

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

IN THE MATTER OF: )  
 )  
Employers Security Insurance Company )  
12911 North Meridian Street, Suite 100 )  
Carmel, Indiana 46032 )

Examination of Employers Security 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 Employers Security Insurance Company any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on June 4, 2013, 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 Employers Security 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.

July 9, 2013  
Date

Cynthia D. Donovan  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0017 1784 84**

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

IN THE MATTER OF: )  
 )  
Employers Security Insurance Company )  
12911 North Meridian Street, Suite 100 )  
Carmel, Indiana 46032 )

Examination of Employers Security Insurance Company

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Employers Security Insurance Company (hereinafter "Company") for the time period January 1, 2010 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 May 17, 2013.

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 June 4, 2013 and was received by the Company on June 6, 2013

The Company did not file any objections.

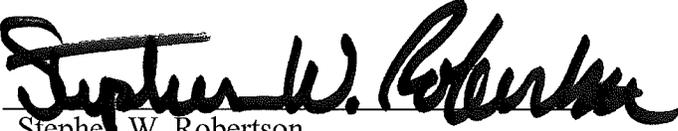
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Employers Security Insurance Company as of December 31, 2011
2. That the Examiner's Recommendations are reasonable and necessary in order for the Employers Security 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 9<sup>th</sup> day of  
July, 2013.

  
Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

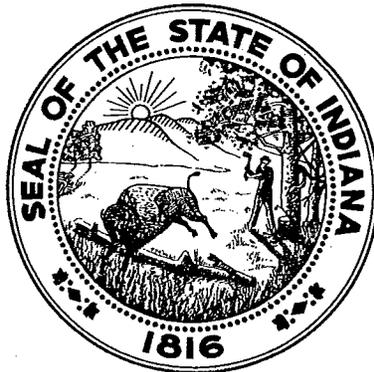
**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**

**EMPLOYERS SECURITY INSURANCE COMPANY**

NAIC Co. CODE 32005  
NAIC GROUP CODE 3158

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

May 17, 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 3720, an examination has been made of the affairs and financial condition of:

**Employers Security Insurance Company**  
**12911 North Meridian Street, Suite 100**  
**Carmel, IN 46032**

hereinafter referred to as the "Company" or "ESIC," an Indiana domiciled stock, property and casualty insurance company. The examination was conducted at the corporate offices of Eastern Insurance Holdings, Inc. in Lancaster, Pennsylvania, and at the offices of Noble Consulting Services, Inc. in Indianapolis, Indiana.

The Report of Examination, reflecting the 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 Noble Consulting Services, Inc. (Noble) on behalf of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2009. The present risk-focused examination was conducted by Noble and covered the period from January 1, 2010 through December 31, 2011. Insurers within a holding company system with different states of domicile may be on varying cycles when their examinations are performed. The INDOI deemed it beneficial to accelerate their examination as-of date in order to aid the Pennsylvania Insurance Department (PID) on the coordinated examination of Eastern Alliance Insurance Group (EAIG).

The INDOI, by its representatives, provided assistance to the Pennsylvania Insurance Department (PID) as a participant on the coordinated examination of EAIG. EAIG consists of three (3) Pennsylvania domiciled companies: Eastern Alliance Insurance Company (EAIC), Allied Eastern Indemnity Company (AEIC), and Eastern Advantage Assurance Company (EAAC), as well as one (1) Indiana domiciled company: ESIC.

In conducting the examination, the INDOI, by its representatives, relied upon the work performed by the PID with respect to actuarial analysis. There were no actuarial adjustments as a result of this review.

In conducting the examination, the INDOI, by its representatives, relied upon the work performed by the PID with respect to information system controls.

We conducted our 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 Company was incorporated on June 24, 1992, under the laws of the state of Indiana and commenced business on September 23, 1992. Effective September 29, 2008, Eastern Insurance Holdings, Inc. (EIHI) acquired all outstanding stock of the Company, which was principally owned by a group of independent insurance agents located throughout Indiana. EIHI is a publicly traded insurance holding company domiciled in the Commonwealth of Pennsylvania. The Company is a member of EAIG in which all four (4) companies are party to a Reinsurance Pooling Agreement, whereby covered business is allocated among the members based on predetermined allocation percentages.

## CAPITAL AND SURPLUS

As of December 31, 2011, the Company had 1,000 shares of \$2,000 par value common stock authorized and 600 shares issued and outstanding. All outstanding shares of stock are owned by EIHI. The Company reported capital stock totaling \$1,200,000, gross paid-in and contributed surplus totaling \$6,901,026 and unassigned funds (surplus) totaling \$4,260,439 as of December 31, 2011. The Company has no preferred stock authorized, issued, or outstanding.

No ordinary or extraordinary dividends were paid during the examination period.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance business in Illinois, Indiana, and Missouri. The Company primarily writes workers' compensation and employers' liability coverage in Indiana with marketing conducted through independent agents. Targeted markets include small to medium size risks (employers with 20 to 100 workers), and larger employers interested in large loss-sensitive workers' compensation products. Certain classes of business are prohibited on a first-dollar coverage basis, including: long-haul trucking, excavating, steel erection, agri-business, risks with occupational disease exposure, risks with exposure to explosive or nuclear material, and all classes of business that are excluded from the Company's Reinsurance Pooling Agreement. The Company also underwrites a small book of surety business which is comprised of notary bonds and miscellaneous license and permit bonds. The maximum exposure on a single bond is \$50,000.

## GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Premiums Earned</u>	<u>Net Income</u>
2011	\$ 34,823,977	\$ 22,462,512	\$ 12,361,465	\$ 13,731,245	\$ 1,287,231
2010	31,807,679	21,241,705	10,565,975	11,402,372	(231,305)

The Company has experienced a steady increase in assets and liabilities during the years under examination. The primary driver of the increase is favorable operating results.

In addition, participation in the Reinsurance Pooling Agreement with EAIG contributed to the improvement of the combined ratio. The Company recognized unfavorable loss reserve development of \$1.3 million in 2010 related to prior accident years, which increased the 2010 loss ratio. The unfavorable development was a result of a true-up related to the Reinsurance Pooling Agreement.

## MANAGEMENT AND CONTROL

### Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors. The Board of Directors shall be comprised of any number of directors, provided that, there are no less than seven (7) nor more than twelve (12) directors at any one time. The shareholder, at the annual meeting, elects the members of the Board of Directors who shall serve for a term of one (1) year.

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

<u>Name and Address</u>	<u>Principal Occupation</u>
Michael L. Boguski Lebanon, PA	President and Chief Executive Officer Eastern Insurance Holdings, Inc.
Paul R. Burke Bronxville, NY	Vice President Northaven Management, Inc.
Bruce M. Eckert Wyndmoor, PA	Vice Chairman of the Board Eastern Insurance Holdings, Inc.
Ronald L. King Kingwood, TX	Business Consultant
Morton R. Large Carmel, IN	Regional Business Executive and Director Employers Security Insurance Company
Robert M. McAlaine Bryn Mawr, PA	Chairman of the Board Eastern Insurance Holdings, Inc.
Scott C. Penwell Enola, PA	Shareholder Stevens & Lee P.C.
William L. Snyder III Haverford, PA	President and Principal Owner Snyder & Company
Charles H. Vetterlein, Jr. Villanova, PA	Managing Partner Willis of Pennsylvania, Inc.

### Officers

The Company's Bylaws state the officers of the Company shall consist of a Chairman of the Board of Directors, President, Secretary, Treasurer, and such other officers and assistants necessary to conduct the business of the Company. The President shall be chosen from among the directors. The same person may hold any two (2) or more offices, except that the duties of President and Secretary shall not be performed by the same person. The officers are elected annually by the Board of Directors.

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

<u>Name</u>	<u>Office</u>
Michael L. Boguski	President and Chief Executive Officer
Kevin M. Shook	Executive Vice President, Treasurer, and Chief Financial Officer
Scott C. Penwell	Corporate Secretary
Suzanne M. Emmet	Senior Vice President
Robert A. Gilpin	Senior Vice President
Cynthia H. Sklar	Vice President
Brent L. Shirk	Vice President

### **CONFLICT OF INTEREST**

The Company requires officers and directors to review and sign Conflict of Interest statements on an annual basis. It was determined that officers and directors have reviewed and signed their statements as of year-end 2011.

### **OATH OF OFFICE**

Indiana Code (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. As noted during review of corporate minutes, each director signed an Oath of Office statement in 2011.

### **CORPORATE RECORDS**

#### Articles of Incorporation

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

#### Bylaws

The Company's Bylaws were amended on August 18, 2011, due to a prior examination finding related to the number of directors. Article V, Section 5.01 was revised to change the number of directors from no less than five (5) nor more than nine (9) directors to "no less than seven (7) nor more than twelve (12) directors." The revision to the Company's Bylaws was unanimously approved by the Board of Directors. The Bylaws were filed with the INDOI on March 7, 2012.

## Minutes

The meeting minutes of the Board of Directors and shareholder were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted. The annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws.

## AFFILIATED COMPANIES

### Organizational Structure

The following abbreviated organizational chart illustrates the Company and its upstream affiliates as of December 31, 2011:

	<u>NAIC Co.</u> <u>Code</u>	<u>State of</u> <u>Domicile</u>
Eastern Insurance Holdings, Inc.		
Global Alliance Holdings Ltd.		
d/b/a Eastern Alliance Insurance Group		
Eastern Alliance Insurance Company	10724	PA
Allied Eastern Indemnity Company	11242	PA
Eastern Advantage Assurance Company	13019	PA
<b>Employers Security Insurance Company</b>	<b>32005</b>	<b>IN</b>

### 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.

### Tax Sharing Agreement

The Company files a consolidated federal income tax return with EIHI and its subsidiaries. The federal tax liability and related expense is allocated among the members of the consolidated group, so as to charge or credit each member with its share of expense or benefit that the member would recognize if it were filing a separate federal income tax return. This method of allocation is subject to the terms of a written Tax Sharing Agreement among the members of the consolidated group.

## 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 St. Paul Fire and Marine Insurance Company. The bond has a single loss coverage limit of \$1,000,000 with a \$25,000 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 business property insurance, commercial auto liability, workers' compensation insurance, and commercial umbrella liability.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

EIHI provides substantially all services necessary to conduct the business of ESIC, pursuant to the Reinsurance Pooling Agreement described in the Reinsurance section of this report. EIHI sponsors a defined contribution benefit plan under which all eligible employees may participate. Under provisions of the defined contribution plan, 75% of the participant's contribution, up to 4% of their compensation, is matched.

## STATUTORY DEPOSITS

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

	<u>Book/Adjusted</u> <u>Carrying Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	\$ 1,524,157	\$ 1,606,001
All Other Special Deposits:		
Missouri	310,714	324,822
Total Deposits	<u>\$ 1,834,871</u>	<u>\$ 1,930,823</u>

## REINSURANCE

### Reinsurance Pooling Agreement

Certain member companies of EAIG participate in a Reinsurance Pooling Agreement. This agreement provides that premiums, loss expenses, underwriting expenses, premiums in the course of collection, and reinsurance recoverable on loss payments of the companies, net of reinsurance with non-affiliates, be pooled and then allocated to each company based on the percentages outlined in the agreement. Premiums excluded from the agreement include premiums assumed from participation in mandatory pools and business classified as alternative markets. Member companies of the group, pooling percentages, and state of domicile are listed below:

<u>Company Name</u>	<u>Percentage Share</u>
Eastern Alliance Insurance Company (PA)	61%
Allied Eastern Indemnity Company (PA)	13%
Eastern Advantage Assurance Company (PA)	13%
Employers Security Insurance Company (IN)	13%
Combined Pool Total	<u>100%</u>

Quota Share Reinsurance Agreement

The Company maintains a Quota Share Reinsurance Agreement with its affiliate, Eastern Re Limited (Eastern Re), in which Eastern Re assumes 100% of the premiums written on the Company's alternative market program. The Company charges a fronting fee for such alternative market programs. Fronting fees received by the Company under these programs totaled \$10,474 and \$11,719 for the years ending December 31, 2010 and 2011, respectively, and have been recorded as a reduction to other underwriting expenses.

**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 Statement for the years ended December 31, 2010 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.

**EMPLOYERS SECURITY INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

	<u>Assets</u>			
	<b>As of December 31, 2011</b>			
	<b><u>Per Annual</u></b>	<b><u>Examination</u></b>	<b><u>Per</u></b>	<b><u>December 31,</u></b>
	<b><u>Statement</u></b>	<b><u>Adjustments</u></b>	<b><u>Examination</u></b>	<b><u>Prior Year</u></b>
<b>Assets:</b>				
Bonds	\$ 24,150,897	\$ -	\$ 24,150,897	\$ 19,677,672
Stocks:				
Common stocks	-	-	-	14,268
Cash, cash equivalents, and short-term investments	4,873,518	-	4,873,518	4,940,281
Subtotals, cash and invested assets	<u>29,024,415</u>	-	<u>29,024,415</u>	<u>24,632,221</u>
Investment income due and accrued	164,028	-	164,028	122,392
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	152,990	-	152,990	214,877
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,535,274	-	4,535,274	5,487,335
Accrued retrospective premiums	62,256	-	62,256	36,567
Reinsurance:				
Amounts recoverable from reinsurers	77,793	-	77,793	123,033
Current federal and foreign income tax recoverable and interest thereon	145,765	-	145,765	-
Net deferred tax asset	608,566	-	608,566	486,063
Electronic data processing equipment and software	-	-	-	16,850
Receivables from parent, subsidiaries and affiliates	-	-	-	85,813
Aggregate write-ins for other than invested assets	52,890	-	52,890	602,526
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>34,823,977</u>	-	<u>34,823,977</u>	<u>31,807,679</u>
<b>Total assets</b>	<b><u>\$ 34,823,977</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 34,823,977</u></b>	<b><u>\$ 31,807,679</u></b>

**EMPLOYERS SECURITY INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

	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>
<b>Liabilities:</b>				
Losses	\$ 8,521,029	\$ -	\$ 8,521,029	\$ 7,973,790
Reinsurance payable on paid losses and loss adjustment expenses	2,438,035	-	2,438,035	3,450,345
Loss adjustment expenses	843,806	-	843,806	1,109,161
Commissions payable, contingent commissions and other similar charges	342,520	-	342,520	416,624
Other expenses	488,524	-	488,524	51,405
Taxes, licenses and fees	138,643	-	138,643	35,527
Current federal and foreign income taxes	-	-	-	66,388
Unearned premiums	6,745,159	-	6,745,159	5,694,217
Advance premiums	17,472	-	17,472	6,566
Dividend declared and paid:				
Policyholders	38,950	-	38,950	-
Ceded reinsurance premiums payable	699,304	-	699,304	549,462
Amounts withheld or retained by company for accounts of others	1,035,503	-	1,035,503	1,741,405
Remittances and items not allocated	(1,298)	-	(1,298)	87
Drafts outstanding	1,699	-	1,699	1,699
Payable to parent, subsidiary and affiliates	1,153,166	-	1,153,166	145,029
Total liabilities excluding protected cell liabilities	<u>22,462,512</u>	<u>-</u>	<u>22,462,512</u>	<u>21,241,705</u>
<b>Total liabilities</b>	<u>22,462,512</u>	<u>-</u>	<u>22,462,512</u>	<u>21,241,705</u>
Common capital stock	1,200,000	-	1,200,000	1,200,000
Gross paid in and contributed surplus	6,901,026	-	6,901,026	6,901,026
Unassigned funds (surplus)	4,260,439	-	4,260,439	2,464,949
<b>Total capital and surplus</b>	<u>12,361,465</u>	<u>-</u>	<u>12,361,465</u>	<u>10,565,975</u>
<b>Total liabilities, capital and surplus</b>	<u>\$ 34,823,977</u>	<u>\$ -</u>	<u>\$ 34,823,977</u>	<u>\$ 31,807,679</u>

\* This Report of Examination reflects the information presented in the Annual Statement filings. Note that there is an immaterial difference due to rounding in the amount of Total liabilities, capital and surplus for 2010.

**EMPLOYERS SECURITY INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

Summary of Income

	As of December 31, 2011			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Premiums earned	\$ 13,731,245	\$ -	\$ 13,731,245	\$ 11,402,372
DEDUCTIONS:				
Losses incurred	8,194,792	-	8,194,792	8,257,245
Loss adjustment expenses incurred	866,688	-	866,688	1,144,161
Other Underwriting expenses incurred	3,386,776	-	3,386,776	3,156,309
Total underwriting deductions	12,448,256	-	12,448,256	12,557,715
<b>Net underwriting gain (loss)</b>	<b>1,282,989</b>	<b>-</b>	<b>1,282,989</b>	<b>(1,155,343)</b>
Net investment income earned	616,466	-	616,466	441,665
Net realized capital gains (losses) less capital gains tax	36,891	-	36,891	29,786
<b>Net investment gain (loss)</b>	<b>653,357</b>	<b>-</b>	<b>653,357</b>	<b>471,451</b>
Net gain (loss) from agents' or premium balances charged off	(6,384)	-	(6,384)	(3,408)
Finance and service charges not included in premiums	96,779	-	96,779	605,648
Total other income	90,395	-	90,395	602,240
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,026,741	-	2,026,741	(81,652)
Dividends to policyholders	99,988	-	99,988	-
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	1,926,753	-	1,926,753	(81,652)
Federal and foreign income taxes incurred	639,522	-	639,522	149,653
<b>Net income</b>	<b>\$ 1,287,231</b>	<b>\$ -</b>	<b>\$ 1,287,231</b>	<b>\$ (231,305)</b>

**EMPLOYERS SECURITY INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Capital and Surplus Reconciliation**

	<u>12/31/2011</u>	<u>12/31/2010</u>
<b>Capital and surplus, Dec 31, prior year</b>	\$ 10,565,977	\$ 10,703,789
Net income	1,287,231	(231,305)
Change in net unrealized capital gains or (losses) less capital gains tax	(2,461)	(14,308)
Change in net deferred income tax	(13,566)	199,920
Change in nonadmitted assets	<u>524,283</u>	<u>(92,119)</u>
Change in surplus as regards policyholders for the year	<u>1,795,487</u>	<u>(137,812)</u>
<b>Capital and surplus, Dec 31, current year</b>	<u><u>\$ 12,361,465</u></u>	<u><u>\$ 10,565,977</u></u> *

\* This Report of Examination reflects the information presented in the Annual Statement filing. Note that there are immaterial differences in the amount of total capital and surplus reported in this exhibit and that reported elsewhere in this report.

### **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**

There were no other significant issues noted as of December 31, 2011, based on the results of this examination.

### **SUBSEQUENT EVENTS**

There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered to have a material effect on the financial statements of the Company.

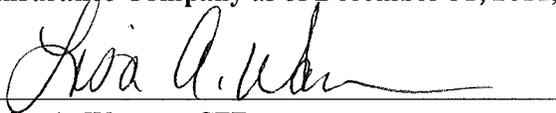
**AFFIDAVIT**

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., hereinafter collectively referred to as the "Examiners", performed an examination of **Employers Security 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 **Employers Security Insurance Company** as of **December 31, 2011**, as determined by the undersigned.



Lisa A. Warrum, CFE  
Noble Consulting Services, Inc.

State of:  
County of:

On this 20 day of May, 2013, before me personally appeared, Lisa A. Warrum, 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  \_\_\_\_\_  
Notary Public