

Report of Examination of

**Evergreen National Indemnity Co.**  
Mayfield Heights, Ohio

As of December 31, 2009

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Mayfield Heights, Ohio  
February 11, 2011

Honorable Susan E. Voss  
Commissioner  
Chairman, Financial Condition (E) Committee  
National Association of Insurance Commissioners  
Iowa Insurance Division  
330 Maple Street  
Des Moines, Iowa 50319-0065

Honorable Mary Taylor  
Lt. Governor/Director  
Ohio Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Madams:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**Evergreen National Indemnity Co.**

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company.”) The examination was conducted at the Company’s home office, located at 6140 Parkland Boulevard, Suite 321, Mayfield Heights, Ohio.

**Scope of Examination**

The Department last examined the Company as of December 31, 2004. The current examination covers the period of January 1, 2005 through December 31, 2009.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

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

For examination years 2005 and 2006, the certified public accounting firm of KPMG LLP and for examination years 2007 to 2009, the certified public accounting firm of BDO Speidman, LLP (“BDO”), each provided an unqualified opinion based on statutory accounting principles. Relevant work performed by BDO during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

### **Management and Control**

#### **Board of Directors**

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Charles D. Hamm, Jr.	Chief Executive Officer, President of Company and Continental Heritage Insurance Company
Craig L. Stout	Chairman of Contract Operations Planning, LLC Vice President of Company and Continental Heritage Insurance Company
Edward F. Feighan	Chief Operating Officer of Company and Continental Heritage Insurance Company
David A. Canzone	Treasurer and Chief Financial Officer of Company and Continental Heritage Insurance Company
Roswell P. Ellis	Retired

#### **Officers**

As of the examination date, the following officers were elected and serving in accordance with the Company’s Bylaws:

<b><u>Name</u></b>	<b><u>Title</u></b>
Charles D. Hamm, Jr.	President
Edward F. Feighan	Chief Operating Officer
David A. Canzone	Chief Financial Officer and Treasurer
Wan C. Collier	Secretary

## Insurance Holding Company System

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. ProAlliance Corporation owns 65.06% of the voting stock of the Company. The following displays the chain of ownership of the insurance companies as of December 31, 2009:

ProAlliance Corporation (Ohio) 30.35%  
Waste Management Holdings, Inc. (Delaware) 19.9%  
Allied Waste North America, Inc. (Delaware) 19.9%  
Casella Waste Systems, Inc. (Delaware) 19.9%  
Waste Connections, Inc. (Delaware) 9.95%  
    Evergreen National Indemnity Company (Ohio) 100%  
    Continental Heritage Insurance Company (Florida)

## Territory and Plan of Operations

Except for the States of Hawaii, North Carolina and West Virginia, the Company is licensed to transact business in all states and the District of Columbia. The Company works with United Nations Insurance Agency, Inc. to write their surety business.

The following schedule illustrates the Company's premium written in 2009 by line of business:

	<b>Direct</b>	<b>Assumed</b>	<b>Ceded</b>	<b>Net</b>	<b>Percent</b>
Surety	32,693,781	3,048,564	25,510,780	10,231,565	98.4%
Other liability - occurrence	12,973	100,998	12,973	100,998	1.0%
Warranty	37,905	21,890	0	59,795	0.6%
Commercial auto liability	-20,668	0	-20,668	0	0.0%
Auto physical damage	<u>-3,182</u>	<u>0</u>	<u>-3,182</u>	<u>0</u>	<u>0.0%</u>
Totals	<u>32,720,809</u>	<u>3,171,452</u>	<u>25,499,903</u>	<u>10,392,358</u>	<u>100.0%</u>

## Significant Operating Results

The Company reported the following net underwriting results, reported in thousands, during the examination period:

	2009	2008	2007	2006	2005
Premiums earned	<u>\$ 10,594</u>	<u>\$ 10,823</u>	<u>\$ 10,929</u>	<u>\$ 8,814</u>	<u>\$ 7,980</u>
Losses incurred	133	211	595	-691	-227
Loss adjustment expense incurred	63	398	395	663	215
Underwriting expense incurred	<u>7,754</u>	<u>7,887</u>	<u>8,801</u>	<u>7,871</u>	<u>6,484</u>
Total underwriting deductions	<u>7,950</u>	<u>8,496</u>	<u>9,791</u>	<u>7,843</u>	<u>6,471</u>
Net underwriting gain	\$ 2,643	\$ 2,328	\$ 1,138	\$ 971	\$ 1,509
Pure loss ratio	1.3%	1.9%	5.4%	-7.8%	-2.8%
Loss adjustment expense ratio	<u>0.6%</u>	<u>3.7%</u>	<u>3.6%</u>	<u>7.5%</u>	<u>2.7%</u>
Loss ratio	1.9%	5.6%	9.1%	-0.3%	-0.2%
Underwriting expense ratio	<u>74.6%</u>	<u>70.5%</u>	<u>78.2%</u>	<u>82.6%</u>	<u>76.3%</u>
Combined ratio	<u>76.5%</u>	<u>76.1%</u>	<u>87.3%</u>	<u>82.3%</u>	<u>76.1%</u>

## Reinsurance

The Company cedes 50% of its landfill surety bonds up to \$1.2MM to the Ohio Indemnity Company (“OIC”) via a quota share agreement. In addition, the Company assumes the same type of bonds written by OIC at 50% via a similar quota share agreement.

All landfill surety bonds between \$1.5MM up to \$10MM (including those assumed from OIC) are ceded via a variable quota share agreement. The variable quota share agreement is structured so that the Company will only have up to \$1.25MM of exposure.

The Company assumes all of the contract surety bonds written by OIC and Century Surety Company at 100% and cedes all of the contract surety bonds assumed by OIC and CSC, as well as its direct written bonds, at a rate of 75% via a straight quota share agreement.

Except for the OIC assumed and ceded surety contract bond quota share agreements not having an arbitration clause, all contracts contained the guidelines prescribed by the NAIC.

### **Financial Statements**

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus  
December 31, 2009**

**Admitted assets**

Bonds	\$ 28,166,372
Preferred stocks	1,467,590
Common stocks	7,070,725
Cash	<u>8,837,289</u>
Total cash and invested assets	45,541,976
Investment income due and accrued	267,863
Uncollected premiums and agents' balances in the course of collection	2,134,978
Amounts recoverable from reinsurers	302,414
Current federal and foreign income tax recoverable	1,602
Net deferred tax asset	390,363
Electronic data processing equipment and software	31,737
Receivables from parent, subsidiaries and affiliates	211,813
Total admitted assets	<u>\$ 48,882,745</u>

**Liabilities**

Losses	\$ 2,336,642
Loss adjustment expenses	1,422,857
Commissions payable, contingent commissions and other similar charges	2,327,696
Other expenses	597,647
Taxes, licenses and fees	107,525
Unearned premiums	4,412,137
Ceded reinsurance premiums payable	3,471,445
Amounts withheld or retained by company for account of others	904
Aggregate write-ins for liabilities:	
Miscellaneous payable	13,537
Collateral account	<u>1,298,462</u>
Total liabilities	15,988,852

**Capital and Surplus**

Common capital stock	3,018,004
Gross paid in and contributed surplus	25,841,820
Unassigned funds	<u>4,034,069</u>
Surplus as regards policyholders	<u>32,893,893</u>
Total liabilities, capital and surplus	<u>\$ 48,882,745</u>

**Statement of Income**  
**As of December 31, 2009**

Premium earned	<u>\$ 10,593,506</u>
Losses incurred	133,065
Loss adjustment expenses	62,899
Other underwriting expenses incurred	<u>7,754,480</u>
Net underwriting gain	<u>2,643,062</u>
Net investment income earned	1,111,982
Net realized capital losses	<u>(580,616)</u>
Net investment gain	<u>531,366</u>
Net loss from agents' or premium balances charged off	(147)
Aggregate write-ins for miscellaneous income:	
Miscellaneous income	<u>195,403</u>
Total other income	<u>195,256</u>
Net income before dividends to policyholders and federal income taxes	3,369,684
Federal income taxes incurred	<u>1,360,133</u>
Net income	<u>\$ 2,009,551</u>

**Statement of Changes in the Capital and Surplus Account**  
(In thousands)

<u>Capital and Surplus</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital & surplus, prior year end	<u>\$ 31,813</u>	<u>\$ 31,318</u>	<u>\$ 31,197</u>	<u>\$ 31,341</u>	<u>\$ 30,052</u>
Net income	2,009	1,942	3,201	1,452	2,395
Change in net unrealized capital gains or (losses)	889	(401)	(1,524)	480	310
Change in net deferred income tax	(33)	471	191	(18)	(367)
Change in non-admitted assets	216	(267)	(669)	11	18
Dividends to stockholders	(2,000)	(1,250)	(1,000)	(2,000)	(1,000)
Aggregate write-ins for gains and losses in surplus					
Amortization of goodwill	-	-	-	(68)	(68)
Changes in beginning unearned premium	-	-	(124)	-	-
Amortization of prepaid expense	-	-	46	-	-
Net change in capital and surplus	<u>1,081</u>	<u>495</u>	<u>121</u>	<u>(144)</u>	<u>1,289</u>
Capital and surplus, current year end	<u>\$ 32,894</u>	<u>\$ 31,813</u>	<u>\$ 31,318</u>	<u>\$ 31,197</u>	<u>\$ 31,341</u>

## Notes to Financial Statements

### Investments

The Company's investment portfolio consists primarily of investment grade bonds and is in compliance with Section 3925.08 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

### Loss and Loss Adjustment Expense Reserves

The Company had outside actuaries Ronald T. Kozlowski, FCAS, MAAA, certify the total reserves for examination years 2005 to 2008 and Tapio N. Boles, FCAS, MAAA, certify the total reserves for examination year 2009.

Mary D. Miller, Assistant Director - Product Regulation and Actuarial Services of the Department, reviewed the actuarial studies performed and determined the loss and loss adjustment expense ("LAE") reserves presented in the Company's 2009 annual statement appear to make a reasonable provision for the Company's loss and LAE reserves.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

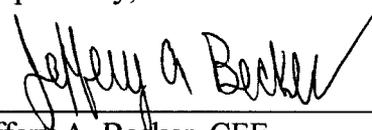
Total Admitted Assets	<u>\$ 48,882,745</u>
Liabilities	\$ 15,988,852
Surplus as Regards Policyholders	<u>32,893,893</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 48,882,745</u>

## Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: Kim Somogyi, CPA; Edward Nagorny, CFE, CPA; Trish Mesler, CPA; Mary D. Miller, FCAS, MAAA; Bradley Schroer; Jeffrey Ferris, AES, CISA and Vicky Hugo, CFE, CPA.

Respectfully,



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Jeffery A. Becker, CFE

Examiner-In-Charge  
Office of Risk Assessment  
Ohio Department of Insurance



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David Cook, CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

Jeffery A. Becker  
Examiner-In-Charge

2/14/11  
Date

Elizabeth Chase  
Assistant Chief Examiner

2/14/11  
Date

State of Ohio

County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 14 day of February, 2011.

Elizabeth Chase

(Notary Public)

**ELIZABETH CHASE**

NOTARY PUBLIC, STATE OF OHIO

**MY COMMISSION EXPIRES MAY 22, 2012**

My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named, David Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 14 day of February, 2011.

Elizabeth Chase

(Notary Public)

**ELIZABETH CHASE**

NOTARY PUBLIC, STATE OF OHIO

**MY COMMISSION EXPIRES MAY 22, 2012**

My Commission Expires