses paid to SLFMC were \$1,628,724 in 2011. The INDOI determined that it would not disapprove the Administrative Services Agreement on October 29, 2010.

Investment Service Agreement

In December of 2011, the Company entered into an Investment Services Agreement with Logan Circle Partners, L.P. (Logan) which became effective on April 1, 2012. By letter dated December 9, 2011, the INDOI determined that it would not disapprove the Form D, filed October 10, 2011, providing notice of the Company's proposal to enter the Investment Services Agreement with Logan. As of December 31, 2011, the Company had not made any payments to Logan under the Investment Services Agreement.

Investment Advisory Agreement

In December of 2011, the Company entered into an Investment Advisory Agreement with Logan which became effective on April 1, 2012. By letter dated December 9, 2011, the INDOI determined that it would not disapprove the Form D, filed October 10, 2011, providing notice of the Company's proposal to enter into the Investment Advisory Agreement with Logan. As of December 31, 2011, the Company had not made any payments to Logan under the Investment Advisory Agreement.

General Agency Agreement

Effective January 1, 2003, the Company entered into a General Agency Agreement with Interstate Agency (Interstate), pursuant to which Interstate acts as general agent for the Company's credit insurance products as set forth on Schedule A to the General Agency Agreement. Compensation is based on a percentage of net written premium and other considerations generated. The INDOI determined that it would not disapprove the General Agency Agreement on September 19, 2006. For the year ended December 31, 2011, the Company paid \$7,917,386 pursuant to the General Agency Agreement.

Tax Agreement

For the tax years ending on or after December 31, 2010, the Company joined in the filing of a consolidated federal income tax return with its indirect, intermediate parent AGF Holding Inc. The INDOI determined that it would not disapprove the Tax Agreement on March 9, 2012. At December 31, 2011, the Company reported a federal income tax payable to its parent, SLFC, in the amount of \$2,057,946.

Intercompany Demand Note Agreement

The Company has an intercompany demand note with SLFC, upon which it has not taken any advances. These borrowings by SLFC are on demand and are unsecured. Interest will accrue on the unpaid principal amount of each advance until such principal amount is paid in full. The INDOI determined that it would not disapprove the Intercompany Demand Note Agreement on December 21, 2007.

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 Federal Insurance Company. The bond has aggregate coverage of \$10,000,000 and it carried a single loss deductible of \$500,000. 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, auto liability, directors and officers coverage, employment practices liability, fiduciary, general liability, property, and workers' compensation.

STATUTORY DEPOSITS

The Company reported special deposits comprised of U.S. Treasury Notes and short-term investments held by various Departments of Insurance as of December 31, 2011:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders		
Indiana	\$ 4,998,627	\$ 5,268,196
All Other Special Deposits		
California	173,905	207,863
Georgia	175,649	179,820
Massachusetts	118,955	123,070
New Hampshire	495,782	523,280
New Mexico	422,812	445,890
North Carolina	396,626	418,624
Oregon	282,596	298,270
Texas	74,618	78,079
Aggregate Alien and Other	2,000,000	2,000,000
Total Other Special Deposits	<u>\$ 9,139,570</u>	<u>\$ 9,543,092</u>

REINSURANCE

The Company offers various property and casualty insurance products through Springleaf Financial Services offices. The Company objective is to write business directly; however, there are instances where the Company is not licensed in a jurisdiction, and this objective cannot be achieved. In such cases, the Company will enter into a reinsurance agreement with other insurers, including affiliated companies, which write the business and then cede the risks to the Company.

The only significant contracts as of December 31, 2011, are with Balboa Insurance Company. Pursuant to these agreements, the Company assumed premiums of \$11,586,254. In addition, case loss reserves totaling \$470,124 as of December 31, 2011, were recorded.

In the 1970's, the Company wrote a book of excess and surplus lines business which included certain

long-tail coverages including asbestos and environmental exposures. Approximately 58% of the remaining gross reserves on this block of business are reinsured with a group of unrelated reinsurers. As of December 31, 2011, these reinsurers assumed ceded reserves totaling \$ 27,013,878.

The Company has reported no other significant ceded reinsurance as of December 31, 2011.

RESERVES

Peter W. Wick, FCAS, MAAA, Actuary with the firm of Milliman Inc., is the Company's Appointed Actuary. Mr. Wick has been appointed by the Board of Directors to render an opinion on the statutory-basis loss reserves of the Company. He rendered an opinion on such reserves for the years ended December 31, 2011, 2010, 2009 and 2008. Frank H. Douglas, ACAS, MAAA, a Senior Vice President, Actuary and officer of the AIG, was the Company's Appointed Actuary for 2007. He rendered an opinion on such reserves as of December 31, 2007.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss reserves and related items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used and such tests of the calculations as considered necessary.

The 2011 opinion stated that the balances of loss and loss adjustment expense reserves 1) are computed in accordance with accepted loss reserving standards and principles, 2) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and agreements, and meet the requirements of the insurance laws of the State of Indiana.

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

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2007 to 2011, were agreed to the respective Annual Statements. The Annual Statement for the year ended December 31, 2011, was agreed to the year's independent audit report with no exception noted.

The Company's independent auditors issued unqualified opinions on the Company's audited financial statements for each year during the examination period. No material exceptions were noted when agreeing the Company's audited financial statements to the respective Annual Statements. All of the independent audit work papers were made available to the examiners during the examination.

FINANCIAL EXHIBITS

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

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

YOSEMITE INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

	As of December 31, 2011			December 31,
	<u>Per Annual</u>	<u>Examination</u>	<u>Per</u>	<u>Prior Year</u>
	<u>Statement</u>	<u>Adjustments</u>	<u>Examination</u>	
Assets:				
Bonds	\$ 288,859,235	\$ -	\$ 288,859,235	\$ 279,572,956
Common stocks	54,758,356	-	54,758,356	52,400,573
Cash, cash equivalents and short-term investments	18,117,403	-	18,117,403	29,541,912
Other invested assets	1,978,387	-	1,978,387	1,789,073
Receivable for securities	436,929	-	436,929	253,267
Subtotals, cash and invested assets	<u>\$ 364,150,310</u>	<u>\$ -</u>	<u>\$ 364,150,310</u>	<u>\$ 363,557,781</u>
Investment income due and accrued	3,669,074	-	3,669,074	3,743,079
Uncollected premiums and agents' balances in the course of collection	3,793,101	-	3,793,101	4,548,848
Amounts recoverable from reinsurance contracts	1,778,864	-	1,778,864	96,687
Net deferred tax asset	3,210,118	-	3,210,118	2,018,000
Total Assets	<u><u>\$ 376,601,467</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 376,601,467</u></u>	<u><u>\$ 373,964,395</u></u>

YOSEMITE INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2011			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Liabilities:				
Losses	\$ 24,370,489	\$ -	\$ 24,370,489	\$ 26,657,365
Reinsurance payable on paid losses and loss adjustment expenses	5,316	-	5,316	7,579
Loss adjustment expenses	4,668,662	-	4,668,662	4,767,881
Other expenses	268,731	-	268,731	92,251
Taxes, licenses and fees	886,356	-	886,356	788,652
Current federal and foreign income taxes	2,057,946	-	2,057,946	2,039,918
Unearned premiums	47,740,090	-	47,740,090	44,582,509
Amounts withheld or retained for the accounts of others	27,332	-	27,332	45,139
Provision for reinsurance	7,674,400	-	7,674,400	4,828,000
Payable to parent, subsidiaries and affiliates	949,730	-	949,730	1,007,841
Total Liabilities	\$ 88,649,052	\$ -	\$ 88,649,052	\$ 84,817,135
Common capital stock	\$ 5,000,000	\$ -	\$ 5,000,000	\$ 5,000,000
Gross paid in and contributed surplus	23,188,433	-	23,188,433	23,188,433
Unassigned funds (surplus)	259,763,982	-	259,763,982	260,958,827
Total capital and surplus	\$ 287,952,415	\$ -	\$ 287,952,415	\$ 289,147,260
Total liabilities, capital and surplus	\$ 376,601,467	\$ -	\$ 376,601,467	\$ 373,964,395

YOSEMITE INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2011

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Premiums earned	\$ 46,548,627	\$ -	\$ 46,548,627	\$ 53,001,592
Deductions				
Losses incurred	14,634,573	-	14,634,573	15,388,761
Loss expense incurred	3,418,442	-	3,418,442	4,087,779
Other underwriting expenses incurred	13,407,783		13,407,783	11,231,918
Total underwriting deductions	\$ 31,460,798	\$ -	\$ 31,460,798	\$ 30,708,458
Net underwriting gain (loss)	\$ 15,087,829	\$ -	\$ 15,087,829	\$ 22,293,134
		-		
Net investment income earned	\$ 12,714,897	\$ -	\$ 12,714,897	\$ 13,662,468
Net realized capital gains (losses)	238,277	-	238,277	(177,258)
Net investment gain (loss)	\$ 12,953,174	\$ -	\$ 12,953,174	\$ 13,485,210
	-	-	-	-
Aggregate write-ins for miscellaneous income	11,820	-	11,820	86,494
Total other income	\$ 11,820	\$ -	\$ 11,820	\$ 86,494
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 28,052,823	\$ -	\$ 28,052,823	\$ 35,864,838
Federal and foreign income taxes incurred	8,138,735	-	8,138,735	8,700,767
Net Income	\$ 19,914,088	\$ -	\$ 19,914,088	\$ 27,164,071

YOSEMITE INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

	As of December 31, 2011			
	<u>Per Annual</u>	<u>Examination</u>	<u>Per</u>	<u>December 31,</u>
	<u>Statement</u>	<u>Adjustments</u>	<u>Examination</u>	<u>Prior Year</u>
Capital and Surplus Account:				
Surplus as regards policyholders, December 31 prior year	\$ 289,147,260	\$ -	\$ 289,147,260	\$ 262,040,730
Net income	\$ 19,914,088	\$ -	\$ 19,914,088	\$ 27,164,071
Change in unrealized capital gains	2,486,693	-	2,486,693	823,341
Change in deferred income tax	2,016,981	-	2,016,981	(1,597,700)
Change in nonadmitted assets and related items	(2,766,207)	-	(2,766,207)	1,610,218
Change in provision for reinsurance	(2,846,400)	-	(2,846,400)	(893,400)
Dividends to stockholders	(20,000,000)	-	(20,000,000)	-
Change in surplus as regards policyholders for the year	\$ (1,194,845)	\$ -	\$ (1,194,845)	\$ 27,106,530
Surplus as regards policyholders, December 31 current year	<u>\$ 287,952,415</u>	<u>\$ -</u>	<u>\$ 287,952,415</u>	<u>\$ 289,147,260</u>

COMMENTS ON THE FINANCIAL STATEMENTS

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

OTHER SIGNIFICANT FINDINGS

Shareholders Meeting:

The Company's 2008 Annual Shareholders meeting wasn't held until October 9, 2008. This is in violation of IC-27-1-7-7(b) which requires the Annual Shareholders meeting to be held within five months of the fiscal close of December 31, 2007. Further, the Company's Bylaws state that the Annual Shareholders meeting shall be held within the first five months after the close of each fiscal year defined by section 10.2. Under section 10.2, the fiscal year of the Corporation shall end on the 31st day of December of each year. This finding was brought to the Company's attention during the prior examination. In the years 2009 to 2011, the Company was in compliance with IC-27-1-7-7 (b).

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

Audit Committee Minutes:

On April 26, 2012, the examiners made a written request to review the AIG (Company's former ultimate parent) audit committee minutes for the period January 1, 2007, through May 5, 2011. The Company did not provide access to these minutes until August 7, 2012 contrary to the provisions of IC 27-1-3.1-9. On November 30, 2010, the Company's parent, SLFC formed an audit committee and held its first quarterly meeting on May 9, 2011. The minutes to this audit committee meeting and subsequent meetings up to the last day of fieldwork were made available to the Examiners in a timely manner.

In the future, it is recommended that the Company comply with the requirements of IC 27-1-3.1-9 by providing a timely response to examination requests.

SUBSEQUENT EVENTS

On February 3, 2012, Standard & Poor's, a national rating organization, lowered its rating of the Company's parent; SLFC's unsecured senior long-term debt to "CCC" from "B" and maintained a "Negative Outlook" status. On June 1, 2012, Moody's Investors Services, Inc. also a national rating organization downgraded SLFC to "Caa1" from "B3" with a "Negative Outlook" for the future. The downgrades reflect SLFC's funding constraints, uncertain liquidity outlook, increased operational stresses and record of operating losses since early 2008.

MANAGEMENT REPRESENTATION

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

AFFIDAVIT

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

The examination was performed in accordance with those procedures required by the 2011 NAIC Financial Condition Examiner's Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of the **Yosemite Insurance Company** as of **December 31, 2011**, as determined by the undersigned.



David Daulton, CFE
The Thomas Consulting Group, Inc.

State of: Indiana
County of: Hamilton

On this 2nd day of November, 2012, before me personally appeared, David Daulton, to sign this document.

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

My commission expires June 17, 2015 Stephanie Ann Roesner
Notary Public

