

Report of Examination of

Evergreen National Indemnity Company
Mayfield Heights, Ohio

As of December 31, 2014

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Columbus, Ohio
May 12, 2016

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

Dear Lt. Governor/Director:

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 Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company or Evergreen.”

Scope of Examination

The Department last examined the Company as of December 31, 2009. The Department’s current examination covers the period from and including January 1, 2010 through December 31, 2014.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statements of Statutory Accounting Principles (“SSAP”). The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact, as mentioned in the ORC Section 3901.07 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination reports but separately communicated to other regulators and/or the Company.

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:

Name	Principal Occupation
David A. Canzone	Chief Financial Officer (“CFO”)/Treasurer, The Company
James D. Lackie	President, Lackie Trading, Inc.
Robert W. Shepard	Vice President of Finance, The Company
Charles K. Slatery	President, NFC Investments, LLC.
Matthew T. Tucker	President, The Company

Officers

As of the examination date, the following officers were serving in the designated position:

Name	Title
Matthew T. Tucker	President
David A. Canzone	CFO & Treasurer
Wan C. Collier	Secretary
Robert W. Shepard	Vice President of Finance

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. Effective August 1, 2014, Evergreen’s Insurance Holding Company, ProAlliance Corporation (an Ohio corporation) and its shareholders entered into a stock purchase agreement with Stillwater Insurance Company (“SIC”). Under the terms of this agreement, SIC purchased 90% of the issued and outstanding capital stock of ProAlliance Corporation with the remaining outstanding issued and outstanding stock of 10% remaining under the control of various investors.

The ultimate controlling person of Evergreen is WBL Partners, LLC (“WBL Partners”). WBL Partners is located in Memphis, Tennessee and is a Tennessee Limited Liability Company. WBL Partners invests primarily in both private and publically traded investments and considers investments in all industries, with a focus in the insurance industry.

Territory and Plan of Operations

The Company is licensed to operate in 47 states and the District of Columbia. Evergreen’s operations are focused on specialty surety programs which include landfill closure and post closure bonds, standard and non-standard contract surety and waste collection bonds. The Company writes business throughout most of the continental United States and distributes its surety products via general agents.

For the year 2014, the waste/landfill net earned premiums account for approximately 82.3% of the Company’s total net earned premiums with the remaining amounts from contract surety and assumed bail bond business.

Reinsurance

The waste industry surety business with bond penalty amounts of \$1.2 million or less are ceded on a quota share basis with 50% being reinsured. Bonds with penalty amounts greater than \$1.2 million up to \$15 million are reinsured under a variable quota share agreement ranging from 50% to 85% ceded based on the bond penalty amount. Evergreen’s aggregate cover for its contract surety business is covered under a 75% quota share basis on the first \$5 million in losses. Evergreen generally limits its retention to \$2.25 million on any one bond via its quota share and facultative reinsurance programs.

Effective January 1, 2004, Evergreen entered into a loss portfolio transfer and quota share reinsurance agreement with Century Surety Company (“Century”) whereby Evergreen ceded all of its non-surety net (after reinsurance to other admitted carriers) property and casualty and commercial automobile lines of business to Century. The result is that Evergreen has no retention on the non-surety lines of business and only retains traditional surety line of business.

Effective April 1, 2012, Evergreen entered into a quota share reinsurance agreement with Continental Heritage Insurance Company (“CHIC”) for which Evergreen assumed 67% of bail surety premium written by CHIC. Effective January 1, 2013, the amount assumed by Evergreen was reduced to 33%. This agreement was terminated on July 1, 2015.

Significant Operating Results

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

	2014	2013	2012	2011	2010
Premiums earned	<u>\$12,097</u>	<u>\$11,882</u>	<u>\$11,668</u>	<u>\$11,471</u>	<u>\$11,408</u>
Losses incurred	301	(60)	(209)	40	(9)
Loss adjustment expenses incurred	(274)	(102)	(187)	(84)	162
Other underwriting expenses incurred	<u>10,721</u>	<u>8,988</u>	<u>9,144</u>	<u>7,989</u>	<u>8,360</u>
Total underwriting deductions	<u>10,748</u>	<u>8,826</u>	<u>8,748</u>	<u>7,945</u>	<u>8,513</u>
Net underwriting gains	<u>\$ 1,349</u>	<u>\$ 3,056</u>	<u>\$ 2,920</u>	<u>\$ 3,526</u>	<u>\$ 2,895</u>

Financial Statements

The financial condition and the results of its operations for the 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, 2014**

Bonds	\$ 19,927,610
Preferred stocks	4,215,923
Common stocks	9,631,168
Mortgage loans on real estate-First liens	840,736
Cash, cash equivalents, and short term investments	6,375,255
Other invested assets	2,554,997
Receivables for securities	<u>52,285</u>
Subtotal, cash and invested assets	43,597,974
Investment income due and accrued	290,942
Uncollected premiums and agents' balances	2,062,101
Amounts recoverable from reinsurers	315,130
Net deferred tax asset	479,241
Electronic data processing equipment and software	9,509
Miscellaneous receivable	<u>4,611</u>
Total admitted assets	<u><u>\$ 46,759,508</u></u>

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2014**

Losses	\$ 2,543,335
Loss adjustment expenses	943,087
Other expenses	171,356
Taxes, licenses and fees (exc. federal and foreign income taxes)	189,245
Current federal and foreign income taxes	96,011
Unearned Premiums	4,871,404
Ceded reinsurance premiums payable (net of ceding commissions)	3,526,692
Unrestricted Collateral	945,719
Pledged as Collateral	<u>263,325</u>
Total liabilities	<u>13,550,174</u>
Common capital stock	3,018,004
Gross paid in and contributed surplus	25,841,820
Unassigned funds (surplus)	<u>4,349,510</u>
Total capital and surplus	<u>33,209,334</u>
Total liabilities, capital and surplus	<u>\$ 46,759,508</u>

Statement of Income
As of December 31, 2014

Premiums earned	<u>\$ 12,096,591</u>
Losses incurred	301,251
Loss adjustment expenses incurred	(274,267)
Other underwriting expenses incurred	<u>10,721,074</u>
Total underwriting deductions	<u>10,748,058</u>
Net underwriting gain	<u>1,348,533</u>
Net investment income earned	849,340
Net realized capital gains	<u>454,783</u>
Net investment gain	<u>1,304,123</u>
Aggregate write-ins for miscellaneous income	<u>627</u>
Total other income	<u>627</u>
Net income before federal income taxes	2,653,283
Federal income taxes incurred	<u>748,122</u>
Net income	<u><u>\$ 1,905,161</u></u>

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and surplus, beginning of the year	\$ 33,861	\$ 33,652	\$ 33,769	\$ 32,480	\$ 32,894
Net income	1,905	2,666	2,800	4,414	1,311
Change in Net Unrealized capital gains (losses)	(150)	(38)	95	(1,016)	392
Change in Net Deferred Taxes	(106)	(497)	(81)	(110)	409
Change in Non-Admitted Assets	172	528	169	251	(276)
Dividends to Stockholders	(2,450)	(2,450)	(3,100)	(2,250)	(2,250)
Aggregate Write-ins for Gains & Losses	(23)	0	0	0	0
Net change in capital and surplus during the year	<u>(652)</u>	<u>209</u>	<u>(117)</u>	<u>1,289</u>	<u>(414)</u>
Capital and surplus, end of the year	<u>\$ 33,209</u>	<u>\$ 33,861</u>	<u>\$ 33,652</u>	<u>\$ 33,769</u>	<u>\$ 32,480</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant SSAP and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Tapio Boles, FCAS, MAAA, of Towers Watson, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Boles prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2014 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, the Department's Chief Property & Casualty Actuary reviewed the 2012, 2013, and 2014 Actuarial Reports that were prepared by Mr. Boles. Mr. Botsko reviewed Mr. Boles' analysis within these reports and evaluated his selections for reasonableness and reviewed the Company's 2015 Annual Statement for the year-to-date run-off of the 2014 reserves. Also, Mr. Botsko participated in the examination interviews with Mr. Boles and the Company's President and CFO.

Mr. Botsko determined that the Loss and Loss Adjustment Expense ("LAE") Reserves presented in the Company's December 2014 Annual Statement appear to be slightly redundant. While he noted that the actual results may vary from the carried reserves, he determined that it was unlikely that any variance would impair the company's solvency position.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2014, and is summarized as follows:

Total Assets	<u>\$ 46,759,508</u>
Liabilities	13,550,174
Capital and Surplus	<u>33,209,334</u>
Total Liabilities, Capital and Surplus	<u>\$ 46,759,508</u>

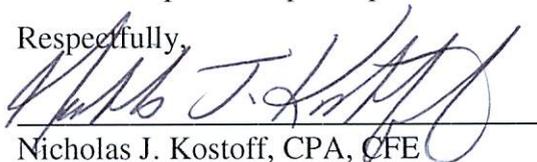
Subsequent Events

There have been no subsequent events to the examination date that would have a material effect on the financial condition of the Company.

Acknowledgement

In addition to the aforementioned and undersigned, Louis Radecky, CPA (inactive), CFE, Ryan Gibson, AES, CFE, CISA, FLMI, and Bradley Schroer of the Department participated in this examination.

Respectfully,



Nicholas J. Kostoff, CPA, CFE
Examiner-In-Charge
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Ohio Department of Insurance

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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, 2014.

[Signature] 5/19/16 [Signature] 5/19/16
Examiner-In-Charge Date Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff 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 19 day of May, 2016.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires

Personally appeared before me the above named David A. 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 19 day of May, 2016.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires