

# Best's Rating Report



<b>QBE REGIONAL INSURANCE GROUP</b>	<b>A</b>
<b>NORTH POINTE INSURANCE COMPANY</b>	<b>A-</b>
<b>PRAETORIAN INSURANCE COMPANY</b>	<b>A-</b>
<b>QBE REINSURANCE CORPORATION</b>	<b>A</b>
<b>QBE INSURANCE CORPORATION</b>	<b>A</b>
<b>QBE SPECIALTY INSURANCE COMPANY</b>	<b>A</b>

Wilmington, Delaware



**A**



**A-**

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# QBE REGIONAL INSURANCE GROUP

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AMB#: 05658

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## BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the group's Financial Strength, it is assigned a Best's Financial Strength Rating of A (Excellent). The group's Financial Size Category is Class X.

## RATING UNIT MEMBERS

QBE Regional Insurance Group

(AMB# 05658):

AMB#	COMPANY	BEST'S FSR	POOL %
02416	General Casualty Co of WI	A	34.00
02370	Unigard Insurance Company	A	20.00
02007	Southern Guaranty Insurance Co	A	11.00
02418	Regent Insurance Company	A	9.00
04242	General Casualty Insurance Co	A	7.00
02420	Blue Ridge Insurance Company	A	6.00
00543	Hoosier Insurance Company	A	4.00
04278	Unigard Indemnity Company	A	3.00
02839	Blue Ridge Indemnity Company	A	2.00
02402	Southern Fire & Casualty Co	A	
00770	Southern Pilot Insurance Co	A	

## RATING RATIONALE

**Rating Rationale:** The rating reflects QBE Regional Insurance Group's excellent capital position, strong regional market presence and solid agency franchise. Over the last several years there have been improved intercompany functionality and increased operational performance which have resulted in stable, profitable underwriting results. Partially offsetting these positive rating factors is the group's somewhat elevated net premium leverage although this has been steadily trending downwards for several years.

On May 31, 2007, QBE Regional Insurance Group became a part of QBE the Americas division, and the rating outlook is further supported by ownership from its ultimate parent, QBE Insurance Group Limited of Australia. QBE Regional Insurance Group is one of the major operating platforms within QBE the Americas.

The rating applies to the eleven members of the QBE Regional Insurance Group's intercompany pool: General Casualty Company of Wisconsin, General Casualty Insurance Company, Blue Ridge Indemnity Company, Blue Ridge Insurance Company, Hoosier Insurance Company, Inc., Regent Insurance Company, Southern Guaranty Insurance Company, Southern Pilot Insurance Company, Southern Fire & Casualty Company, Unigard Insurance Company, and Unigard Indemnity Company.

**Best's Financial Strength Rating: A**

**Outlook: Stable**

## FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
09/30/09	A	01/05/07	A- u
08/28/08	A	06/16/06	A-
06/06/07	A	06/20/05	A-

## KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data					
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus
2004	1,491,619	1,433,604	102,620	101,406	2,984,851	811,723
2005	1,457,784	1,416,991	163,841	113,781	3,107,557	910,827
2006	1,460,950	1,412,186	155,084	94,593	3,192,165	966,679
2007	1,331,720	1,295,106	120,411	73,020	3,190,321	973,028
2008	1,188,669	905,532	270,502	159,552	2,448,116	750,647

Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS Lev.	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2004	98.2	3.0	7.1	14.0	1.8	4.4	137.6	114.2
2005	95.2	3.6	11.4	31.5	1.6	4.0	141.6	113.2
2006	96.5	4.3	11.0	27.7	1.5	3.8	143.5	103.5
2007	102.2	5.2	9.0	4.2	1.3	3.6	144.0	113.9
2008	88.2	4.1	25.8	26.5	1.2	3.4	144.4	77.2
5-Yr	96.4	4.0	12.2	...	...	...	...	...

(\* ) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings. Within several financial tables of this report, this group is compared against the Commercial Casualty Composite.

## BUSINESS REVIEW

QBE the Americas purchased Winterthur U.S. Holdings on May 31, 2007 and renamed it QBE Regional Companies (N.A.), Inc. (QBE Regional or Group). The Group is comprised of eleven companies, led by General Casualty Company of Wisconsin. The Group operates in a 33-state territory through eight regional offices. Historically, the group's operating efforts in North America were divided into the separate subgroups which had been acquired by Winterthur U.S. Holdings starting in 1982. After a series of acquisitions, mergers, sales and spin-offs which followed in the next two decades, (a complete enumeration of these activities can be found in the "History" section), the group consisted of two operating units, the Unigard Group and the General Casualty Group. Historically, the two operating units had operated with separate managerial teams while functioning under a unified set of strategic guidelines. Since January 2005, all of the group's business has been pooled together, with the General Casualty Company of Wisconsin acting as the lead pool member. Back-office functions, which had been decentralized in the subgroups, were centralized in 2004. Marketing, underwriting, claims handling, policyholder services and agency broker relations continue to be managed locally by the operating units via a network of regional and branch offices.

The group markets its products through approximately 1800 agency partners with direct billing facilities, automation support, insurance rating applications and technology development available to its agents and an increasing number interfacing with the company, including access to claims servicing information. The group continues to invest in information technology and upgrades as a means to automate and synchronize differences between subgroups, as well as reduce processing time, increase overall operating efficiencies, and enhance service to its independent agency partners. The group generally does business with small-and medium-sized agents in suburban and rural areas.

The group underwrites full coverage commercial and private passenger automobile, workers' compensation, commercial multiple peril, homeowners, general liability, umbrella and other miscellaneous coverages throughout the midwestern, northeastern, southeastern, northwestern and western states through the independent agency system. The group writes both commercial and personal lines business split approximately 65% and 35%, respectively. The group's commercial lines department targets "main street" business in mercantile, service, light manufacturing, office, contracting, hotel/motel and building owner classes. The group has historically written small-to medium-sized commercial accounts, with an increased emphasis in recent years placed on larger accounts with premiums over \$150,000 due to market dislocation created by some large national commercial carriers with an emphasis on short tail property coverages. These accounts now represent about 20% of the total commercial book of business. The personal lines book of business is split between automobile and homeowners. Earthquake insurance is also offered with a minimum 5 - 15% deductible that varies by state with California and Washington requiring a minimum 15% deductible. A marginal amount of the group's homeowner policies in California carry earthquake coverage.

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## 2008 BUSINESS PRODUCTION AND PROFITABILITY (\$'000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Com'l MultiPeril.....	265,465	155,428	17.2	20.3	263,323
Auto Physical .....	154,200	140,774	15.5	62.1	8,558
Priv Pass Auto Liab.....	144,754	136,447	15.1	40.8	154,216
Comm'l Auto Liab.....	138,737	126,496	14.0	32.3	184,927
Homeowners.....	144,169	124,827	13.8	62.7	45,575
Workers' Comp.....	196,035	121,222	13.4	44.3	258,861
Oth Liab Occur.....	70,681	50,008	5.5	18.9	117,723
Inland Marine.....	31,162	19,858	2.2	23.7	2,429
All Other.....	43,465	30,472	3.4	49.4	14,220
Totals.....	1,188,669	905,532	100.0	41.0	1,049,832

**Geographical breakdown of direct premium writings (\$'000):** Wisconsin, \$264,174 (22.2%); Illinois, \$135,452 (11.4%); California, \$115,841 (9.7%); Minnesota, \$88,776 (7.5%); Washington, \$87,614 (7.4%); 45 other jurisdictions, \$496,812 (41.8%).

## FINANCIAL PERFORMANCE

**Overall Earnings:** The group has produced varied but generally improved operating returns. Underwriting performance has been fairly consistent over the recent five-year period.

Total returns have trended with operating returns, with improvement in total return driven by operating performance. Underwriting gains have been complemented by investment income in most years. Management expects earnings to continue to improve going forward based upon profitability initiatives including non-renewal of certain undesirable business and modification of state-by-state appetite for certain lines of business, a comprehensive reinsurance program and the aforementioned investment strategy changes. Further, now that the group has been under the QBE umbrella for over two years the expectation is that operating synergies should continue to materialize.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2004	7.1	12.7	98.2	93.6	5.8	12.3	104.6	92.7
2005	11.4	14.5	95.2	89.1	8.2	7.9	105.0	90.9
2006	11.0	10.8	96.5	88.9	19.2	19.1	94.4	79.5
2007	9.0	5.8	102.2	92.3	20.9	15.4	94.6	78.4
2008	25.8	13.2	88.2	79.3	16.9	-1.2	99.0	83.3
5-Yr	12.2	11.3	96.4	89.1	14.3	10.5	99.4	84.8

**Underwriting Income:** Although the group has sustained some underwriting variability over the last five years, influenced by catastrophe- and weather-related losses, adverse development in workers' compensation, asbestos and environmental losses, California construction defect claims and private passenger automobile, the five-year average combined ratio was several points better than the peer composite average. Line of business trends from ongoing operations have improved reflective of a decrease in severity of claims and rate hardening that resulted in double-digit increases reflected in the improved loss ratios across almost all lines of business when compared to prior years. The 2008 reported combined ratio of 88.2%, which is one of the best reported results over the recent five-year period for the group, benefitted from approximately 10 percentage points in favorable development.

The group continues to remain susceptible to severe weather losses and catastrophes in the Northwest and Midwest operating territories. In its homeowner line, the group has made efforts to curtail earthquake losses by capping individual exposure per policy. Weather and catastrophe exposures are actively managed via underwriting guidelines and catastrophe risk modeling. Asbestos exposures relate to third-tier, non-manufacturing entities which were written, for the most part, prior to 1990. The environmental exposures related to homeowners' oil, dry cleaning and other small commercial exposures, have seen fewer new claims emerge. The defect claims almost exclusively reside in California and primarily relate to policies written in the late 1980s to early 1990s, at which time the group began exiting the business. Recent construction-defect claim activity, consisting mostly of small and medium claims, is now proving consistent with expectations.

The group's underwriting expense ratio is higher than the peer composite, due primarily to growth in commercial lines and its commission structure. Despite increased employee benefit costs and technology investments, and costs related to geographic expansion, the group has maintained underwriting expenses at reasonable levels. Management believes further improvement can be made to underwriting expenses through increased efficiency and cost reductions and some expected synergies. To further improve underwriting profitability, management has implemented initiatives that include continued pricing analysis for adequacy in both commercial and personal lines, restructuring commission payouts, reducing catastrophe exposure and enhancing loss control procedures. In an effort to reduce its coastal exposure, the group has implemented an individualized state-by-state approach to writing business that has allowed significant improvements in limiting the amount of coastal exposure by state.

An overall conservative operating strategy is expected to continue with emphasis on being a premier agency company with an efficient cost infrastructure, and avoiding litigious geographic areas. The group also targets the less catastrophe-exposed midwestern states, with over one-fifth of net writings in Wisconsin. While maintaining prudent growth initiatives, the group has been increasing its presence in other midwestern states to reduce its geographic concentration. In addition, homeowners emphasis has been reduced in storm-prone midwestern states.

## UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$'000)	—Loss Ratios—		—Expense Ratios—			Div. Pol.	Comb. Ratio	
		Pure Loss	Loss & LAE	Net Comm.	Other Exp.	Total Exp.			
2004	29,326	53.6	13.1	66.8	17.0	13.7	30.7	0.7	98.2
2005	74,060	52.0	11.7	63.7	16.8	13.8	30.6	0.9	95.2
2006	49,009	53.2	12.4	65.6	15.7	14.3	30.0	0.9	96.5
2007	-14,468	55.6	13.4	69.0	16.5	15.5	31.9	1.3	102.2
2008	173,706	41.0	11.3	52.3	12.4	21.8	34.2	1.7	88.2
5-Yr	...	51.6	12.4	64.0	15.9	15.4	31.3	1.1	96.4

**Investment Income:** When QBE acquired the group, there was a shift in the investment strategy. Under QBE's oversight the group's defined investment policy guidelines will remain conservative with comparative portfolio and benchmarking analysis, asset/liability management, and non-speculative hedging techniques employed to preserve capital and achieve targeted returns. Cash and cash equivalents make up the largest percentage allocation in the investment portfolio followed by fixed income maturities, which are predominantly corporates and U.S. Treasuries. There is also a small allocation to common equities.

The group's investment yield has typically lagged the composite; however, preservation of capital is one of the primary objectives. Despite having a conservative investment philosophy the group did not completely escape the turmoil in the financial markets in 2008. Realized and unrealized losses were \$51 million and \$46 million, respectively.

## INVESTMENT INCOME ANALYSIS (\$'000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Inc. Growth (%)	Inv. Yield (%)
2004	66,742	29,290	-2,970	-3.3	3.0	4.1	0.9	4.5
2005	86,835	-915	11,353	30.1	3.6	4.1	20.0	4.9
2006	106,684	-1,676	7,070	22.9	4.3	4.5	9.8	4.9
2007	132,602	-11,949	-16,334	24.3	5.2	4.0	9.8	5.0
2008	92,817	-51,565	-45,788	-30.0	4.1	-0.2	-4.5	4.8
5-Yr	...	...	...	5.2	4.0	3.3	6.5	4.8

## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2008 Inv. Assets (\$'000)	—% of Invested Assets—		Annual % Change
		2008	2007	
Long-term bonds.....	450,913	22.9	22.8	-26.8
Stocks.....	166,779	8.5	...	...
Affiliated Investments.....	214,979	10.9	2.2	265.5
Other Inv Assets.....	1,140,383	57.8	75.0	-43.8
Total.....	1,973,054	100.0	100.0	-27.0

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## 2008 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class 1-2 (%)	Class 3-6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Governments .....	33.4	4.5	1.8	100.0	...	...	...
Other .....	2.3	0.8	3.4	100.0	...	...	...
Corporates.....	64.3	-6.1	3.9	100.0	...	...	...
Total all bonds..	100.0	-2.5	3.2	100.0	...	...	...

## CAPITALIZATION

**Capital Generation:** The group's surplus position has decreased over the past five years and is largely driven by the parental dividend payouts, with the largest one of \$275 million taking place in 2008. Dividend payouts are expected to continue but not at the 2008 level. Pre-tax operating income has consistently been positive which serves as the backbone of the group's capital generation.

## CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Pretax Operating Income	Source of Surplus Growth				PHS Growth (%)
		Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax	Change in PHS	
2004	102,620	26,320	-14,240	-36,880	77,820	10.6
2005	163,841	10,438	-37,438	-37,737	99,105	12.2
2006	155,084	5,394	-50,750	-53,877	55,851	6.1
2007	120,411	-28,282	-49,900	-35,879	6,350	0.7
2008	270,502	-97,353	-275,000	-120,530	-222,381	-22.9
5-Yr	812,458	-83,484	-427,328	-284,902	16,745	...

**Overall Capitalization:** The group's risk-adjusted capitalization is excellent as measured by Best's Capital Adequacy Ratio (BCAR) and supports the current rating. The capital position is derived from the group's underwriting results, which have been fairly stable over the past five years, offset by elevated but declining underwriting leverage. Reserve leverage has trended down over the recent five-year period and is in line with the composite.

Policyholders' surplus declined roughly \$225 million in 2008 primarily driven by the \$275 million in dividends paid. Historically, dividends have been approximately \$50 million or lower.

## QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	% of PHS			Dividend Requirements		
		Cap. Stock/Contrib. Cap.	Other	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2004	811,723	41.8	...	58.2	-14,240	13.9	14.0
2005	910,827	42.1	...	57.9	-37,350	22.8	32.8
2006	966,679	39.7	...	60.3	-50,750	32.7	53.7
2007	973,028	39.5	...	60.5	-49,900	41.4	68.3
2008	750,647	51.2	...	48.8	-275,000	101.7	172.4

## LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2004	1.8	1.6	4.4	4.7	1.1	1.8	3.9	5.2
2005	1.6	1.5	4.0	4.2	1.0	1.8	3.7	4.9
2006	1.5	1.5	3.8	4.0	0.9	1.6	3.3	4.3
2007	1.3	1.5	3.6	3.8	0.8	1.5	3.0	3.9
2008	1.2	1.4	3.4	4.3	0.9	1.6	3.3	4.3

Current BCAR: 214.4

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW		NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2004	1,491,619	-1.9	1,512,610	-1.6	1,433,604	-1.3	1,445,630	1.7
2005	1,457,784	-2.3	1,476,136	-2.4	1,416,991	-1.2	1,432,783	-0.9
2006	1,460,950	0.2	1,477,474	0.1	1,412,186	-0.3	1,410,548	-1.6
2007	1,331,720	-8.8	1,365,980	-7.5	1,295,106	-8.3	1,342,238	-4.8
2008	1,188,669	-10.7	1,198,773	-12.2	905,532	-30.1	1,050,185	-21.8
5-Yr CAGR	...	-4.8	...	-4.9	...	-9.0	...	-5.9
5-Yr Chg	...	-21.9	...	-22.1	...	-37.7	...	-26.1

**Reserve Quality:** In 2004 and 2005, the group experienced new incurred losses related to asbestos claims. The group's asbestos exposure relates to third-tier, non-manufacturing entities with a limited number of policyholders remaining. The expectation is that asbestos exposure is rather contained. In 2007, the company had another study completed with regard to its asbestos and environmental exposure (the previous one was completed in 2003). Following that study, the company strengthened its asbestos and environmental reserves.

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to PHS (%)		Unpaid Reserves @12/08	Unpaid Res. to Develop. (%)	
			to Orig. (%)	to PHS (%)			
2003	1,134,354	1,196,603	5.5	8.5	84.1	196,140	16.4
2004	1,216,087	1,171,711	-3.6	-5.5	81.1	237,505	20.3
2005	1,281,050	1,191,484	-7.0	-9.8	83.2	320,152	26.9
2006	1,322,855	1,216,872	-8.0	-11.0	86.3	463,211	38.1
2007	1,367,746	1,215,577	-11.1	-15.6	90.6	674,933	55.5
2008	982,712	982,712	...	...	93.6	982,712	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to PHS (%)		Unpaid Reserves @12/08	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
			to Orig. (%)	to PHS (%)			
2003	489,421	413,265	-15.6	-15.6	33,439	62.2	92.4
2004	471,041	397,280	-15.7	-15.7	41,365	58.4	89.8
2005	470,192	422,639	-10.1	-10.1	82,647	60.9	92.4
2006	489,978	447,661	-8.6	-8.6	143,059	64.4	95.3
2007	427,900	412,582	-3.6	-3.6	211,722	65.7	98.9
2008	307,779	307,779	...	...	307,779	67.6	103.4

## ASBESTOS & ENVIRONMENTAL (A&E) RESERVE ANALYSIS

Year	Company				Industry Composite				
	Net A&E Reserve (\$000)	Reserve Retention (%)	Net IBNR Mix (%)	Survival Ratio (3yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)	Survival Ratio (3 yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)
2004	63,583	77.5	69.9	...	2.1	...	...	1.4	...
2005	61,537	77.9	67.5	...	0.2	...	...	1.0	...
2006	55,655	79.1	63.0	8.2	0.2	0.8	8.0	0.5	1.0
2007	85,446	81.9	78.5	11.8	2.8	1.0	8.5	0.7	0.7
2008	80,285	83.2	76.7	9.7	0.2	1.1	7.4	0.3	0.5

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Ceded Reins. Total	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	
2004	221,651	94.8	17.6	27.3	81.0	92.2	128.1	
2005	201,040	96.0	15.6	22.1	81.8	92.2	124.5	
2006	220,222	95.6	16.0	22.8	81.1	73.5	101.8	
2007	203,206	94.8	13.8	20.9	82.5	64.5	90.2	
2008	672,362	75.5	51.8	89.6	82.6	72.3	101.0	

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## 2008 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	1,001,431	391,418	580,715	...	1,973,564
Foreign Affiliates.....	151,860	32,064	75,816	...	259,740
US Insurers .....	36,922	46,547	4,050	-189	87,331
Pools/Associations.....	5,253	36	852	...	6,141
Other Non-US.....	20,949	14,735	56	-16	35,724
Total (ex US Affils).....	214,984	93,382	80,774	-205	388,936
Grand Total.....	1,216,416	484,801	661,489	-205	2,362,500

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate/Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2004	...	3.6	0.0	10.5	14.0	14.6	7.0	16.5
2005	...	3.2	0.0	28.2	31.5	14.7	7.1	15.7
2006	...	3.3	0.0	24.4	27.7	7.7	6.2	16.4
2007	...	4.2	...	...	4.2	6.0	5.8	15.3
2008	...	4.3	...	22.2	26.5	28.6	5.2	9.7

## LIQUIDITY ANALYSIS

Period Ending	Company					Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	
2004	54.7	105.8	137.6	11.4	22.3	99.6	136.4	13.8	
2005	46.8	109.8	141.6	11.3	20.6	102.4	137.9	11.9	
2006	43.4	113.6	143.5	11.0	23.5	108.9	141.7	11.8	
2007	112.8	117.9	144.0	7.6	21.7	111.2	145.2	10.1	
2008	83.2	103.1	144.4	8.8	19.1	104.5	141.1	12.0	

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company					Industry Composite		
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)	
2004	109,573	192,626	123,316	108.2	114.2	125.3	135.3	
2005	134,259	176,719	-240,851	110.5	113.2	114.8	128.2	
2006	71,620	48,781	42,538	105.4	103.5	113.3	125.9	
2007	73,063	181,816	1,812,847	105.7	113.9	112.0	122.6	
2008	-371,357	-315,128	-873,068	72.2	77.2	100.7	112.5	

## HISTORY

In 1982, Winterthur U.S. Holdings, Inc., a Delaware Corporation and a wholly owned subsidiary of Winterthur Swiss Insurance Company of Winterthur, Switzerland was formed. That same year the Republic Companies Group (see the specific company report for an enumerated history of the company) was acquired. In slow succession, the holding company began to acquire regional insurers throughout the U.S.: 1988 — Southern Guaranty Insurance Company, 1990 — General Casualty Group, 1993 — Unigard Insurance Company. In 1996, the Blue Ridge Group was spun off from the Republic Companies Group and was merged into the General Casualty Group in 2001. In 2003, the Republic Companies Group was sold. In 2004, Southern Guaranty Group was merged into the General Casualty Group.

On December 22, 2006, Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company to AXA. In January 2007, AXA entered into a definitive agreement to sell Winterthur U.S. and its insurance operating companies to QBE the Americas. On May 31, 2007, that transaction closed and the company was renamed as QBE Regional Companies (N.A.), Inc.

## MANAGEMENT

The administration of the companies that are a part of QBE Regional is under the direction of the Chief Executive Officer, Peter Christen. Mr. Christen was appointed president and chief executive officer of QBE Regional Insurance in 2007. Mr. Christen joined the former parent company Winterthur Insurance in 1980. Since 1986 he has held various management positions within the U.S. division, most recently as president and CEO of Unigard Insurance Companies (2000-07). Previously he was president and CEO of Blue Ridge Insurance Company (1995-2000), which is now part of QBE Regional Insurance.

## REINSURANCE

QBE the Americas purchases its reinsurance for its operating entities. QBE the Americas buys a conservative amount of reinsurance coverage for all of its operating entities to mitigate the potential for shock losses which could weaken the balance sheet.

## CONSOLIDATED BALANCE SHEET (at December 31, 2008)

	2008		2007		'08%	'07%
	\$000	\$000	\$000	\$000		
<b>ADMITTED ASSETS (\$000)</b>						
Bonds.....	450,913	616,367	450,913	616,367	18.4	19.3
Common stock.....	166,779	...	166,779	...	6.8	...
Cash & short-term invest.....	1,083,597	1,956,665	1,083,597	1,956,665	44.3	61.3
Real estate, investment.....	32,266	40,440	32,266	40,440	1.3	1.3
Real estate, offices.....	61,913	57,809	61,913	57,809	2.5	1.8
Other non-affil inv asset.....	85	...	85	...	0.0	...
Investments in affiliates.....	153,066	1,010	153,066	1,010	6.3	0.0
Total invested assets.....	1,948,619	2,672,292	1,948,619	2,672,292	79.6	83.8
Premium balances.....	339,325	374,443	339,325	374,443	13.9	11.7
Accrued interest.....	24,435	31,116	24,435	31,116	1.0	1.0
All other assets.....	135,737	112,471	135,737	112,471	5.5	3.5
Total assets.....	2,448,116	3,190,321	2,448,116	3,190,321	100.0	100.0
<b>LIABILITIES &amp; SURPLUS (\$000)</b>						
Loss & LAE reserves.....	1,049,832	1,456,144	1,049,832	1,456,144	42.9	45.6
Unearned premiums.....	438,458	583,111	438,458	583,111	17.9	18.3
Conditional reserve funds.....	1,756	1,159	1,756	1,159	0.1	0.0
All other liabilities.....	207,423	176,879	207,423	176,879	8.5	5.5
Total liabilities.....	1,697,469	2,217,293	1,697,469	2,217,293	69.3	69.5
Total policyholders' surplus.....	750,647	973,028	750,647	973,028	30.7	30.5
Total liabilities & surplus.....	2,448,116	3,190,321	2,448,116	3,190,321	100.0	100.0

## CONSOLIDATED SUMMARY OF 2008 OPERATIONS (\$000)

Statement of Income	2008		2007		'08%	'07%
	\$000	\$000	\$000	\$000		
Premiums earned.....	1,050,185	962,587	1,050,185	962,587		
Losses incurred.....	430,864	799,968	430,864	799,968		
LAE incurred.....	118,727		118,727			
Underw expenses incurred.....	309,512	516,600	309,512	516,600		
Div to policyholders.....	17,376	17,376	17,376	17,376		
Net underwriting income.....	173,706	-371,357	173,706	-371,357		
Net investment income.....	92,817	102,199	92,817	102,199		
Other income/expense.....	3,980	3,980	3,980	3,980		
Pre-tax oper income.....	270,502	-265,178	270,502	-265,178		
Realized capital gains.....	-51,565		-51,565			
Income taxes incurred.....	59,385	49,950	59,385	49,950		
Net income.....	159,552	-315,128	159,552	-315,128		

# Best's Rating Report

## Ultimate Parent: QBE Insurance Group Limited NORTH POINTE INSURANCE COMPANY

Tel: 248-358-1171  
AMB#: 00317  
Ultimate Parent#: 85434

Fax: 248-359-5783  
NAIC#: 27740  
FEIN#: 38-2706529

### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the company's Financial Strength, it is assigned a Best's Financial Strength Rating of A- (Excellent). The company's Financial Size Category is Class VI.

### RATING RATIONALE

**Rating Rationale:** The rating reflects the company's solid capitalization and its specialty niche business strategy. These factors are partially offset by a high underwriting expense ratio and significant, albeit lessening, geographic concentration in the states of Michigan and Florida.

In April 2008, North Pointe Holding Company (NPHC) was acquired and is now part of QBE the Americas. North Pointe Insurance Company (NPIC) was one of the operating companies acquired with the acquisition. NPIC will have greater resources as a subsidiary of QBE, being that its ultimate parent, QBE Insurance Group Limited, is considered a stronger parent than its previous parent, NPHC.

In its home state of Michigan, NPIC ranks as the leading provider of liquor liability insurance and other coverage for hospitality-related businesses such as restaurants, bars and taverns. NPIC also enjoys a leadership position in specific recreational classes, particularly bowling centers, writing those risks in various states. The company has received the national endorsement of both the Roller Skating Association International and the Bowling Proprietors Association of America, as well as the Bowling Center Associations' endorsements in ten states in which NPIC has significant writings.

NPIC has historically had an elevated underwriting expense position that has hampered its underwriting profitability somewhat, offsetting a sizeable loss ratio advantage relative to the composite. The company's book of business has largely been concentrated in the states of Florida and Michigan. The company has taken initiatives to significantly limit its windstorm-exposed property business in the state of Florida, leading to considerably lower probable maximum loss estimates. The cancellation or non-renewal of these Florida exposures is in concert with NPIC focusing its efforts on its core book of hospitality risks and bowling center business predominantly in areas not greatly exposed to hurricanes. However, the book that is concentrated in Michigan and surrounding states remains subject to midwestern storm activity offset by natural geographic diversification.

**Best's Financial Strength Rating: A-**

**Outlook: Stable**

### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
09/30/09	A-	12/13/06	A-
08/28/08	A-	11/11/05	B++
01/08/08	A-u	05/13/05	B+

### KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data					Policyholders' Surplus
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	
2004	87,602	73,926	3,084	2,624	124,722	32,681
2005	60,758	46,445	9,341	7,053	128,172	43,861
2006	63,536	38,390	2,739	2,927	113,655	49,841
2007	61,263	54,020	-4,959	-1,573	107,742	38,555
2008	64,390	62,800	-8,251	-9,045	111,226	32,332

Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2004	104.9	2.2	4.1	28.4	2.3	5.1	135.5	97.2
2005	95.1	3.1	17.4	22.8	1.1	2.9	157.1	85.6
2006	106.5	3.7	6.6	22.8	0.8	2.0	179.0	92.7
2007	108.0	3.8	-11.0	7.9	1.4	3.2	155.9	95.3
2008	115.7	2.8	-13.6	...	1.9	4.4	141.5	105.3
5-Yr	105.9	3.1	0.7	...	...	...	...	...

(\* Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.

### BUSINESS REVIEW

On April 30, 2008, QBE U.S. Holdings closed on the planned acquisition of North Pointe Holdings Corporation. The acquisition represents another strategic fit for QBE as they continue to expand their presence in the United States.

North Pointe Insurance Company (NPIC) specializes in underwriting liquor liability, general liability and property coverage for small to medium size establishments, which include restaurants, bars, taverns, convenience stores, bowling centers, fraternal organizations and clubs primarily in the states of Michigan, Illinois, Ohio and Iowa.

NPIC has successfully penetrated the Michigan liquor liability marketplace and has become the largest writer of that coverage in the state with a market share of roughly 35%. Policies, which are written on an occurrence form basis, have audits and inspections done for each individual policyholder's operations. Business is primarily marketed and distributed through approximately 2,200 independent agents. NPIC has received endorsements from Bowling Center Associations in the states of Michigan, Iowa, Illinois, Ohio, Pennsylvania, New York, Florida, and Colorado. North Pointe is the endorsed carrier of the Bowling Proprietors of America (BPAA). It currently provides insurance coverage for approximately sixty percent of the bowling centers in Michigan. North Pointe also insures roller rinks and is the endorsed carrier for the Roller Skating Association of America (RSA).

On October 15, 2004, the company sold the new and renewal policy rights to its nonstandard personal automobile business. At the time of the transaction, the company was only offering non-standard auto coverage in the state of Michigan. As part of the deal, the company agreed not to compete in the nonstandard automobile insurance market in Michigan for a period of three years.

On February 27, 2004, the court appointed receiver of the parent company of Queensway International Indemnity Company (QIIC), a former affiliate of NPIC within the Queensway Financial Holdings Group, sold all of the outstanding shares of the company's common stock to North Pointe Financial Services, Inc., NPIC's parent company. In addition to being a former affiliate, NPIC had also entered into a deal with QIIC, effective April 1, 2001 (made retroactive to January 1, 2001), to acquire the renewal rights to a commercial book of business formerly underwritten by QIIC. NPIC also acquired QIIC's office and personnel in Jacksonville, Florida associated with writing this business, which is primarily comprised of artisan contracting business and small retail establishments. A separate division of the company, North Pointe Southeast, was created to handle this business.

Another former NPIC affiliate, Universal Fire & Casualty Company (UFC), specialized in writing non-standard homeowners and dwelling fire coverage. All outstanding company stock of UFC was sold to Universal Holding Corporation as a clean shell on July 7, 2003. Just prior to the sale, on June 20, 2003, the Indiana Department of Insurance approved a Transfer Agreement whereby effective June 30, 2003, all assets excluding \$5,000,001 in investments; all policies, claims, loss adjustment expenses and all liabilities pertaining thereto were transferred to NPIC "as if NPIC had originally written the policy". At the time, NPIC did not hold a license in the State of Missouri. Therefore, the new owners of UFC agreed to maintain the current book of Missouri business, wherein UFC was fully reinsured and indemnified (for 100% of the Missouri business, which was approved by the Indiana Department of Insurance (DOI)). The agreement was further secured by a

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trust agreement required by and approved by the DOI. UFC's business was primarily conducted within select areas of Illinois, Indiana and Missouri. The business that the company focused on, which is now on the books of NPIC, was homeowners coverage in more urbanized areas, for example, Chicago, Illinois and Gary, Indiana.

## 2008 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Oth Liab Occur .....	26,819	27,971	44.5	19.4	23,512
Inland Marine .....	10,450	10,440	16.6	58.6	727
Allied Lines .....	12,321	10,007	15.9	79.8	3,824
Workers' Comp .....	4,583	4,931	7.9	46.9	1,964
Homeowners .....	2,953	2,673	4.3	84.9	1,098
Comm'l Auto Liab .....	1,987	1,976	3.1	33.2	2,221
Oth Liab CM .....	1,932	1,552	2.5	22.7	417
Fire .....	1,451	1,329	2.1	60.4	362
All Other .....	1,895	1,922	3.1	255.2	12,395
Totals .....	64,390	62,800	100.0	48.8	46,521

**Geographical breakdown of direct premium writings (\$000):** Michigan, \$19,581 (30.4%); Florida, \$11,210 (17.4%); Indiana, \$4,230 (6.6%); California, \$4,175 (6.5%); Ohio, \$3,323 (5.2%); 45 other jurisdictions, \$21,871 (34.0%).

## FINANCIAL PERFORMANCE

**Overall Earnings:** Over the past few years, management at NPIC has made efforts to move away from commodity lines of business such as non-standard automobile and to a lesser extent, non-core businesses such as the group accident and health book as well. On a five-year average basis, however, modest returns on revenue and returns on surplus trail the average of the industry composite.

Although the company continues to produce an annual loss and loss adjustment expense ratio that is better than that of the composite average, overall underwriting performance has lagged the composite due to a higher than average expense ratio. Investment income had been constrained by a weak interest rate environment. Overall earnings are varied.

A.M. Best believes the company should benefit from its enhanced focus on its long-term core commercial lines of coverage. In addition, now that the company is under the management of QBE, A.M. Best anticipates there will be synergies and enhancement as a result which will benefit the performance of the company. However, any profit expectations are subject to events such as catastrophes, in addition to increasing competitive pressures in the current market. Market conditions on the company's niche business have remained favorable over the last several years. The company's leadership position within its niche bowling center, liquor liability and non-standard homeowners business should help insulate it somewhat from some of the increasing market competition.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2004	4.1	8.7	104.9	102.0	5.8	12.3	104.6	92.7
2005	17.4	19.1	95.1	89.7	8.2	7.9	105.0	90.9
2006	6.6	7.3	106.5	98.2	19.2	19.1	94.4	79.5
2007	-11.0	-7.1	108.0	100.8	20.9	15.4	94.6	78.4
2008	-13.6	-25.0	115.7	111.7	16.9	-1.2	99.0	83.3
5-Yr	0.7	0.7	105.9	100.8	14.3	10.5	99.4	84.8

**Underwriting Income:** Measured specifically by the company's combined ratio, underwriting has not been profitable over the recent five-year period. The expense ratio has tended to lag the composite rather significantly. A.M. Best anticipates that under QBE's oversight, the expense ratio can be reduced which could result in profitable underwriting results. The effectiveness of NPIC's operating strategies, such as cross-selling applicable coverages throughout the organization to maximize market penetration while minimizing overhead, will be an important contributor to future performance as well.

A.M. Best anticipates that continued focus on core lines, the company's leadership position in the liquor liability business and the related bowling center program should help the company sustain the improved results in the near term.

## UNDERWRITING EXPERIENCE

Period Ending	Net Underw Income (\$000)	—Loss Ratios—			—Expense Ratios—			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.		
2004	-2,823	47.1	10.4	57.6	19.4	27.9	47.3	104.9	
2005	6,594	27.0	14.6	41.6	19.3	34.2	53.5	95.1	
2006	-737	18.7	23.6	42.3	22.4	41.8	64.2	106.5	
2007	-8,143	37.8	19.4	57.2	20.9	29.9	50.8	108.0	
2008	-10,613	48.8	16.3	65.0	19.7	30.9	50.7	115.7	
5-Yr	...	37.8	16.0	53.7	20.2	32.0	52.1	105.9	

**Investment Income:** Prior to 2005, the company's investment income had declined in recent years as sizable growth in invested assets was more than offset by the decline in pre-tax average investment yield attributable to lower prevailing market interest rates. An increase in rates during 2006 and 2007 in conjunction with a growing invested asset base has led to enhanced investment income generation.

In looking at the investment portfolio's composition, QBE's conservative investment philosophy has been implemented in 2008. At year-end 2008, a substantial portion of the company's investment portfolio was allocated to cash and cash equivalents, which is consistent with other QBE entities. QBE's investment philosophy centers on preservation of capital.

## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Growth (%)	Inv. Yield (%)
2004	2,136	817	81	-7.1	2.2	3.2	0.9	4.5
2005	2,877	-63	272	34.7	3.1	3.3	20.0	4.9
2006	3,425	60	498	19.0	3.7	4.3	9.8	4.9
2007	3,257	2,112	-1,554	-4.9	3.8	4.4	9.8	5.0
2008	2,402	-687	185	-26.2	2.8	2.2	-4.5	4.8
5-Yr	...	...	...	0.7	3.1	3.5	6.5	4.8

## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2008 Inv. Assets (\$000)	—% of Invested Assets—		Annual % Change
		2008	2007	
Long-term bonds .....	16,039	18.1	74.1	-74.2
Stocks .....	...	...	3.6	-99.9
Other Inv Assets .....	72,778	81.9	22.3	289.7
Total .....	88,817	100.0	100.0	5.9

## 2008 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val	Avg. Maturity (Yrs)	Class 1-2 (%)	Class 3-6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Governments .....	81.9	5.0	2.0	100.0	...	...	...
Corporates .....	18.1	-1.1	3.0	100.0	...	...	...
Total all bonds ..	100.0	3.9	2.2	100.0	...	...	...

## CAPITALIZATION

**Capital Generation:** Capital generation has been limited. Over the recent five-year period, surplus is basically at the same level. Surplus peaked in 2006 and has started to deteriorate largely due to underwriting loss in both 2007 and 2008.

In 2005, there was a \$10 million capital infusion following the close of the initial public offering of the common stock of its then ultimate parent company. In 2005, remaining proceeds from the former parent's IPO were used to completely pay off the existing debt at the former ultimate parent company's senior credit facility, eliminating the need for dividends from the operating subsidiaries to fund debt obligations.

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## CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Source of Surplus Growth					PHS Growth (%)
	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax	Change in PHS	
2004	3,084	898	...	-1,007	2,974	10.0
2005	9,341	209	6,750	-5,120	11,180	34.2
2006	2,739	558	...	2,684	5,981	13.6
2007	-4,959	558	-5,000	-1,886	-11,286	-22.6
2008	-8,251	-502	...	2,531	-6,223	-16.1
5-Yr	1,954	1,720	1,750	-2,798	2,626	...

**Overall Capitalization:** The company maintains solid capitalization in support of its premium, loss reserve, investment and credit risks based on Best's Capital Adequacy Ratio (BCAR) analysis. Absent significant growth that outstrips the capital base, A.M. Best believes NPIC will remain well capitalized over the near term without the need for any further external capital fortification to support its current business risks.

## QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	% of PHS			—Dividend Requirements—		
		Cap. Stock/Contrib. Cap.	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)	
2004	32,681	45.3	...	54.7	...	...	...
2005	43,861	56.6	...	43.4	-3,250	34.8	46.1
2006	49,841	50.8	...	49.2	...	...	...
2007	38,555	65.7	...	34.3	-5,000	-99.9	-99.9
2008	32,332	78.3	...	21.7	...	...	...

**Underwriting Leverage:** Underwriting leverage has been varied over the recent five-year period. The recent trend has been that net underwriting leverage for NPIC has been increasing whereas the general trend for the composite has been decreasing. NPIC's underwriting leverage is tilted towards the premium leverage as opposed to the composite where reserve leverage is the higher metric. The expectation is that under QBE's oversight, the net underwriting leverage will be less varied and more stable as QBE takes control of the business.

## LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2004	2.3	1.7	5.1	7.0	1.1	1.8	3.9	5.2
2005	1.1	1.1	2.9	4.2	1.0	1.8	3.7	4.9
2006	0.8	0.8	2.0	3.1	0.9	1.6	3.3	4.3
2007	1.4	1.0	3.2	3.8	0.8	1.5	3.0	3.9
2008	1.9	1.4	4.4	5.1	0.9	1.6	3.3	4.3

Current BCAR: 146.8

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW		NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2004	87,602	2.3	89,514	1.7	73,926	-5.1	75,732	15.0
2005	60,758	-30.6	61,371	-31.4	46,445	-37.2	53,803	-29.0
2006	63,536	4.6	63,546	3.5	38,390	-17.3	41,432	-23.0
2007	61,263	-3.6	61,273	-3.6	54,020	40.7	45,110	8.9
2008	64,390	5.1	64,592	5.4	62,800	16.3	60,627	34.4
5-Yr CAGR	...	-5.5	...	-6.0	...	-4.2	...	-1.6
5-Yr Chg	...	-24.8	...	-26.6	...	-19.4	...	-8.0

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/08	Unpaid Res. to Develop. (%)
	2003	48,200	41,726	-13.4	-21.8	63.3	3,611
2004	52,464	47,832	-8.8	-14.2	63.2	7,672	16.0
2005	43,373	43,389	0.0	0.0	80.6	12,334	28.4
2006	36,874	41,212	11.8	8.7	99.5	17,183	41.7
2007	35,304	37,822	7.1	6.5	83.8	24,510	64.8
2008	42,866	42,866	...	...	70.7	42,866	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Unpaid Reserves @12/08	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
	2003	22,188	18,274	-17.6	1,344	50.4
2004	24,451	22,839	-6.6	4,061	63.0	110.3
2005	15,217	13,836	-9.1	4,662	50.6	104.1
2006	11,629	11,413	-1.9	4,849	52.6	116.8
2007	12,220	11,796	-3.5	7,327	49.4	100.2
2008	18,356	18,356	...	18,356	58.9	109.6

**Reinsurance Utilization:** NPIC maintains long-standing relationships with strong reinsurers. Primary reinsurers have included Swiss Re, Platinum Reinsurance Company and Folksamerica Reinsurance Company. Going forward, A.M. Best would anticipate that QBE will augment the company's reinsurance program, which would be just one of the synergies realized from this acquisition.

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company			Industry Composite			
	Ceded Reins. Total	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. Recov. to PHS (%)	
2004	63,264	82.6	145.9	193.6	81.0	92.2	128.1
2005	57,447	75.7	103.4	131.0	81.8	92.2	124.5
2006	52,900	60.4	65.3	106.1	81.1	73.5	101.8
2007	25,269	88.2	56.4	65.5	82.5	64.5	90.2
2008	22,679	95.0	59.9	70.1	82.6	72.3	101.0

## 2008 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	1,224	1,976	...	...	3,200
Foreign Affiliates.....	298	...	...	...	298
US Insurers.....	4,839	7,793	420	...	13,052
Pools/Associations.....	4,980	164	469	...	5,613
Other Non-US.....	-46	405	38	...	397
Total (ex US Affils).....	10,071	8,362	927	...	19,360
Grand Total.....	11,295	10,338	927	...	22,560

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company					Industry Composite		
	Class 3-6 Bonds	Real Estate/Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2004	...	...	...	28.4	28.4	...	7.0	16.5
2005	...	...	...	22.8	22.8	...	7.1	15.7
2006	...	...	...	22.8	22.8	...	6.2	16.4
2007	...	...	...	7.9	7.9	...	5.8	15.3
2008	...	...	...	...	...	...	5.2	9.7

## LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2004	61.5	104.8	135.5	22.8	22.3	99.6	136.4	13.8
2005	50.3	116.6	157.1	15.5	20.6	102.4	137.9	11.9
2006	63.8	147.3	179.0	11.9	23.5	108.9	141.7	11.8
2007	45.0	121.9	155.9	19.4	21.7	111.2	145.2	10.1
2008	106.1	113.0	141.5	9.8	19.1	104.5	141.1	12.0

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## CASH FLOW ANALYSIS (\$000)

Period	Company					Industry Composite	
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)
2004	-7,270	-2,343	470	91.0	97.2	125.3	135.3
2005	-9,944	-8,623	-5,964	82.9	85.6	114.8	128.2
2006	-6,037	-3,393	-6,487	86.7	92.7	113.3	125.9
2007	-6,026	-2,520	9,960	88.7	95.3	112.0	122.6
2008	1,498	3,317	53,774	102.4	105.3	100.7	112.5

## HISTORY

The company was incorporated on October 13, 1986 under the laws of Michigan and commenced business on January 16, 1987. Paid in capital of \$14,817,563 is comprised of 30,000 shares of common stock at a par value of \$100 per share and \$11,817,563 of contributed surplus. There are 50,000 authorized shares.

Effective December 31, 2000, the State of Michigan and the State of Illinois approved the merger of North Pointe Insurance Company of Illinois into NPIC. North Pointe Insurance Company of Illinois was formed in 1995 and provided liquor liability and property and liability coverage for restaurants, bars, taverns and bowling centers in the state of Illinois.

Effective June 30, 2003, all assets and liabilities except \$5 million in investments of Universal Fire & Casualty Company (UFC) were transferred to NPIC in accordance with the Transfer Agreement approved by the Indiana Department of Insurance. Subsequently, on July 7, 2003, UFC was sold as a clean shell.

On September 28, 2005, North Pointe Holdings Corporation completed an initial public offering (IPO) of 4,000,000 shares of common stock and contributed proceeds from the sale to both NPIC and its sister company North Pointe Casualty Insurance Company and former newly formed affiliate Home Pointe Insurance Company in addition to paying off outstanding credit facility indebtedness.

## MANAGEMENT

On April 30, 2008 QBE Holdings U.S. Holdings purchased North Pointe Holdings Corporation which owned North Pointe Insurance Company as well as other subsidiaries.

North Pointe Holdings Corporation purchased all of the outstanding shares of NPFS from Queensway Holdings, Inc., a wholly owned subsidiary of Queensway Financial Holdings Limited, Toronto, Ontario, on June 26, 2002, as part of a management-led buy back.

**Officers:** President, Steven T. Fitzpatrick; Vice Presidents, Richard J. Fiato (Underwriting), Mark R. Hogle (Underwriting), Gregory M. Skinner (Southeast Division); Secretary, Peter T. Maloney; Treasurer, Celeska B. Fredianelli.

**Directors:** Richard J. Fiato, James J. Fiore, Christopher C. Fish, Steven T. Fitzpatrick, James G. Petcoff.

## REGULATORY

An examination of the financial condition was made as of December 31, 2006 by the Insurance Department of Michigan. The 2008 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Nicholas H. Pastor, FCAS, MAAA, Chief Actuary, QBE the Americas.

**Territory:** The company is licensed in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, ME, MD, MA, MI, MN, MS, MO, MT, NE, NH, NJ, NM, NY, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY. It also operates on a surplus lines or non-admitted basis in Nevada.

## BALANCE SHEET

### ADMITTED ASSETS (\$000)

	12/31/08	12/31/07	'08%	'07%
Bonds.....	16,039	62,164	14.4	57.7
Common stock.....	...	3,054	...	2.8
Cash & short-term invest.....	71,833	18,059	64.6	16.8
Other non-affil inv asset.....	300	...	0.3	...
Total invested assets.....	88,172	83,277	79.3	77.3
Premium balances.....	15,594	18,056	14.0	16.8
Accrued interest.....	645	619	0.6	0.6
All other assets.....	6,815	5,791	6.1	5.4
Total assets.....	111,226	107,742	100.0	100.0

### LIABILITIES & SURPLUS (\$000)

	12/31/08	12/31/07	'08%	'07%
Loss & LAE reserves.....	46,521	38,844	41.8	36.1
Unearned premiums.....	32,042	29,868	28.8	27.7
Conditional reserve funds.....	284	89	0.3	0.1
All other liabilities.....	47	386	0.0	0.4
Total liabilities.....	78,894	69,187	70.9	64.2
Capital & assigned surplus.....	25,318	25,318	22.8	23.5
Unassigned surplus.....	7,015	13,238	6.3	12.3
Total policyholders' surplus.....	32,332	38,555	29.1	35.8
Total liabilities & surplus.....	111,226	107,742	100.0	100.0

### SUMMARY OF 2008 OPERATIONS (\$000)

Statement of Income	12/31/08	Funds Provided from Operations	12/31/08
Premiums earned.....	60,627	Premiums collected.....	63,498
Losses incurred.....	29,566	Benefit & loss related pmts	23,771
LAE incurred.....	9,865	LAE & undrw expenses paid	38,230
Undrw expenses incurred	31,809	Undrw cash flow.....	1,498
Net underwriting income	-10,613	Investment income.....	2,373
Net investment income....	2,402	Other income/expense...	-41
Other income/expense...	-41	Pre-tax cash operations	3,830
Pre-tax oper income...	-8,251	Income taxes pd (recov)...	513
Realized capital gains.....	-687	Net oper cash flow.....	3,317
Income taxes incurred.....	106		
Net income.....	-9,045		

# Best's Rating Report

## Ultimate Parent: QBE Insurance Group Limited PRAETORIAN INSURANCE COMPANY

Harrisburg, PA  
Wall Street Plaza, 88 Pine Street, 4th Floor, New York, NY 10005  
Web: www.QBE.com

Tel: 212-422-1212  
AMB#: 02643  
Ultimate Parent#: 85434

Fax: 212-422-1313  
NAIC#: 37257  
FEIN#: 36-3030511

### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the property/casualty members of Praetorian Financial Group, which operate under a group structure, each group member is assigned a Best's Financial Strength Rating of A- (Excellent). The company is assigned the Financial Size Category of Class IX, which is the Financial Size Category of the group.

### RATING RATIONALE

The following text is derived from the report of Praetorian Financial Group.

**Rating Rationale:** The rating applies to Praetorian Financial Group which includes Praetorian Insurance Company and Redland Insurance Company.

The rating of Praetorian Financial Group reflects its solid risk-adjusted capital position, parental support, specialty niche business focus and strategic importance within the overall organization of QBE Insurance Group Limited (Australia). These strengths are somewhat offset by the elevated dependence on reinsurance, recent management changes that took place in the first half of 2009, and concerns regarding the level of controls surrounding the program business.

QBE has now owned Praetorian since May 31, 2007, and the major integration activities are complete. Management continues to focus on process improvement initiatives and system conversions. The manner in which QBE management has focused its attention and efforts with regard to the Praetorian business is a positive qualitative factor relative to the rating.

The group's balance sheet is enhanced by the financial position and support of its parent, QBE Insurance Group Limited. Praetorian provides its parent with complementary products to its current U.S. program and specialty business.

**Best's Financial Strength Rating: A- g**

**Outlook: Stable**

### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
09/30/09	A- g	01/18/06	A- g
08/28/08	A- g	11/08/05	A gu
09/06/07	A- g	12/21/04	A g
12/14/06	A- gu		

### KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data						Total Admitted Assets	Policyholders' Surplus
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	NA	Net		
2004	318,951	67,931	22,089	19,395	732,545	179,851		
2005	366,590	399,617	-3,284	-19,755	1,053,957	324,765		
2006	662,670	511,509	109,614	51,623	1,739,204	398,715		
2007	705,434	401,154	29,385	32,581	1,290,261	461,022		
2008	453,749	248,006	28,070	19,421	1,063,106	349,828		
Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2004	98.1	1.5	24.5	1.4	0.4	3.4	133.1	112.6
2005	88.3	1.3	-1.4	0.2	1.2	3.2	145.1	152.5
2006	76.2	2.7	23.0	0.0	1.3	4.6	129.8	108.9
2007	100.4	3.4	6.6	...	0.9	2.6	156.5	201.2
2008	106.6	2.6	8.8	12.0	0.7	2.7	150.2	94.8
5-Yr	89.9	2.5	11.9	...	...	...	...	...

(\* Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.

### BUSINESS REVIEW

The following text is derived from the report of Praetorian Financial Group.

The Praetorian Financial Group (Praetorian) represents a significant portion of the specialty insurance operations of QBE the Americas. The group's ultimate parent is QBE Insurance Group Limited of Australia. Praetorian is comprised of its lead company, Praetorian Insurance Company (formerly Insurance Corporation of Hannover) (PIC) and Redland Insurance Company (Redland). The two companies specialize in writing specialty program business.

The programs written by Praetorian's operating companies have been developed through managing general agents (MGAs), general agents and brokers and are focused on specific homogeneous insurance segments. The group's book is comprised of small to medium-sized programs, presenting low to moderate risk profiles, whose historical performance or potential is evaluated on an individual basis in conjunction with the specific general agent and reinsurers involved in each program. The group's expertise in servicing this business is based on the extensive, specialized niche underwriting capabilities of its underwriting staff. Producers have a financial interest in the success of their programs as their compensation is based on the performance of the book of business. The group also utilizes select third-party administrators for claims handling. In recent years, management dramatically refined its control and monitoring processes and began utilizing a team approach on each program. This methodology was designed to more accurately pinpoint those programs that should generate sufficient profitability to satisfy the group's required rate of return.

The Praetorian Financial Group was formed during the third quarter of 2005, beginning with a transaction approved retroactive to July 1, 2005, involving Clarendon National selling its two former wholly owned subsidiaries: Praetorian Insurance Company (formerly Insurance Corporation of Hannover) (PIC) and Redland Insurance Company to its former parent, Hannover Finance, Inc. (HFI). Clarendon National is the lead operating insurance carrier of the Clarendon Insurance Group (Clarendon). HFI subsequently contributed the companies to the newly formed holding company, Praetorian Financial Group, Inc., to facilitate the separation of core specialty business that will be written by Praetorian from the terminated programs and select commodity business being managed by Clarendon. On September 27, 2006, PIC purchased Alea North America Specialty Insurance Company from the Alea Group Holdings (Bermuda), Ltd., and renamed it Praetorian Specialty Insurance Company. On May 31, 2007, the group was sold to QBE and became an integral operation of its specialty insurance operations along with QBE Insurance Corp. Subsequently, in early 2009, Praetorian Specialty Insurance Company was sold as a shell after its book of business was folded into QBE Specialty Insurance Company, which is another entity within QBE the Americas Group.

### 2008 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Workers' Comp.....	118,018	63,383	25.6	68.6	93,940
Comm'l Auto Liab.....	75,511	51,889	20.9	46.9	85,886
Com'l MultiPeril.....	94,344	35,048	14.1	52.3	35,634
Inland Marine.....	67,799	28,883	11.6	29.0	11,198
Auto Physical.....	29,539	28,668	11.6	48.6	8,387
Priv Pass Auto Liab.....	24,811	23,455	9.5	97.4	30,472
Oth Liab Occur.....	20,459	13,726	5.5	26.6	100,663
Fire.....	12,567	2,791	1.1	-17.3	2,636
All Other.....	10,701	163	0.1	32.8	12,281
Totals.....	453,749	248,006	100.0	48.8	381,098

**Geographical breakdown of direct premium writings (\$000):** California, \$144,890 (31.9%); New York, \$60,345 (13.3%); New Jersey, \$30,396 (6.7%); Florida, \$24,558 (5.4%); Kentucky, \$20,505 (4.5%); 47 other jurisdictions, \$173,054 (38.1%).

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## FINANCIAL PERFORMANCE

The following text is derived from the report of Praetorian Financial Group.

Operating results have been somewhat varied over the past few years; however, A.M. Best anticipates that Praetorian's underwriting results will stabilize under QBE's direction. The group benefits from its adherence to a business strategy specifically targeting smaller to medium-sized programs with a proven history of profitability. In addition, operating income has been supplemented to a lesser extent by investment income.

As a program writer, the group typically carries large agency balances on its balance sheet; therefore, income from investments has been generally below average. As direct and gross premium levels have fluctuated slightly over the past few years, the level of invested assets has remained fairly stable. The group has historically benefited from a low net commission ratio as ceding commissions largely offset commissions paid. However, as retentions have increased in recent years, the limiting effect on the commission ratio has diminished. A.M. Best anticipates that the group's clearly defined strategy focused on utilizing established due diligence, underwriting, monitoring, pricing and auditing platforms to write niche program business will continue, thus providing for stable operating results to be generated over the near term.

### PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2004	24.5	11.1	98.1	88.6	5.8	12.3	104.6	92.7
2005	-1.4	-7.8	88.3	85.4	8.2	7.9	105.0	90.9
2006	23.0	14.3	76.2	71.8	19.2	19.1	94.4	79.5
2007	6.6	6.8	100.4	92.5	20.9	15.4	94.6	78.4
2008	8.8	3.9	106.6	98.9	16.9	-1.2	99.0	83.3
5-Yr	11.9	5.9	89.9	83.7	14.3	10.5	99.4	84.8

### UNDERWRITING EXPERIENCE

Period Ending	Net Underw Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb. Ratio
		Pure Loss	Loss & LAE	Net Comm.	Other Exp.	Total Exp.			
2004	11,506	49.0	4.9	54.0	14.4	29.7	44.1	...	98.1
2005	-5,691	60.8	7.4	68.2	12.8	7.4	20.2	...	88.3
2006	107,723	49.4	11.6	61.0	2.2	13.0	15.2	...	76.2
2007	13,887	47.3	16.3	63.5	15.8	21.1	36.8	...	100.4
2008	11,875	48.8	10.7	59.5	23.1	24.0	47.1	...	106.6
5-Yr	...	50.4	11.7	62.1	11.8	16.0	27.8	...	89.9

### INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Inc. Growth (%)	Inv. Yield (%)
2004	8,525	-616	-49	-44.1	1.5	1.4	0.9	4.5
2005	6,961	1,050	...	-18.3	1.3	1.5	20.0	4.9
2006	21,305	-3,403	-9	206.1	2.7	2.3	9.8	4.9
2007	34,960	-6,573	-3,223	64.1	3.4	2.4	9.8	5.0
2008	24,780	-8,762	-3,601	-29.1	2.6	1.3	-4.5	4.8
5-Yr	...	...	...	11.0	2.5	1.8	6.5	4.8

### INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2008 Inv. Assets (\$000)	% of Invested Assets		Annual % Change
		2008	2007	
Long-term bonds	339,768	37.9	31.0	5.6
Stocks	42,106	4.7	...	...
Affiliated Investments	50,466	5.6	6.9	-29.2
Other Inv Assets	464,691	51.8	62.1	-28.0
Total	897,032	100.0	100.0	-13.6

## 2008 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class 1-2 (%)	Class 3-6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Governments	69.9	5.2	2.7	100.0	...	...	...
Other	0.3	3.0	3.5	100.0	...	...	...
Corporates	29.8	-6.9	5.3	100.0	...	...	...
Total all bonds	100.0	1.5	3.5	100.0	...	...	...

## CAPITALIZATION

The following text is derived from the report of Praetorian Financial Group.

The group maintains adequate risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR), primarily driven by capital contributions from its former parent company, Hannover Re. In addition, QBE management infused \$75 million of additional capital into Praetorian in 2007. Hannover Re made a \$250 million capital contribution in the fourth quarter of 2005 as Praetorian was established to be the ongoing operating entity writing the select book of program business formerly written by Clarendon. This fortified the group's capital base relative to its newly established book of business. Praetorian's overall level of gross underwriting leverage, however, remains higher than that of its composite. This is due, in part, to the group's above average utilization of reinsurance to support its writings. A.M. Best expects the group to maintain a level of underwriting profitability over the near term that should generate solid earnings and allow for continued surplus growth.

### CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Source of Surplus Growth					PHS Growth (%)
	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax	Change in PHS	
2004	22,089	-664	...	-9,732	11,694	7.0
2005	-3,284	1,050	255,000	-107,852	144,914	80.6
2006	109,614	-3,412	-80,244	47,992	73,950	22.8
2007	29,385	-9,796	50,000	-7,282	62,307	15.6
2008	28,070	-12,362	-118,000	-8,902	-111,195	-24.1
5-Yr	185,876	-25,185	106,756	-85,776	181,671	...

### QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	% of PHS			Dividend Requirements		
		Cap. Stock/ Contrib.	Other	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2004	179,851	93.1	...	6.9	...	...	...
2005	324,765	105.4	24.6	-30.1	...	...	...
2006	398,715	85.8	...	14.2	-80,244	73.2	155.4
2007	461,022	85.1	...	14.9	...	...	...
2008	349,828	91.2	...	8.8	-45,000	160.3	231.7

### LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2004	0.4	0.2	3.4	7.7	1.1	1.8	3.9	5.2
2005	1.2	0.5	3.2	5.5	1.0	1.8	3.7	4.9
2006	1.3	0.8	4.6	10.2	0.9	1.6	3.3	4.3
2007	0.9	0.9	2.6	6.9	0.8	1.5	3.0	3.9
2008	0.7	1.1	2.7	6.7	0.9	1.6	3.3	4.3

Current BCAR: 203.3

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## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW		NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2004	318,951	-16.2	320,208	-46.2	67,931	239.3	90,125	218.2
2005	366,590	14.9	698,199	118.0	399,617	488.3	235,438	161.2
2006	662,670	80.8	2,029,812	190.7	511,509	28.0	476,171	102.2
2007	705,434	6.5	1,140,105	-43.8	401,154	-21.6	443,189	-6.9
2008	453,749	-35.7	641,075	-43.8	248,006	-38.2	318,038	-28.2
5-Yr CAGR	...	3.6	...	1.5	...	-99.9	...	-99.9
5-Yr Chg	...	19.2	...	7.6	...	608.5	...	517.0

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/08	Unpaid Res. to Develop. (%)
2004	38,457	42,403	10.3	2.2	47.0	8,192	19.3
2005	154,713	131,310	-15.1	-7.2	55.8	42,108	32.1
2006	303,909	285,330	-6.1	-4.7	59.9	143,234	50.2
2007	407,624	379,531	-6.9	-6.1	85.6	250,960	66.1
2008	380,219	380,219	...	...	119.6	380,219	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Unpaid Reserves @12/08	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2004	14,868	18,679	25.6	3,499	47.5	91.6
2005	122,480	102,083	-16.7	33,916	55.9	76.1
2006	204,519	212,133	3.7	101,126	60.3	75.6
2007	181,094	173,288	-4.3	107,726	59.2	96.0
2008	129,259	129,259	...	129,259	64.5	111.7

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Ceded Reins. Total	Bus. Ret. (%)	Reins. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. to PHS (%)	Ceded Reins. to PHS (%)	
2004	766,059	21.5	285.7	425.9	81.0	92.2	128.1	
2005	765,711	74.5	143.8	235.8	81.8	92.2	124.5	
2006	2,241,454	47.8	197.6	562.2	81.1	73.5	101.8	
2007	1,976,003	36.6	277.6	428.6	82.5	64.5	90.2	
2008	1,379,174	54.3	294.3	394.2	82.6	72.3	101.0	

## 2008 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	17,090	28,305	16,736	15	62,146
Foreign Affiliates.....	163,555	220,007	135,148	-137,000	381,711
US Insurers .....	54,814	108,024	1,358	-259	163,935
Other Non-US.....	147,360	329,460	7,630	-431	484,020
Total (ex US Affils) .....	365,729	657,491	144,136	-137,690	1,029,666
Grand Total.....	382,820	685,795	160,872	-137,675	1,091,813

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2004	1.2	...	0.2	0.0	1.4	...	7.0	16.5
2005	...	...	0.2	0.0	0.2	...	7.1	15.7
2006	...	...	...	0.0	0.0	8.8	6.2	16.4
2007	...	...	...	...	...	15.5	5.8	15.3
2008	...	...	...	12.0	12.0	14.4	5.2	9.7

## LIQUIDITY ANALYSIS

Period Ending	Company			Industry Composite				
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2004	45.7	99.1	133.1	25.2	22.3	99.6	136.4	13.8
2005	31.2	87.1	145.1	23.9	20.6	102.4	137.9	11.9
2006	34.3	77.3	129.8	77.1	23.5	108.9	141.7	11.8
2007	113.1	118.0	156.5	10.3	21.7	111.2	145.2	10.1
2008	100.6	119.5	150.2	12.4	19.1	104.5	141.1	12.0

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company					Industry Composite	
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)
2004	-2,149	9,047	-3,431	97.0	112.6	125.3	135.3
2005	29,069	30,570	73,078	155.0	152.5	114.8	128.2
2006	69,265	24,388	23,706	130.5	108.9	113.3	125.9
2007	433,168	401,479	519,370	235.1	201.2	112.0	122.6
2008	-50,764	-17,766	-210,963	84.6	94.8	100.7	112.5

## HISTORY

The company was incorporated under the laws of Illinois on July 20, 1979 and began business on August 7, 1979 as Insurance Corporation of Hannover. The company was organized by interests identified with, and was a wholly owned subsidiary of, Hannover Re, an alien reinsurance corporation organized and existing under the laws of Germany. On September 4, 1979, Hannover Re purchased all 100,000 outstanding shares and became the sole owner of the company. In 1982, administrative offices were moved from Chicago, Illinois to Los Angeles, California.

On December 12, 2002, all outstanding shares of the company were transferred by Hannover Re to its subsidiary Clarendon National Insurance Company, which Hannover Re wholly owns, making Clarendon National Insurance Company the sole owner of the company. Subsequently, administrative offices were moved to New York City. On November 9, 2005, Clarendon National Insurance Company sold its outstanding shares of the company to Praetorian Insurance Group, Inc. an affiliate, thereby making Praetorian Insurance Group, Inc. the sole owner of the company. Praetorian Insurance Group, Inc. subsequently changed its name to Praetorian Financial Group, Inc. On July 1, 2006, the name of the company was changed from Insurance Corporation of Hannover to Praetorian Insurance Company. On May 31, 2007, the group was sold to QBE and became an integral operation of its specialty insurance operations along with QBE Insurance Corp. On July 29, 2009, the company redomesticated from Illinois to the Commonwealth of Pennsylvania.

Paid-in capital of \$5.0 million consists of 100,000 shares of capital stock at a par value of \$50 per share. The company has 200,000 authorized shares.

## MANAGEMENT

All outstanding shares are owned by New York-based Praetorian Financial Group, Inc. whose ultimate parent is QBE Insurance Group.

Administrative affairs of the company are directed by Praetorian Financial Group, Inc.'s President, Stephen Fitzpatrick, who was appointed in 2009.

**Officers:** Chief Executive Officer, John Rumpler; President, Stephen Fitzpatrick; Chief Underwriting Officer, James J. Fiore; Secretary and General Counsel, Peter T. Maloney; Treasurer and Chief Financial Officer, Christopher C. Fish.

**Directors:** Daniel Czabaj, James J. Fiore, Christopher C. Fish, John Fitzgerald, Stephen Fitzpatrick, Barry Walters.

## REGULATORY

An examination of the financial condition was made as of December 31, 2007 by the Insurance Department of Illinois. The 2008 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Nicholas H. Pastor, FCAS, MAAA, Senior Vice President and Chief Actuary.

**Territory:** The company is licensed in the District of Columbia, Puerto Rico and all states.

# Best's Rating Report

## BALANCE SHEET

### ADMITTED ASSETS (\$000)

	12/31/08	12/31/07	'08%	'07%
Bonds .....	339,768	321,867	32.0	24.9
Common stock .....	42,106	...	4.0	...
Cash & short-term invest .....	422,484	633,448	39.7	49.1
Other non-affil inv asset .....	34,250	...	3.2	...
Investments in affiliates .....	50,466	71,316	4.7	5.5
<b>Total invested assets .....</b>	<b>889,075</b>	<b>1,026,631</b>	<b>83.6</b>	<b>79.6</b>
Premium balances .....	98,058	126,569	9.2	9.8
Accrued interest .....	7,957	12,024	0.7	0.9
All other assets .....	68,016	125,037	6.4	9.7
<b>Total assets .....</b>	<b>1,063,106</b>	<b>1,290,261</b>	<b>100.0</b>	<b>100.0</b>

### LIABILITIES & SURPLUS (\$000)

	12/31/08	12/31/07	'08%	'07%
Loss & LAE reserves .....	381,098	409,230	35.8	31.7
Unearned premiums .....	118,223	188,255	11.1	14.6
Conditional reserve funds .....	5,255	4,914	0.5	0.4
All other liabilities .....	208,703	226,840	19.6	17.6
<b>Total liabilities .....</b>	<b>713,279</b>	<b>829,239</b>	<b>67.1</b>	<b>64.3</b>
Capital & assigned surplus .....	319,182	392,182	30.0	30.4
Unassigned surplus .....	30,645	68,840	2.9	5.3
<b>Total policyholders' surplus .....</b>	<b>349,828</b>	<b>461,022</b>	<b>32.9</b>	<b>35.7</b>
<b>Total liabilities &amp; surplus .....</b>	<b>1,063,106</b>	<b>1,290,261</b>	<b>100.0</b>	<b>100.0</b>

### SUMMARY OF 2008 OPERATIONS (\$000)

Statement of Income	12/31/08	Funds Provided from Operations	12/31/08
Premiums earned .....	318,038	Premiums collected .....	279,243
Losses incurred .....	155,160	Benefit & loss related pmts	164,306
LAE incurred .....	34,082	LAE & undrw expenses paid	165,702
Undrw expenses incurred	116,921	Undrw cash flow .....	-50,764
Net underwriting income	11,875	Investment income .....	28,082
Net investment income .....	24,780	Other income/expense ...	-8,585
Other income/expense ...	-8,585	Pre-tax cash operations	-31,268
Pre-tax oper income ...	28,070	Income taxes pd (recov) ...	-13,502
Realized capital gains .....	-8,762	Net oper cash flow .....	-17,766
Income taxes incurred .....	-112		
Net income .....	19,421		

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# Best's Rating Report

## Ultimate Parent: QBE Insurance Group Limited QBE REINSURANCE CORPORATION

Harrisburg, PA  
88 Pine Street, 4th Floor, Wall Street Plaza, New York, NY 10005-1801  
Web: www.qbeusa.com

Tel: 212-422-1212

AMB#: 04069

Ultimate Parent#: 85434

Fax: 212-422-1313

NAIC#: 10219

FEIN#: 23-1641984

### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the property/casualty members of QBE Re Group - US, which operate under a group structure, each group member is assigned a Best's Financial Strength Rating of A (Excellent). The company is assigned the Financial Size Category of Class X, which is the Financial Size Category of the group.

### RATING RATIONALE

The following text is derived from the report of QBE Re Group - US.

**Rating Rationale:** The rating applies to the QBE Re Group - US, which includes QBE Reinsurance Corporation and its subsidiaries, QBE Insurance Corporation and QBE Specialty Insurance Company. This group represents one of the U.S. operating platforms within the QBE the Americas Division of QBE Insurance Group Limited (Australia).

The rating reflects QBE Re Group - US's adequate risk-adjusted capital position as well as support from the group's ultimate parent, QBE Insurance Group Limited (Australia), one of Australia's largest insurance/reinsurance organizations, which provides capital and facilitates reinsurance support. Management continues to make progress with regard to the North American operations, and A.M. Best understands that QBE Re Group - US is strategically important to the organization's long-term plans. Partially offsetting the aforementioned positive rating factors are some concerns about QBE Re Group - US's adverse loss reserve development, which has been a drag on operating results in recent years.

Broadly speaking, QBE the Americas Division, which includes QBE Re Group - US, has been evolving as several acquisitions have helped expand its platform. As the enterprise continues to streamline these acquisitions, business plans are being modified to meet management's strategic objectives. Historically, QBE Insurance and QBE Specialty ceded approximately 80% of their business to QBE Reinsurance Corporation; however, this reinsurance relationship was terminated in early 2009, and going forward both entities entered into a reduced quota share agreement with QBE's Bermuda-based captive reinsurer. In addition, the recent acquisition of the ZC Sterling agency has brought on new premium volume for both QBE Insurance and QBE Specialty, which management believes will be an area of growth over the next several years. QBE Specialty also expanded its footprint by having the business of the former Praetorian Specialty Insurance Company merged into its book of business.

**Best's Financial Strength Rating: A g**

**Outlook: Stable**

### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
09/30/09	A g	12/14/06	A gu
04/28/09	A g	08/16/06	A g
08/28/08	A g	10/04/05	A g
06/06/07	A g	07/28/05	A gu
01/05/07	A gu	06/09/05	A g

### KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data							
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policy- holders' Surplus		
2004	2,736	449,410	42,322	28,564	1,010,836	435,588		
2005	-1,004	427,462	37,881	27,213	1,122,876	539,485		
2006	-2	468,754	66,933	44,682	1,171,665	545,583		
2007	...	482,206	23,552	11,971	1,258,549	569,153		
2008	...	667,551	-64,112	-11,944	1,438,772	538,768		
Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash- flow (%)
2004	93.6	1.4	9.8	16.9	1.0	2.3	176.2	111.7
2005	95.0	2.1	9.2	...	0.8	1.9	192.8	115.2
2006	93.5	4.7	15.1	10.7	0.9	2.0	188.1	121.0
2007	106.4	4.1	4.8	13.1	0.8	2.1	183.6	117.6
2008	109.1	2.5	-11.8	9.0	1.2	2.9	160.9	114.5
5-Yr	100.1	3.0	4.6	...	...	...	...	...

(\* ) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.

### BUSINESS REVIEW

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - U.S. operations are conducted through QBE Reinsurance Corporation, QBE Insurance Corporation and QBE Specialty Insurance Company. The group underwrites a diverse mix of business which includes private passenger and commercial auto liability, commercial multi-peril, health, property proportional, catastrophe, property excess of loss and casualty business.

QBE Reinsurance Corporation is a treaty and facultative reinsurer that targets specialized, unique types of business that are less subject to the broad market swings. The group underwrites property, casualty and health reinsurance through reinsurance intermediaries. Business is written on both a pro rata and excess of loss basis with increased focus in recent years on excess of loss business. Business is derived from national, regional, and international cedants with the remainder coming from program managers, captives, pools and associations. In 1999, QBE Reinsurance Corporation established a strategic alliance with Reaseguradora Del Istmo (Del Istmo). Through this alliance, Del Istmo underwrites and services, on behalf of QBE Re Group, a targeted Latin American reinsurance portfolio in selected countries, focusing on shorter-tailed property lines.

QBE Insurance Corporation, which began writing direct business in 1998, focuses on main street commercial property and casualty business, commercial auto and non-standard auto. Business is mostly written through program managers and general agents. Since 2002, QBE Insurance Corporation has allied with several program managers.

QBE Specialty Insurance Company is an excess and surplus lines writer that was formed by the group in 2002 and began writing business through existing program managers in late 2003. As noted above, it expanded its writing in 2008 with the ZC Sterling acquisition and merging of business from the former Praetorian Specialty Insurance Company.

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# Best's Rating Report

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## 2008 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Com'l MultiPeril.....	...	177,630	26.6	69.9	114,122
Reins-Property.....	...	108,993	16.3	39.3	55,393
Reins-Casualty.....	...	91,250	13.7	70.4	171,228
Farmowners.....	...	54,869	8.2	71.8	37,413
Oth Liab Occur.....	...	47,428	7.1	90.9	56,459
Priv Pass Auto Liab.....	...	36,899	5.5	81.1	27,910
Inland Marine.....	...	28,064	4.2	59.1	10,647
Auto Physical.....	...	26,708	4.0	89.0	16,792
Comm'l Auto Liab.....	...	26,216	3.9	94.0	20,520
Allied Lines.....	...	20,759	3.1	58.1	13,802
Group A & H.....	...	18,188	2.7	35.4	18,239
Fire.....	...	17,341	2.6	49.7	8,216
All Other.....	...	13,206	2.0	57.0	13,815
Totals.....	...	667,551	100.0	65.9	564,556

### FINANCIAL PERFORMANCE

The following text is derived from the report of QBE Re Group - US.

QBE Re Group's overall operating performance has been generally stable due primarily to the blend of underwriting results relative to the group's ability to generate investment income. In recent years, the group's combined ratio has trended above 100% indicating an underwriting loss for the year, which has been driven by adverse loss reserve development. The company's return on policyholders' surplus is in the low single digits on average over the recent five-year period, which is substantially below the industry composite. The performance of QBE Re Group US has been tepid; however, it remains core to QBE the Americas and core to the overall QBE Insurance Group Limited strategy.

The company continues to assess its adverse reserve development. Management believes that adequate reserves have been established and that they should no longer be a drag on underwriting results.

Regarding catastrophe exposure, the group continues to manage its catastrophe exposure, with all aggregates maintained on a sum-insured basis and most contracts containing an event limitation. Exposures are managed by a conservative retrocessional program.

### PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2004	9.8	8.0	93.6	91.6	5.8	12.3	104.6	92.7
2005	9.2	4.6	95.0	91.1	8.2	7.9	105.0	90.9
2006	15.1	6.4	93.5	84.6	19.2	19.1	94.4	79.5
2007	4.8	1.7	106.4	99.1	20.9	15.4	94.6	78.4
2008	-11.8	-8.2	109.1	104.7	16.9	-1.2	99.0	83.3
5-Yr	4.6	2.1	100.1	94.8	14.3	10.5	99.4	84.8

### UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	—Loss Ratios—			—Expense Ratios—			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.		
2004	22,164	47.3	12.8	60.1	28.2	5.3	33.5	...	93.6
2005	15,575	53.6	7.3	60.9	27.8	6.3	34.1	...	95.0
2006	20,257	49.6	9.9	59.5	27.7	6.3	34.0	...	93.5
2007	-27,229	59.1	9.3	68.4	29.6	8.3	38.0	...	106.4
2008	-91,672	65.9	9.1	74.9	27.9	6.3	34.2	...	109.1
5-Yr	...	55.7	9.7	65.4	28.2	6.5	34.7	...	100.1

## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Growth (%)	Inv. Yield (%)
2004	8,746	1,338	3,010	22.1	1.4	2.0	0.9	4.5
2005	16,119	4,399	-4,749	84.3	2.1	2.1	20.0	4.9
2006	39,328	-3,019	-9,945	144.0	4.7	3.1	9.8	4.9
2007	36,317	-26	-2,434	-7.7	4.1	3.8	9.8	5.0
2008	24,055	40,305	-33,218	-33.8	2.5	3.2	-4.5	4.8
5-Yr	...	...	...	15.7	3.0	2.9	6.5	4.8

### INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2008 Inv. Assets (\$000)	—% of Invested Assets—		Annual % Change
		2008	2007	
Long-term bonds.....	126,199	12.2	7.1	86.2
Stocks.....	48,560	4.7	7.8	-34.7
Affiliated Investments.....	272,746	26.3	33.7	-14.6
Other Inv Assets.....	589,029	56.8	51.4	20.8
Total.....	1,036,534	100.0	100.0	9.2

### 2008 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class		Struc. Secur. (%)	Struc. Secur. (% of PHS)
				1-2 (%)	3-6 (%)		
Governments.....	41.6	1.5	0.6	100.0	...	...	...
Other.....	0.6	-9.3	5.2	100.0	...	...	...
Corporates.....	57.8	-5.5	3.9	100.0	...	...	...
Total all bonds..	100.0	-3.7	2.6	100.0	...	...	...

### CAPITALIZATION

The following text is derived from the report of QBE Re Group - US.

The group maintains adequate capitalization at its current rating based on Best's Capital Adequacy Ratio (BCAR). Both premium and loss reserve leverage have remained stable in recent years, although leverage measures have recently moved above historical norms as the group has started to strategically reposition itself as it streamlines acquisitions made in the recent months and years. Capital generation from operations has been choppy in recent years, which is largely driven by underwriting results. The favorable capitalization position of the group also considers capital contributions received over the past five years. As demonstrated by the numerous capital contributions, there is a long history of tangible parental support.

Management anticipates future surplus growth to be generated through operations with parental support, as necessary, to fund its planned growth strategies. While future earnings remain susceptible to volatility from catastrophe losses, the group has only a negligible exposure to asbestos and environmental losses. In addition, the group has been successful in accessing new growth opportunities in the primary market, largely focusing on program books of business. Ultimately, A.M. Best expects the group to sustain its current level of capitalization by generating favorable operating returns and not having to depend on parental contributions.

### CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Source of Surplus Growth					
	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax	Change in PHS	PHS Growth (%)
2004	42,322	4,349	50,000	-15,375	81,296	22.9
2005	37,881	-350	84,000	-17,634	103,897	23.9
2006	66,933	-12,965	-23,750	-24,120	6,099	1.1
2007	23,552	-2,460	2,530	-52	23,570	4.3
2008	-64,112	7,087	12,763	13,876	-30,385	-5.3
5-Yr	106,576	-4,339	125,543	-43,304	184,476	...

# Best's Rating Report

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## QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	—% of PHS—			—Dividend Requirements—		
		Cap. Stock/Contrib. Cap.	Other	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2004	435,588	78.9	5.2	15.9	-31,000	73.2	108.5
2005	539,485	92.8	4.6	2.6	-73,000	192.7	268.3
2006	545,583	91.8	5.3	2.9	-23,750	35.5	53.2
2007	569,153	93.7	7.0	-0.7	-30,000	127.4	250.6
2008	538,768	101.4	7.0	-8.3	...	...	...

## LEVERAGE ANALYSIS

Period Ending	—Company—				—Industry Composite—			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2004	1.0	0.8	2.3	4.3	1.1	1.8	3.9	5.2
2005	0.8	0.6	1.9	3.4	1.0	1.8	3.7	4.9
2006	0.9	0.7	2.0	3.4	0.9	1.6	3.3	4.3
2007	0.8	0.8	2.1	3.3	0.8	1.5	3.0	3.9
2008	1.2	1.0	2.9	4.1	0.9	1.6	3.3	4.3

Current BCAR: 153.4

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	—DPW—		—GPW—		—NPW—		—NPE—	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2004	2,736	-36.3	796,017	10.4	449,410	15.3	433,296	15.1
2005	-1,004	-99.9	712,059	-10.5	427,462	-4.9	413,121	-4.7
2006	-2	99.8	768,276	7.9	468,754	9.7	443,485	7.4
2007	...	100.0	793,800	3.3	482,206	2.9	493,985	11.4
2008	...	...	955,324	20.3	667,551	38.4	543,746	10.1
5-Yr CAGR	...	-99.9	...	5.8	...	11.4	...	7.6
5-Yr Chg	...	-99.9	...	32.5	...	71.3	...	44.5

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/08	Unpaid Res. to Develop. (%)
2003	288,204	342,271	18.8	15.3	90.9	39,456	11.5
2004	337,668	405,123	20.0	15.5	93.5	67,266	16.6
2005	341,887	416,618	21.9	13.9	100.8	113,285	27.2
2006	388,686	486,380	25.1	17.9	109.7	190,525	39.2
2007	446,014	504,059	13.0	10.2	102.0	317,510	63.0
2008	558,823	558,823	...	...	102.8	558,823	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Unpaid Reserves @12/08	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2003	149,245	146,062	-2.1	12,980	60.8	92.2
2004	158,030	188,995	19.6	27,810	62.9	96.4
2005	155,305	166,926	7.5	46,019	61.9	96.1
2006	161,461	198,768	23.1	77,240	61.1	95.1
2007	174,708	196,648	12.6	126,985	60.3	98.3
2008	241,313	241,313	...	241,313	64.1	98.2

## ASBESTOS & ENVIRONMENTAL (A&E) RESERVE ANALYSIS

Year	—Company—					—Industry Composite—				
	Net A&E Reserve (\$000)	Reserve Retention (%)	Net IBNR Mix (%)	Survival Ratio (3yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)	Survival Ratio (3yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)	
2004	527	78.9	...	...	0.1	...	...	1.4	...	
2005	424	78.8	...	...	0.0	...	...	1.0	...	
2006	489	83.8	...	2.2	0.1	0.1	8.0	0.5	1.0	
2007	451	85.9	...	1.5	0.1	0.1	8.5	0.7	0.7	
2008	468	84.9	...	1.9	0.0	0.1	7.4	0.3	0.5	

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	—Company—				—Industry Composite—		
	Ceded Reins. Total	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)
2004	839,853	60.5	113.2	192.8	81.0	92.2	128.1
2005	815,703	68.3	98.4	151.2	81.8	92.2	124.5
2006	756,608	70.6	83.8	138.7	81.1	73.5	101.8
2007	718,900	69.6	71.6	126.3	82.5	64.5	90.2
2008	651,338	80.7	67.5	120.9	82.6	72.3	101.0

## 2008 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
Foreign Affiliates.....	74,145	48,297	51,751	-16,879	157,314
US Insurers.....	77,073	75,861	5,497	-6,185	152,246
Other Non-US.....	28,256	24,957	3,223	-2,431	54,005
Total (ex US Affils).....	179,474	149,115	60,471	-25,495	363,565
Grand Total.....	179,474	149,115	60,471	-25,495	363,565

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	—Company—						—Industry Composite—	
	Class 3-6 Bonds	Real Estate/Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2004	...	...	...	16.9	16.9	30.2	7.0	16.5
2005	...	...	...	...	...	52.1	7.1	15.7
2006	...	...	...	10.7	10.7	53.6	6.2	16.4
2007	...	...	...	13.1	13.1	56.1	5.8	15.3
2008	...	...	...	9.0	9.0	50.6	5.2	9.7

## LIQUIDITY

The following text is derived from the report of QBE Re Group - US.

Overall liquidity remains stable, supported by positive operating cash flows. The group maintains a conservative investment philosophy which allocates a substantial amount of the overall portfolio to cash and cash equivalents. This conservative strategy is a positive rating factor following the turmoil in the financial markets in 2008. The portfolio's average fixed-income maturity is short at approximately two years. The group's claims payment pattern is also short given the profile of its health, property and short-tail casualty business.

## LIQUIDITY ANALYSIS

Period Ending	—Company—				—Industry Composite—			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2004	65.2	100.6	176.2	38.0	22.3	99.6	136.4	13.8
2005	83.4	96.0	192.8	6.4	20.6	102.4	137.9	11.9
2006	83.5	93.0	188.1	9.7	23.5	108.9	141.7	11.8
2007	84.0	91.9	183.6	3.3	21.7	111.2	145.2	10.1
2008	75.1	85.6	160.9	4.8	19.1	104.5	141.1	12.0

## CASH FLOW ANALYSIS (\$000)

Period Ending	—Company—				—Industry Composite—		
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)
2004	29,982	44,610	-54,430	108.1	111.7	125.3	135.3
2005	55,109	61,577	152,690	114.3	115.2	114.8	128.2
2006	56,855	80,803	125,993	115.5	121.0	113.3	125.9
2007	39,016	82,301	96,429	108.4	117.6	112.0	122.6
2008	44,936	81,211	110,278	108.0	114.5	100.7	112.5

# Best's Rating Report

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## HISTORY

This company was incorporated February 25, 1964 under the laws of Pennsylvania and began business on October 1 of the same year as American Overseas Reinsurance Company. On January 1, 1989, the name was changed to American Royal Reinsurance Company. The company was acquired by QBE Insurance Group Limited (Australia) on November 24, 1993, and the name was changed to Sydney Reinsurance Corporation. The current name, QBE Reinsurance Corporation, was adopted on November 8, 2000.

During December 1994, QBE Insurance Group Limited contributed all of the issued and outstanding capital stock of the Sequoia Insurance Company, a California domiciled property and casualty insurer, to QBE Reinsurance Corporation, which resulted in an increase in surplus of approximately \$19,800,000.

In August 1995, QBE Reinsurance Corporation sold its 100% ownership interest in Sequoia Insurance Company of California to Physician's Insurance Company of Ohio. As part of the sale agreement, all business written by Sequoia is fully reinsured by QBE Reinsurance Corporation. QBE Insurance Group Limited has guaranteed this agreement, with no risk retained by QBE Reinsurance.

On December 31, 1996, QBE Reinsurance Corporation acquired all of the issued and outstanding capital stock of Melbourne Reinsurance Corporation (subsequently renamed QBE Insurance Corporation) as a contribution to surplus from its immediate parent, QBE Holdings, Inc. Through 1996, Melbourne Reinsurance Corporation was QBE Reinsurance Corporation's indirect parent. QBE Insurance Corporation acts as a direct writer in support of the group's reinsurance operation.

Paid up capital of \$30,000,000 consists of 150,000 common shares at \$200 par value each.

## MANAGEMENT

All of the outstanding capital stock is held by QBE Holdings, Inc., New York. The latter had been sold (under the name Royal Re American Holdings, Inc.) by Royal Reinsurance Company, Limited., a subsidiary of Royal Insurance plc, (London) to Sydney Reinsurance Group, Limited. on November 24, 1993. Royal had previously acquired it from Marsh & McLennan Companies, Inc. on October 25, 1983. Prior to April 6, 1979, ownership resided with Balis & Co., Inc., Philadelphia, Pennsylvania, a reinsurance intermediary, which is a wholly-owned subsidiary of Marsh & McLennan Companies, Inc. QBE Holdings, Inc. is a wholly-owned subsidiary of QBE Investments (North America) Inc.

**Officers:** President and Chief Executive Officer, John Rumpler; Senior Executive Vice President and Chief Underwriting Officer, James J. Fiore; Executive Vice President, Treasurer and Chief Financial Officer, Christopher C. Fish; Senior Vice President and Chief Claim Officer, Dean Harrington; Senior Vice President, Secretary and Chief Legal Officer, Peter T. Maloney; Senior Vice Presidents, Bruce D. Carlino, Nancy L. Kelly (Human Resources), Thomas Leonardo, Michael Meyer, Robert J. Mezzasalma (Reinsurance), Celso M. Moreira, Stephen T. Morgan.

**Directors:** James J. Fiore, Alan J. Levin, Vince McLenaghan, Francis M. O'Halloran, Anthony R. Przybyszewski.

## REGULATORY

An examination of the financial condition is being made as of December 31, 2008 by the Insurance Department of Pennsylvania. The 2008 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Nicholas H. Pastor, FCAS, MAAA, Sr. Vice President and Chief Actuary.

**Territory:** The company is licensed in Puerto Rico, AZ, AR, CA, DE, FL, GA, HI, ID, IL, IN, IA, KS, LA, MI, MN, MS, NE, NV, NH, NJ, NY, OH, OK, OR, PA, TX, UT, VA, WA, WV and WI. Credit is allowed for reinsurance in AL, AK, CO, CT, KY, ME, MD, MA, MT, NM, NC, ND, RI, SC, SD, TN, VT and WY, as it is accredited or licensed in other states. Credit is allowed for reinsurance in the District of Columbia and Missouri, as it meets state requirements other than licensing or accreditation.

## REINSURANCE

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - US is both a provider and buyer of reinsurance protection. Reinsurance protection is purchased for the entire QBE the Americas Division as whole. From year to year, the program purchased is modified based on the division's needs.

## BALANCE SHEET

### ADMITTED ASSETS (\$000)

	12/31/08	12/31/07	'08%	'07%
Bonds.....	126,199	67,778	8.8	5.4
Common stock.....	48,560	74,413	3.4	5.9
Cash & short-term invest.....	583,200	472,923	40.5	37.6
Real estate, offices.....	488	509	0.0	0.0
Investments in affiliates.....	272,259	318,945	18.9	25.3
<b>Total invested assets.....</b>	<b>1,030,706</b>	<b>934,568</b>	<b>71.6</b>	<b>74.3</b>
Premium balances.....	209,608	146,333	14.6	11.6
Accrued interest.....	5,829	14,513	0.4	1.2
All other assets.....	192,630	163,135	13.4	13.0
<b>Total assets.....</b>	<b>1,438,772</b>	<b>1,258,549</b>	<b>100.0</b>	<b>100.0</b>

### LIABILITIES & SURPLUS (\$000)

	12/31/08	12/31/07	'08%	'07%
Loss & LAE reserves.....	564,556	452,041	39.2	35.9
Unearned premiums.....	286,130	162,324	19.9	12.9
Conditional reserve funds.....	5,676	3,941	0.4	0.3
All other liabilities.....	43,643	71,089	3.0	5.6
<b>Total liabilities.....</b>	<b>900,004</b>	<b>689,396</b>	<b>62.6</b>	<b>54.8</b>
Capital & assigned surplus.....	583,614	573,299	40.6	45.6
Unassigned surplus.....	-44,846	-4,146	-3.1	-0.3
<b>Total policyholders' surplus.....</b>	<b>538,768</b>	<b>569,153</b>	<b>37.4</b>	<b>45.2</b>
<b>Total liabilities &amp; surplus.....</b>	<b>1,438,772</b>	<b>1,258,549</b>	<b>100.0</b>	<b>100.0</b>

### SUMMARY OF 2008 OPERATIONS (\$000)

Statement of Income	12/31/08	Funds Provided from Operations	12/31/08
Premiums earned.....	543,746	Premiums collected.....	604,618
Losses incurred.....	358,105	Benefit & loss related pmts	283,772
LAE incurred.....	49,238		
Undrw expenses incurred	228,075	LAE & undrw expenses paid	275,911
Net underwriting income	-91,672	Undrw cash flow.....	44,936
Net investment income....	24,055	Investment income.....	32,480
Other income/expense....	3,506	Other income/expense....	3,506
		Pre-tax cash operations	80,922
Pre-tax oper income....	-64,112		
Realized capital gains.....	40,305		
Income taxes incurred.....	-11,864	Income taxes pd (recov)...	-289
Net income.....	-11,944	Net oper cash flow.....	81,211

# Best's Rating Report

## Ultimate Parent: QBE Insurance Group Limited QBE INSURANCE CORPORATION

Harrisburg, PA  
88 Pine Street, 4th Floor, Wall St. Plaza, New York, NY 10005-1801  
Web: www.qbeusa.com

Tel: 212-422-1212

Fax: 212-422-1313

AMB#: 02739

NAIC#: 39217

Ultimate Parent#: 85434

FEIN#: 22-2311816

### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the property/casualty members of QBE Re Group - US, which operate under a group structure, each group member is assigned a Best's Financial Strength Rating of A (Excellent). The company is assigned the Financial Size Category of Class X, which is the Financial Size Category of the group.

### RATING RATIONALE

The following text is derived from the report of QBE Re Group - US.

**Rating Rationale:** The rating applies to the QBE Re Group - US, which includes QBE Reinsurance Corporation and its subsidiaries, QBE Insurance Corporation and QBE Specialty Insurance Company. This group represents one of the U.S. operating platforms within the QBE the Americas Division of QBE Insurance Group Limited (Australia).

The rating reflects QBE Re Group - US's adequate risk-adjusted capital position as well as support from the group's ultimate parent, QBE Insurance Group Limited (Australia), one of Australia's largest insurance/reinsurance organizations, which provides capital and facilitates reinsurance support. Management continues to make progress with regard to the North American operations, and A.M. Best understands that QBE Re Group - US is strategically important to the organization's long-term plans. Partially offsetting the aforementioned positive rating factors are some concerns about QBE Re Group - US's adverse loss reserve development, which has been a drag on operating results in recent years.

Broadly speaking, QBE the Americas Division, which includes QBE Re Group - US, has been evolving as several acquisitions have helped expand its platform. As the enterprise continues to streamline these acquisitions, business plans are being modified to meet management's strategic objectives. Historically, QBE Insurance and QBE Specialty ceded approximately 80% of their business to QBE Reinsurance Corporation; however, this reinsurance relationship was terminated in early 2009, and going forward both entities entered into a reduced quota share agreement with QBE's Bermuda-based captive reinsurer. In addition, the recent acquisition of the ZC Sterling agency has brought on new premium volume for both QBE Insurance and QBE Specialty, which management believes will be an area of growth over the next several years. QBE Specialty also expanded its footprint by having the business of the former Praetorian Specialty Insurance Company merged into its book of business.

**Best's Financial Strength Rating: A g**

**Outlook: Stable**

### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
09/30/09	A g	12/14/06	A ru
04/28/09	A g	08/16/06	A r
08/28/08	A r	10/04/05	A r
06/06/07	A r	07/28/05	A ru
01/05/07	A ru	06/09/05	A r

### KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data							
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus		
2004	572,123	85,677	4,685	2,147	357,534	130,804		
2005	608,111	93,110	15,583	10,725	376,913	138,696		
2006	701,142	141,771	13,934	5,679	478,983	137,394		
2007	605,075	108,406	22,610	15,786	469,671	161,584		
2008	616,744	131,625	-12,905	-4,385	610,502	272,259		
Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2004	96.1	1.1	5.8	10.4	0.7	2.4	158.0	128.6
2005	86.4	1.9	17.5	...	0.7	2.4	158.6	91.4
2006	88.6	2.6	13.0	8.6	1.0	3.5	140.3	123.2
2007	98.5	3.7	17.4	12.5	0.7	2.6	152.5	68.4
2008	113.9	1.4	-10.1	4.8	0.5	1.7	180.6	197.6
5-Yr	97.1	2.1	8.2	...	...	...	...	...

(\* ) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.

### BUSINESS REVIEW

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - U.S. operations are conducted through QBE Reinsurance Corporation, QBE Insurance Corporation and QBE Specialty Insurance Company. The group underwrites a diverse mix of business which includes private passenger and commercial auto liability, commercial multi-peril, health, property proportional, catastrophe, property excess of loss and casualty business.

QBE Reinsurance Corporation is a treaty and facultative reinsurer that targets specialized, unique types of business that are less subject to the broad market swings. The group underwrites property, casualty and health reinsurance through reinsurance intermediaries. Business is written on both a pro rata and excess of loss basis with increased focus in recent years on excess of loss business. Business is derived from national, regional, and international cedants with the remainder coming from program managers, captives, pools and associations. In 1999, QBE Reinsurance Corporation established a strategic alliance with Reaseguradora Del Istmo (Del Istmo). Through this alliance, Del Istmo underwrites and services, on behalf of QBE Re Group, a targeted Latin American reinsurance portfolio in selected countries, focusing on shorter-tailed property lines.

QBE Insurance Corporation, which began writing direct business in 1998, focuses on main street commercial property and casualty business, commercial auto and non-standard auto. Business is mostly written through program managers and general agents. Since 2002, QBE Insurance Corporation has allied with several program managers.

QBE Specialty Insurance Company is an excess and surplus lines writer that was formed by the group in 2002 and began writing business through existing program managers in late 2003. As noted above, it expanded its writing in 2008 with the ZC Sterling acquisition and merging of business from the former Praetorian Specialty Insurance Company.

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# Best's Rating Report

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## 2008 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Com'l MultiPeril.....	237,988	38,261	29.1	52.4	26,563
Group A & H.....	148,739	29,619	22.5	67.7	12,939
Farmowners.....	2,049	16,502	12.5	49.8	3,455
Priv Pass Auto Liab.....	47,221	16,455	12.5	63.7	11,912
Oth Liab Occur.....	50,161	9,871	7.5	105.4	24,445
Allied Lines.....	67,636	8,116	6.2	20.7	4,228
Auto Physical.....	20,993	5,935	4.5	87.3	3,881
Credit.....	12,170	2,660	2.0	3.8	...
Comm'l Auto Liab.....	11,663	2,641	2.0	107.5	6,432
All Other.....	18,125	1,565	1.2	-35.4	4,039
Totals.....	616,744	131,625	100.0	61.9	97,892

**Geographical breakdown of direct premium writings (\$000):** Florida, \$113,825 (18.5%); New York, \$80,875 (13.1%); California, \$70,418 (11.4%); New Jersey, \$34,775 (5.6%); Alabama, \$30,699 (5.0%); 46 other jurisdictions, \$286,153 (46.4%).

### FINANCIAL PERFORMANCE

The following text is derived from the report of QBE Re Group - US.

QBE Re Group's overall operating performance has been generally stable due primarily to the blend of underwriting results relative to the group's ability to generate investment income. In recent years, the group's combined ratio has trended above 100% indicating an underwriting loss for the year, which has been driven by adverse loss reserve development. The company's return on policyholders' surplus is in the low single digits on average over the recent five-year period, which is substantially below the industry composite. The performance of QBE Re Group US has been tepid; however, it remains core to QBE the Americas and core to the overall QBE Insurance Group Limited strategy.

The company continues to assess its adverse reserve development. Management believes that adequate reserves have been established and that they should no longer be a drag on underwriting results.

Regarding catastrophe exposure, the group continues to manage its catastrophe exposure, with all aggregates maintained on a sum-insured basis and most contracts containing an event limitation. Exposures are managed by a conservative retrocessional program.

### PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2004	5.8	2.8	96.1	93.7	5.8	12.3	104.6	92.7
2005	17.5	7.6	86.4	82.4	8.2	7.9	105.0	90.9
2006	13.0	3.0	88.6	84.0	19.2	19.1	94.4	79.5
2007	17.4	4.4	98.5	92.8	20.9	15.4	94.6	78.4
2008	-10.1	-8.4	113.9	110.7	16.9	-1.2	99.0	83.3
5-Yr	8.2	0.8	97.1	93.0	14.3	10.5	99.4	84.8

### UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	—Loss Ratios—			—Expense Ratios—			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.		
2004	1,929	58.9	10.0	68.9	9.8	17.4	27.2	...	96.1
2005	10,912	46.4	11.8	58.2	9.3	18.9	28.1	...	86.4
2006	1,105	45.9	10.5	56.4	14.3	17.8	32.1	...	88.6
2007	11,631	45.9	7.8	53.6	13.1	31.7	44.8	...	98.5
2008	-19,226	61.9	10.5	72.5	10.9	30.4	41.4	...	113.9
5-Yr	...	51.8	10.0	61.8	11.8	23.6	35.3	...	97.1

## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Inc. Growth (%)	Inv. Yield (%)
2004	1,929	164	1,107	21.4	1.1	1.9	0.9	4.5
2005	3,537	687	-506	83.3	1.9	2.0	20.0	4.9
2006	4,902	-561	-1,587	38.6	2.6	1.4	9.8	4.9
2007	7,421	-131	-9,170	51.4	3.7	-0.9	9.8	5.0
2008	4,135	3,952	-13,787	-44.3	1.4	-1.9	-4.5	4.8
5-Yr	...	...	...	13.1	2.1	0.2	6.5	4.8

### INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2008 Inv. Assets (\$000)	—% of Invested Assets—		Annual % Change
		2008	2007	
Long-term bonds.....	42,402	11.0	8.7	133.8
Stocks.....	13,201	3.4	9.7	-34.5
Affiliated Investments.....	156,531	40.5	33.5	125.5
Other Inv Assets.....	174,303	45.1	48.0	75.0
Total.....	386,437	100.0	100.0	86.4

### 2008 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class 1-2 (%)	Class 3-6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Corporates.....	68.6	-5.4	2.5	100.0	...	...	...
Total all bonds..	100.0	-2.4	2.3	100.0	...	...	...

### CAPITALIZATION

The following text is derived from the report of QBE Re Group - US.

The group maintains adequate capitalization at its current rating based on Best's Capital Adequacy Ratio (BCAR). Both premium and loss reserve leverage have remained stable in recent years, although leverage measures have recently moved above historical norms as the group has started to strategically reposition itself as it streamlines acquisitions made in the recent months and years. Capital generation from operations has been choppy in recent years, which is largely driven by underwriting results. The favorable capitalization position of the group also considers capital contributions received over the past five years. As demonstrated by the numerous capital contributions, there is a long history of tangible parental support.

Management anticipates future surplus growth to be generated through operations with parental support, as necessary, to fund its planned growth strategies. While future earnings remain susceptible to volatility from catastrophe losses, the group has only a negligible exposure to asbestos and environmental losses. In addition, the group has been successful in accessing new growth opportunities in the primary market, largely focusing on program books of business. Ultimately, A.M. Best expects the group to sustain its current level of capitalization by generating favorable operating returns and not having to depend on parental contributions.

### CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Source of Surplus Growth					
	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax	Change in PHS	PHS Growth (%)
2004	4,685	1,270	25,000	-3,301	27,654	26.8
2005	15,583	180	-1,750	-6,121	7,893	6.0
2006	13,934	-2,148	24,000	-37,088	-1,302	-0.9
2007	22,610	-9,301	32,530	-21,650	24,190	17.6
2008	-12,905	-9,836	113,000	20,415	110,675	68.5
5-Yr	43,907	-19,834	192,780	-47,745	169,109	...

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## QUALITY OF SURPLUS (\$000)

Period Ending	—% of PHS—				—Dividend Requirements—		
	Year- End PHS	Cap. Stock/ Contrib.		Unassigned Surplus	Stock- holder Divs	Div. To POI (%)	Div. To Net Inc. (%)
		Cap.	Other				
2004	130,804	90.1	...	9.9	...	...	...
2005	138,696	94.4	...	5.6	-14,750	94.7	137.5
2006	137,394	118.5	...	-18.5	-8,000	57.4	140.9
2007	161,584	120.9	...	-20.9	...	...	...
2008	272,259	113.3	...	-13.3	...	...	...

## LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2004	0.7	0.5	2.4	3.5	1.1	1.8	3.9	5.2
2005	0.7	0.5	2.4	5.4	1.0	1.8	3.7	4.9
2006	1.0	0.6	3.5	6.5	0.9	1.6	3.3	4.3
2007	0.7	0.5	2.6	4.7	0.8	1.5	3.0	3.9
2008	0.5	0.4	1.7	2.9	0.9	1.6	3.3	4.3

Current BCAR: 153.4

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	—DPW—		—GPW—		—NPW—		—NPE—	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2004	572,123	25.6	579,386	22.1	85,677	30.0	81,047	35.2
2005	608,111	6.3	608,118	5.0	93,110	8.7	88,876	9.7
2006	701,142	15.3	723,426	19.0	141,771	52.3	107,110	20.5
2007	605,075	-13.7	693,034	-4.2	108,406	-23.5	129,974	21.3
2008	616,744	1.9	713,788	3.0	131,625	21.4	128,172	-1.4
5-Yr CAGR	...	6.3	...	8.5	...	14.8	...	16.4
5-Yr Chg	...	35.4	...	50.4	...	99.6	...	113.9

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/08	Unpaid Res. to Develop. (%)
2004	61,038	67,594	10.7	5.0	83.4	16,506	24.4
2005	63,718	73,077	14.7	6.7	82.2	21,747	29.8
2006	73,777	81,881	11.0	5.9	76.4	30,255	36.9
2007	78,820	91,503	16.1	7.8	70.4	49,076	53.6
2008	96,746	96,746	...	...	75.5	96,746	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Unpaid Reserves @12/08	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2004	37,021	35,157	-5.0	7,515	62.7	89.9
2005	26,469	27,065	2.3	5,241	58.6	86.8
2006	36,381	38,940	7.0	8,508	56.3	88.5
2007	32,774	38,916	18.7	18,821	59.1	103.9
2008	47,670	47,670	...	47,670	62.4	103.8

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Ceded Reins. Total	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	
2004	150,276	15.0	54.6	114.9	81.0	92.2	128.1	
2005	420,311	15.3	180.2	303.0	81.8	92.2	124.5	
2006	404,255	19.6	154.4	294.2	81.1	73.5	101.8	
2007	350,536	15.6	124.0	216.9	82.5	64.5	90.2	
2008	318,892	18.6	67.3	117.1	82.6	72.3	101.0	

## 2008 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
Foreign Affiliates.....	2,564	3,242	13,920	...	19,726
US Insurers.....	31,189	24,253	16,175	303	71,920
Pools/Associations.....	1,532	173	5,830	-15	7,520
Other Non-US.....	39,117	23,253	21,929	-128	84,171
Total (ex US Affils).....	74,402	50,921	57,854	160	183,337
Grand Total.....	235,203	260,264	211,705	-77,115	630,057

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2004	...	...	...	10.4	10.4	27.1	7.0	16.5
2005	...	...	...	...	...	41.7	7.1	15.7
2006	...	...	...	8.6	8.6	44.6	6.2	16.4
2007	...	...	...	12.5	12.5	43.0	5.8	15.3
2008	...	...	...	4.8	4.8	57.5	5.2	9.7

## LIQUIDITY

The following text is derived from the report of QBE Re Group - US.

Overall liquidity remains stable, supported by positive operating cash flows. The group maintains a conservative investment philosophy which allocates a substantial amount of the overall portfolio to cash and cash equivalents. This conservative strategy is a positive rating factor following the turmoil in the financial markets in 2008. The portfolio's average fixed-income maturity is short at approximately two years. The group's claims payment pattern is also short given the profile of its health, property and short-tail casualty business.

## LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2004	83.6	106.2	158.0	13.5	22.3	99.6	136.4	13.8
2005	64.3	70.5	158.6	12.3	20.6	102.4	137.9	11.9
2006	54.6	59.6	140.3	8.4	23.5	108.9	141.7	11.8
2007	49.8	55.4	152.5	20.4	21.7	111.2	145.2	10.1
2008	74.2	83.9	180.6	6.1	19.1	104.5	141.1	12.0

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow (%)	Underw Cash Flow	Oper. Cash Flow
2004	14,259	14,367	-3,587	131.0	128.6	125.3	135.3	
2005	-9,494	-8,896	-3,488	90.3	91.4	114.8	128.2	
2006	20,746	25,128	43,794	120.5	123.2	113.3	125.9	
2007	-37,050	-35,922	-8,009	64.5	68.4	112.0	122.6	
2008	57,260	67,443	76,124	182.8	197.6	100.7	112.5	

## HISTORY

The company was incorporated on May 5, 1980 under the laws of Delaware as The Victory Reinsurance Company of America, Inc. and began business on October 21, 1980. Effective December 6, 1993, the name was changed to Melbourne Reinsurance Corporation. The current name, QBE Insurance Corporation, was adopted on January 10, 1997. In September 2002, the company redomesticated from Delaware to Philadelphia, Pennsylvania. Paid-in capital is \$4,887,500 which consists of 6,750,000 shares of common stock at a par value of \$.65 per share and all 1,000,000 shares of preferred stock at \$.50 per share.

# Best's Rating Report

## MANAGEMENT

The company is a wholly-owned subsidiary of QBE Reinsurance Corporation operating as a primary insurance company. On December 31, 1996, QBE Reinsurance Corporation acquired all of the issued and outstanding capital stock of Melbourne Reinsurance Corporation (subsequently renamed QBE Insurance Corporation) as a contribution to surplus from its immediate parent, Sydney Re Holdings, Inc.

From January 1, 1990 to March 31, 1993, administration of the company's affairs was under a service agreement with NRG Victory Canada Management Limited, Toronto, Ontario, Canada. On April 1, 1993, administration of the company's affairs was transferred to Universal Management Limited (UML) in Dublin, Ireland. UML is a member company of the QBE Insurance Group Limited (Australia). Effective September 30, 1997, the administration of the company's affairs was assumed by QBE Reinsurance Corporation, the company's immediate parent.

**Officers:** Chief Executive Officer, John Rumpler; President, Stephen Fitzpatrick; Chief Risk Officer, Ming-I Huang; Senior Executive Vice President and Chief Underwriting Officer, James J. Fiore; Executive Vice President, Treasurer and Chief Financial Officer, Christopher C. Fish; Senior Vice President and Chief Claim Officer, Dean Harring; Senior Vice President, Secretary and Chief Legal Officer, Peter T. Maloney; Senior Vice Presidents, Lance J. Albright, Edward M. Ashby, Fabian Burstyn, Nancy L. Kelly (Human Resources), Celso M. Moreira.

**Directors:** James J. Fiore, Christopher C. Fish, Alan J. Levin, Vince McLenaghan, Francis M. O'Halloran, Anthony R. Przybyszewski.

## REGULATORY

An examination of the financial condition is being made as of December 31, 2008 by the Insurance Department of Pennsylvania. The 2008 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Nicholas H. Pastor, FCAS, MAAA, Sr. Vice President and Chief Actuary.

**Territory:** The company is licensed in the District of Columbia and all states.

## REINSURANCE

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - US is both a provider and buyer of reinsurance protection. Reinsurance protection is purchased for the entire QBE the Americas Division as whole. From year to year, the program purchased is modified based on the division's needs.

## BALANCE SHEET

### ADMITTED ASSETS (\$000)

	12/31/08	12/31/07	'08%	'07%
Bonds .....	42,402	18,135	6.9	3.9
Common stock .....	13,201	20,160	2.2	4.3
Cash & short-term invest .....	172,956	96,832	28.3	20.6
Investments in affiliates .....	156,531	69,409	25.6	14.8
<b>Total invested assets.....</b>	<b>385,090</b>	<b>204,536</b>	<b>63.1</b>	<b>43.5</b>
Premium balances .....	207,559	209,719	34.0	44.7
Accrued interest .....	1,347	2,774	0.2	0.6
All other assets.....	16,507	52,643	2.7	11.2
<b>Total assets.....</b>	<b>610,502</b>	<b>469,671</b>	<b>100.0</b>	<b>100.0</b>

### LIABILITIES & SURPLUS (\$000)

	12/31/08	12/31/07	'08%	'07%
Loss & LAE reserves .....	97,892	79,884	16.0	17.0
Unearned premiums.....	53,927	50,474	8.8	10.7
Conditional reserve funds .....	119	50	0.0	0.0
All other liabilities .....	186,306	177,680	30.5	37.8
<b>Total liabilities .....</b>	<b>338,244</b>	<b>308,087</b>	<b>55.4</b>	<b>65.6</b>
Capital & assigned surplus.....	308,405	195,405	50.5	41.6
Unassigned surplus.....	-36,146	-33,821	-5.9	-7.2
<b>Total policyholders' surplus.....</b>	<b>272,259</b>	<b>161,584</b>	<b>44.6</b>	<b>34.4</b>
<b>Total liabilities &amp; surplus.....</b>	<b>610,502</b>	<b>469,671</b>	<b>100.0</b>	<b>100.0</b>

## SUMMARY OF 2008 OPERATIONS (\$000)

Statement of Income	12/31/08	Funds Provided from Operations	12/31/08
Premiums earned.....	128,172	Premiums collected.....	126,376
Losses incurred.....	79,402	Benefit & loss related pmts	11,062
LAE incurred .....	13,512	LAE & undrw expenses paid	58,054
Undrw expenses incurred	54,484	Undrw cash flow .....	57,260
Net underwriting income	-19,226	Investment income.....	5,322
Net investment income....	4,135	Other income/expense ...	2,186
Other income/expense ...	2,186	Pre-tax cash operations	64,768
Pre-tax oper income ...	-12,905	Income taxes pd (recov)...	-2,675
Realized capital gains.....	3,952	Net oper cash flow.....	67,443
Income taxes incurred .....	-4,568		
Net income.....	-4,385		

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## Ultimate Parent: QBE Insurance Group Limited QBE SPECIALTY INSURANCE COMPANY

Bismarck, ND

Wall Street Plaza, 88 Pine Street, 16th Floor, New York, NY 10005-1801

Web: www.qbeusa.com

Tel: 212-422-1212

Fax: 212-422-1313

AMB#: 12562

NAIC#: 11515

Ultimate Parent#: 85434

FEIN#: 55-0789681

### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the property/casualty members of QBE Re Group - US, which operate under a group structure, each group member is assigned a Best's Financial Strength Rating of A (Excellent). The company is assigned the Financial Size Category of Class X, which is the Financial Size Category of the group.

### RATING RATIONALE

The following text is derived from the report of QBE Re Group - US.

**Rating Rationale:** The rating applies to the QBE Re Group - US, which includes QBE Reinsurance Corporation and its subsidiaries, QBE Insurance Corporation and QBE Specialty Insurance Company. This group represents one of the U.S. operating platforms within the QBE the Americas Division of QBE Insurance Group Limited (Australia).

The rating reflects QBE Re Group - US's adequate risk-adjusted capital position as well as support from the group's ultimate parent, QBE Insurance Group Limited (Australia), one of Australia's largest insurance/reinsurance organizations, which provides capital and facilitates reinsurance support. Management continues to make progress with regard to the North American operations, and A.M. Best understands that QBE Re Group - US is strategically important to the organization's long-term plans. Partially offsetting the aforementioned positive rating factors are some concerns about QBE Re Group - US's adverse loss reserve development, which has been a drag on operating results in recent years.

Broadly speaking, QBE the Americas Division, which includes QBE Re Group - US, has been evolving as several acquisitions have helped expand its platform. As the enterprise continues to streamline these acquisitions, business plans are being modified to meet management's strategic objectives. Historically, QBE Insurance and QBE Specialty ceded approximately 80% of their business to QBE Reinsurance Corporation; however, this reinsurance relationship was terminated in early 2009, and going forward both entities entered into a reduced quota share agreement with QBE's Bermuda-based captive reinsurer. In addition, the recent acquisition of the ZC Sterling agency has brought on new premium volume for both QBE Insurance and QBE Specialty, which management believes will be an area of growth over the next several years. QBE Specialty also expanded its footprint by having the business of the former Praetorian Specialty Insurance Company merged into its book of business.

**Best's Financial Strength Rating: A g**

**Outlook: Stable**

### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
09/30/09	A g	12/14/06	A ru
04/28/09	A g	08/16/06	A r
08/28/08	A r	10/04/05	A r
06/06/07	A r	07/28/05	A ru
01/05/07	A ru	06/09/05	A r

### KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data							
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus		
2004	41,133	8,238	-271	-503	43,940	25,553		
2005	41,997	7,763	1,117	700	48,558	26,089		
2006	30,617	5,415	2,289	1,410	48,270	27,486		
2007	26,541	4,929	2,220	1,305	44,897	28,054		
2008	150,391	31,110	-2,129	-3,368	213,550	138,003		
Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2004	87.3	1.4	-6.2	19.4	0.3	1.0	239.0	229.4
2005	92.5	2.5	15.7	...	0.3	1.2	216.1	180.4
2006	97.5	3.9	32.8	12.3	0.2	1.0	232.2	158.1
2007	89.7	4.1	41.6	17.7	0.2	0.8	267.6	119.3
2008	80.5	1.4	-16.2	2.2	0.2	0.8	282.7	114.1
5-Yr	86.6	2.4	8.7	...	...	...	...	...

(\* ) Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Surplus Lines Composite.

### BUSINESS REVIEW

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - U.S. operations are conducted through QBE Reinsurance Corporation, QBE Insurance Corporation and QBE Specialty Insurance Company. The group underwrites a diverse mix of business which includes private passenger and commercial auto liability, commercial multi-peril, health, property proportional, catastrophe, property excess of loss and casualty business.

QBE Reinsurance Corporation is a treaty and facultative reinsurer that targets specialized, unique types of business that are less subject to the broad market swings. The group underwrites property, casualty and health reinsurance through reinsurance intermediaries. Business is written on both a pro rata and excess of loss basis with increased focus in recent years on excess of loss business. Business is derived from national, regional, and international cedants with the remainder coming from program managers, captives, pools and associations. In 1999, QBE Reinsurance Corporation established a strategic alliance with Reaseguradora Del Istmo (Del Istmo). Through this alliance, Del Istmo underwrites and services, on behalf of QBE Re Group, a targeted Latin American reinsurance portfolio in selected countries, focusing on shorter-tailed property lines.

QBE Insurance Corporation, which began writing direct business in 1998, focuses on main street commercial property and casualty business, commercial auto and non-standard auto. Business is mostly written through program managers and general agents. Since 2002, QBE Insurance Corporation has allied with several program managers.

QBE Specialty Insurance Company is an excess and surplus lines writer that was formed by the group in 2002 and began writing business through existing program managers in late 2003. As noted above, it expanded its writing in 2008 with the ZC Sterling acquisition and merging of business from the former Praetorian Specialty Insurance Company.

### 2008 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Com'l MultiPeril.....	54,559	11,336	36.4	6.9	2,059
Inland Marine.....	39,176	8,616	27.7	27.6	996
Oth Liab Occur.....	21,268	3,961	12.7	106.5	5,450
Comm'l Auto Liab.....	17,296	3,458	11.1	61.8	402
Auto Physical.....	13,735	2,747	8.8	54.6	589
All Other.....	4,357	993	3.2	24.4	368
Totals.....	150,391	31,110	100.0	39.2	9,863

# Best's Rating Report

**Geographical breakdown of direct premium writings (\$000):** Louisiana, \$33,542 (22.3%); California, \$30,618 (20.4%); Florida, \$25,637 (17.0%); Texas, \$24,765 (16.5%); Illinois, \$8,421 (5.6%); 42 other jurisdictions, \$27,410 (18.2%).

## FINANCIAL PERFORMANCE

The following text is derived from the report of QBE Re Group - US.

QBE Re Group's overall operating performance has been generally stable due primarily to the blend of underwriting results relative to the group's ability to generate investment income. In recent years, the group's combined ratio has trended above 100% indicating an underwriting loss for the year, which has been driven by adverse loss reserve development. The company's return on policyholders' surplus is in the low single digits on average over the recent five-year period, which is substantially below the industry composite. The performance of QBE Re Group US has been tepid; however, it remains core to QBE the Americas and core to the overall QBE Insurance Group Limited strategy.

The company continues to assess its adverse reserve development. Management believes that adequate reserves have been established and that they should no longer be a drag on underwriting results.

Regarding catastrophe exposure, the group continues to manage its catastrophe exposure, with all aggregates maintained on a sum-insured basis and most contracts containing an event limitation. Exposures are managed by a conservative retrocessional program.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2004	-6.2	-1.3	87.3	78.7	14.9	11.2	94.4	83.1
2005	15.7	2.3	92.5	81.0	18.8	12.0	93.8	80.4
2006	32.8	6.0	97.5	76.9	33.2	18.3	80.7	65.6
2007	41.6	5.5	89.7	61.2	38.9	17.6	79.3	62.0
2008	-16.2	-5.0	80.5	70.8	24.4	-0.1	95.0	76.1
5-Yr	8.7	-0.4	86.6	71.9	26.5	11.5	88.2	72.9

## UNDERWRITING EXPERIENCE

Period Ending	Net Undr Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.		
2004	-645	44.1	11.9	56.0	17.8	13.5	31.3	...	87.3
2005	291	44.5	10.4	54.9	24.2	13.4	37.6	...	92.5
2006	852	42.0	11.9	53.9	28.3	15.3	43.6	...	97.5
2007	702	43.0	9.3	52.3	28.3	9.1	37.4	...	89.7
2008	-3,399	39.2	8.2	47.4	25.7	7.5	33.1	...	80.5
5-Yr	...	41.9	9.9	51.8	24.8	10.0	34.8	...	86.6

## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Inc. Growth (%)	Inv. Yield (%)
2004	374	-44	182	27.0	1.4	1.9	5.3	3.7
2005	826	100	-118	120.8	2.5	2.5	19.0	3.8
2006	1,437	-155	202	74.0	3.9	4.0	28.4	4.3
2007	1,518	-8	214	5.6	4.1	4.7	13.8	4.4
2008	1,287	-684	-816	-15.2	1.4	-0.2	3.5	4.4
5-Yr	...	...	...	22.3	2.4	1.9	13.3	4.2

## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2008 Inv. Assets (\$000)	—% of Invested Assets—		Annual % Change
		2008	2007	
Long-term bonds .....	21,277	14.1	32.6	80.9
Stocks .....	3,048	2.0	13.7	-38.5
Other Inv Assets .....	126,486	83.9	53.7	551.5
Total .....	150,811	100.0	100.0	317.3

## 2008 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class 1-2 (%)	Class 3-6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Governments .....	46.2	7.0	2.2	100.0	...	...	...
Corporates .....	53.8	-3.2	3.2	100.0	...	...	...
Total all bonds ..	100.0	1.6	2.7	100.0	...	...	...

## CAPITALIZATION

The following text is derived from the report of QBE Re Group - US.

The group maintains adequate capitalization at its current rating based on Best's Capital Adequacy Ratio (BCAR). Both premium and loss reserve leverage have remained stable in recent years, although leverage measures have recently moved above historical norms as the group has started to strategically reposition itself as it streamlines acquisitions made in the recent months and years. Capital generation from operations has been choppy in recent years, which is largely driven by underwriting results. The favorable capitalization position of the group also considers capital contributions received over the past five years. As demonstrated by the numerous capital contributions, there is a long history of tangible parental support.

Management anticipates future surplus growth to be generated through operations with parental support, as necessary, to fund its planned growth strategies. While future earnings remain susceptible to volatility from catastrophe losses, the group has only a negligible exposure to asbestos and environmental losses. In addition, the group has been successful in accessing new growth opportunities in the primary market, largely focusing on program books of business. Ultimately, A.M. Best expects the group to sustain its current level of capitalization by generating favorable operating returns and not having to depend on parental contributions.

## CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Pretax Operating Income	Source of Surplus Growth			Change in PHS	PHS Growth (%)
		Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax		
2004	-271	137	750	-168	448	1.8
2005	1,117	-18	...	-562	536	2.1
2006	2,289	47	...	-939	1,396	5.4
2007	2,220	206	-1,000	-858	568	2.1
2008	-2,129	-1,499	113,000	578	109,949	391.9
5-Yr	3,225	-1,127	112,750	-1,949	112,898	...

## QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	% of PHS			—Dividend Requirements—		
		Cap. Stock/Contrib. Cap.	Other	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2004	25,553	100.8	...	-0.8	...	...	...
2005	26,089	98.7	...	1.3	...	...	...
2006	27,486	93.7	...	6.3	...	...	...
2007	28,054	91.8	...	8.2	-1,000	45.1	76.6
2008	138,003	100.5	...	-0.5	...	...	...

## LEVERAGE ANALYSIS

Period Ending	Company			Industry Composite		
	NPW to PHS	Res. to PHS	Net Lev.	NPW to PHS	Res. to PHS	Net Lev.
2004	0.3	0.1	1.0	0.7	1.0	2.3
2005	0.3	0.2	1.2	0.6	1.0	2.3
2006	0.2	0.2	1.0	0.6	1.0	2.2
2007	0.2	0.3	0.8	0.5	0.9	2.0
2008	0.2	0.1	0.8	0.5	1.0	2.0

Current BCAR: 153.4

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## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW		NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2004	41,133	999.9	41,133	999.9	8,238	999.9	4,387	999.9
2005	41,997	2.1	41,997	2.1	7,763	-5.8	7,125	62.4
2006	30,617	-27.1	30,617	-27.1	5,415	-30.2	6,970	-2.2
2007	26,541	-13.3	26,541	-13.3	4,929	-9.0	5,334	-23.5
2008	150,391	466.6	150,391	466.6	31,110	531.2	13,137	146.3
5-Yr CAGR	...	220.7	...	220.7	...	222.9	...	312.5
5-Yr Chg	...	999.9	...	999.9	...	999.9	...	999.9

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/08	Unpaid Res. to Develop. (%)
	2003	4	21	425.0	0.1	190.9	22
2004	2,147	1,938	-9.7	-0.8	44.2	327	16.9
2005	4,714	5,134	8.9	1.6	72.1	2,038	39.7
2006	6,105	6,394	4.7	1.1	91.7	3,053	47.7
2007	6,883	7,453	8.3	2.0	139.7	4,466	59.9
2008	9,755	9,755	...	...	74.3	9,755	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Unpaid Reserves @12/08	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
	2003	4	21	425.0	22	209.1
2004	2,146	1,917	-10.7	305	48.9	80.2
2005	3,020	3,886	28.7	1,711	62.7	100.3
2006	2,904	3,053	5.1	1,015	51.9	95.5
2007	2,192	2,625	19.8	1,413	60.0	97.4
2008	5,289	5,289	...	5,289	43.4	76.5

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Ceded Reins. Total	Bus. Ret. (%)	Reins. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. to PHS (%)	Ceded Reins. to PHS (%)	
2004	311	20.0	0.3	1.2	43.5	103.4	144.1	
2005	4,821	18.5	9.0	18.5	42.7	111.9	147.0	
2006	5,227	17.7	8.4	19.0	45.6	90.4	123.1	
2007	3,282	18.6	5.5	11.7	45.2	70.4	95.6	
2008	3,367	20.7	1.6	2.4	45.8	74.8	99.6	

## 2008 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	16,116	22,635	77,998	744	117,493
Foreign Affiliates.....	230	506	246	...	982
US Insurers.....	64	240	287	69	660
Other Non-US.....	72	427	80	...	579
Total (ex US Affils).....	366	1,173	613	69	2,221
Grand Total.....	16,482	23,808	78,611	813	119,714

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2004	9.8	...	...	9.6	19.4	...	1.5	18.7
2005	...	...	...	...	...	...	1.6	17.7
2006	...	...	...	12.3	12.3	...	1.0	18.6
2007	...	...	...	17.7	17.7	...	0.9	17.3
2008	...	...	...	2.2	2.2	...	2.8	10.5

## LIQUIDITY

The following text is derived from the report of QBE Re Group - US.

Overall liquidity remains stable, supported by positive operating cash flows. The group maintains a conservative investment philosophy which allocates a substantial amount of the overall portfolio to cash and cash equivalents. This conservative strategy is a positive rating factor following the turmoil in the financial markets in 2008. The portfolio's average fixed-income maturity is short at approximately two years. The group's claims payment pattern is also short given the profile of its health, property and short-tail casualty business.

## LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2004	336.7	399.2	239.0	3.7	36.5	131.3	159.1	12.9
2005	223.9	246.0	216.1	7.3	32.6	133.3	158.2	13.5
2006	233.2	266.5	232.2	17.2	36.8	142.5	161.0	12.3
2007	286.1	309.5	267.6	20.1	33.7	148.8	168.1	10.5
2008	415.2	451.8	282.7	16.0	30.3	144.2	165.4	9.6

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)	
2004	3,223	3,476	2,440	236.6	229.4	207.5	201.0	
2005	3,441	3,745	7,519	182.5	180.4	149.5	156.7	
2006	3,341	3,575	4,664	162.2	158.1	158.1	159.7	
2007	379	982	-5,217	108.8	119.3	146.6	144.1	
2008	1,254	1,774	106,654	110.1	114.1	121.9	133.5	

## HISTORY

This company was incorporated on August 28, 2002 under the laws of North Dakota. The company is a wholly-owned subsidiary of QBE Insurance Corporation. Paid up capital of \$3,500,000 consists of 500,000 common shares at \$7.00 par value each.

## MANAGEMENT

QBE Specialty Insurance Company is a wholly-owned subsidiary of QBE Insurance Corporation. Effective September 30, 1997, the administration of the QBE Insurance Corporation's affairs was assumed by QBE Reinsurance Corporation, the company's immediate parent.

**Officers:** Chief Executive Officer, John Rumppler; President, Stephen Fitzpatrick; Senior Executive Vice President and Chief Underwriting Officer, James J. Fiore; Executive Vice President, Treasurer and Chief Financial Officer, Christopher C. Fish; Senior Vice President, Secretary and Chief Legal Officer, Peter T. Maloney; Senior Vice Presidents, Shaun Flynn (Risk), Dean Haring (Claims), Nancy L. Kelly (Human Resources).

**Directors:** James J. Fiore, Christopher C. Fish, Alan J. Levin, Vince McLenaghan, Francis M. O'Halloran, Anthony R. Przybyszewski.

## REGULATORY

An examination of the financial condition is being made as of December 31, 2008 by the Insurance Department of North Dakota. The 2008 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Nicholas H. Pastor, FCAS, MAAA, Senior Vice President & Chief Actuary.

**Territory:** The company is licensed in North Dakota. It also operates on a surplus lines or non-admitted basis in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NY, NC, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.

## REINSURANCE

The following text is derived from the report of QBE Re Group - US.

QBE Re Group - US is both a provider and buyer of reinsurance protection. Reinsurance protection is purchased for the entire QBE the Americas Division as whole. From year to year, the program purchased is modified based on the division's needs.

# Best's Rating Report

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## BALANCE SHEET

ADMITTED ASSETS (\$000)				
	12/31/08	12/31/07	'08%	'07%
Bonds .....	21,277	11,765	10.0	26.2
Common stock .....	3,048	4,958	1.4	11.0
Cash & short-term invest .....	125,324	18,671	58.7	41.6
Total invested assets .....	149,650	35,394	70.1	78.8
Premium balances .....	59,429	6,383	27.8	14.2
Accrued interest .....	1,162	743	0.5	1.7
All other assets .....	3,310	2,376	1.5	5.3
Total assets .....	213,550	44,897	100.0	100.0
LIABILITIES & SURPLUS (\$000)				
	12/31/08	12/31/07	'08%	'07%
Loss & LAE reserves .....	9,863	7,027	4.6	15.7
Unearned premiums .....	20,580	2,606	9.6	5.8
Conditional reserve funds .....	9	64	0.0	0.1
All other liabilities .....	45,095	7,146	21.1	15.9
Total liabilities .....	75,547	16,843	35.4	37.5
Capital & assigned surplus .....	138,750	25,750	65.0	57.4
Unassigned surplus .....	-747	2,304	-0.3	5.1
Total policyholders' surplus .....	138,003	28,054	64.6	62.5
Total liabilities & surplus .....	213,550	44,897	100.0	100.0

## SUMMARY OF 2008 OPERATIONS (\$000)

Statement of Income	12/31/08	Funds Provided from Operations	12/31/08
Premiums earned .....	13,137	Premiums collected .....	13,705
Losses incurred .....	5,156	Benefit & loss related pmts .....	1,691
LAE incurred .....	1,073	LAE & undrw expenses paid .....	10,760
Undrw expenses incurred .....	10,307	Undrw cash flow .....	1,254
Net underwriting income .....	-3,399	Investment income .....	610
Net investment income .....	1,287	Other income/expense .....	-17
Other income/expense .....	-17	Pre-tax cash operations .....	1,847
Pre-tax oper income .....	-2,129	Income taxes pd (recov) .....	73
Realized capital gains .....	-684	Net oper cash flow .....	1,774
Income taxes incurred .....	555		
Net income .....	-3,368		

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A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

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A and A- .....	Excellent
B++ and B+ .....	Good

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C++ and C+ .....	Marginal
C and C- .....	Weak
D .....	Poor
E .....	Under Regulatory Supervision
F .....	In Liquidation
S .....	Rating Suspended

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