STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Lumbermen's Underwriting Alliance for the period ended December 31, 2011

ORDER

After full consideration and review of the report of the financial examination of Lumbermen's Underwriting Alliance f or the period ended December 31, 2011, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Lumbermen's Underwriting Alliance as of December 31, 2011, be and is hereby ADOPTED as filed and for Lumbermen's Underwriting Alliance to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 12th day of October, 2012.

John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration

FINANCIAL EXAMINATION

Lumbermens Underwriting Alliance

AS OF:
DECEMBER 31, 2011

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Date: September 17, 2012
Saint Louis, Missouri

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, MO 65101

Director Huff:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Lumbermen's Underwriting Alliance

also referred to as the "Alliance." The examination was conducted at the Alliance's main administrative office at 1905 N.W. Corporate Blvd., Boca Raton, Florida 33431, telephone number (561) 994-1900 and at the Missouri Department of Insurance, Financial Institutions and Professional Registration (Department) office in St. Louis, Missouri. This examination began on March 12, 2012, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of Lumbermen's Underwriting Alliance. The last examination was completed as of December 31, 2008. This examination covers the period of January 1, 2009, through December 31, 2011. This examination also considered material transactions or events that occurred after December 31, 2011.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook) except where practices, procedures and applicable regulations of the Department or statutes of the state of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and to identify prospective risks of the Alliance. This process involves obtaining information about the Alliance, including its corporate governance, identifying and assessing inherent risks within the Alliance and evaluating the system controls and procedures used by the Alliance to mitigate those risks. The examination also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation, including compliance with Statutory Accounting Principles and Annual Statement Instructions.

All accounts and activities of the Alliance were considered in accordance with the risk-focused examination process. We identified the following key activities: Reserves, Premiums, Investments, Reinsurance, Expenses, Taxes, and Other Liabilities and Surplus.

The Alliance's independent auditor, Johnson Lambert & Co. LLP, provided information and workpapers from their 2010 and 2011 audits. We relied upon work performed by the independent auditor, including fraud risk analysis, internal control narratives, walk-throughs and tests of controls, when appropriate.

SUMMARY OF SIGNIFICANT FINDINGS

In 2011, the Alliance experienced a 34.5% decline in surplus. The NAIC defines a surplus decline greater than 10% as a material adverse development. The Alliance's surplus decline was driven by higher than expected, and higher than average, loss ratios in both its property and workers compensation lines, 104% and 90%, respectively. Contributing to the high property loss ratio were continuing poor operating results in Canada and windstorm losses in the United States.

Because of ongoing poor operating results there, in 2011 the Alliance decided to exit the Canadian market. Beginning July 1, 2011, no new business was written in Canada; beginning January 1, 2012, no renewal business was written there. Canadian written premium declined from $44.7 million in 2010 to $14.7 million in 2011. The Alliance anticipates substantially completing its exit by year-end 2012. Because the Canadian business is solely property coverage, claims run-off is expected to occur quickly.

SUBSEQUENT EVENTS

There were no events occurring subsequent to December 31, 2011, through the completion of field work, that would materially impact the amounts reported in the annual statement.

COMPANY HISTORY

General

Lumbermen's Underwriting Alliance commenced business in 1905 as a reciprocal inter-insurance exchange in Kansas City, Missouri. The Alliance was organized under the laws of the state of Missouri to allow owners of lumber and wood-products plants to exchange insurance. The Alliance is currently licensed by the Department to write property and liability insurance under Section 379 RSMo (Insurance other than life).

Capital Stock

The Alliance does not issue capital stock. The Alliance is not incorporated nor does it have stockholders.

Dividends
Per the Subscriber Agreement, the Alliance maintains a separate savings account for each subscriber. Excess savings are returned to the subscribers as dividends. Following are the subscriber dividends incurred during the examination period:

Year		Amount
2009	$	1,093,585
2010		336,085
2011		359,775
Total	$	1,789,445

Acquisitions, Mergers and Major Corporate Events
In July 2011, the Alliance decided to exit the Canadian market after more than ninety years of operating there. The decision was driven by on-going poor operating results: from 2006 through 2010 Canadian operations produced losses totaling $37.1 million. As of July 1, 2011, no new Canadian policies were written. As of December 31, 2011, no Canadian policies were renewed. The Alliance expects Canadian operations to be substantially ended by December 31, 2012.

Surplus Debentures
On December 14, 2001, the Alliance issued a twenty million dollar ($20,000,000) surplus note to Christine E. Lynn, Chairman of the Board of U.S. Epperson Underwriting Company. The Department approved the note on December 11, 2001. The note initially carried an interest rate of seven percent (7%) per year. On October 5, 2011, the Department approved a reduction in the interest rate to three and one-half percent (3.5%) per year, effective as of January 1, 2011. Repayment of principal or payment of interest requires the approval of the Department. There have been no repayments of principal or interest payments during the current examination period.

CORPORATE RECORDS

Subscriber Agreement
As a reciprocal, the Alliance's basic governing document is the Subscriber Agreement, which we reviewed. There were no changes to the Subscriber Agreement during the current examination period.

Minutes
We reviewed the minutes of the annual meetings of the Advisory Committee for the examination period. We also reviewed the minutes of the meetings of the Executive Committee held during the examination period. The minutes appear to properly support and document the major corporate transactions and events during the examination period.

MANAGEMENT AND CONTROL

Management

Through the Subscriber Agreement, members appoint an attorney-in-fact to manage the operations of the Alliance. U.S. Epperson Underwriting Company (Missouri) is the Alliance's attorney-in-fact. The Department does not consider an inter-insurance exchange or its attorney-in-fact members of an insurance holding company system as defined by Section 382.010 RSMo (Definitions). The Alliance is not required to file a Holding Company Registration Statement on Forms B and C.

The NAIC Accounting Practices and Procedures Manual (SSAP) defines the attorney-in-fact of a reciprocal reporting entity as a related party. The Alliance is subject to the reporting requirements of SSAP 25, Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties.

U.S. Epperson Underwriting Company receives a management commission for overseeing the affairs of the Company. Effective January 1, 2005, the Canada Subscriber Agreement was amended to allow a commission rate of up to twenty-five percent (25%) of gross written premiums. The previous commission rate had been twenty percent (20%). There were no amendments to the U.S. Subscriber Agreement during the current examination period; that commission rate remains at twenty percent (20%). U.S. Epperson Underwriting Company is also reimbursed for loss adjustment expenses, loss control fees, collection expenses and investment expenses. The fees and commissions incurred during the examination period were as follows:

	2011	2010	2009
Management commissions	$ 21,157,137	$ 25,400,646	$ 25,047,615
LAE	7,058,081	5,933,551	4,618,522
Loss control fees	3,890,836	4,681,571	4,727,195
Collection expenses	935,552	989,768	1,000,022
Investment expenses	396,358	412,372	425,948
Total	$ 33,437,964	$ 37,417,908	$ 35,819,302

Advisory Committee

An Advisory Committee chosen by the subscribers meets annually to review and approve investments. The Advisory Committee may also adopt rules and regulations, consistent with the Subscriber Agreement, for the exchange of insurance contracts. Advisory Committee members are elected annually. The current Advisory Committee consists of eight (8) subscribers. The members elected and serving on the Advisory Committee at December 31, 2011, were as follows:

Name	Address	Affiliation	Title
Leonard Barrett	Montreal, CN	Retired	N/A
William Carden	Kinsale, VA	Potomac Supply Corporation	President and Chief Executive Officer
William Cole	Logansport, IN	Cole Hardwood, Inc.	Chief Executive Officer
Andre Lemire	Quebec, CN	Lemire Lumber Company	President
Gaston Malette	Quebec, CN	Retired	N/A
Richard Tinney	Anacortes, WA	Washington Adler LLC	President and Chief Executive Officer
Arthur Whiting	Phoenix, AZ	Kaibab Industries	Chairman and Chief Executive Officer
Whitney Wood	Perry, GA	Tolleson Lumber Company	President

Officers

Officers appointed and serving as of December 31, 2011, were as follows:

Name	Title
Jan Carlsson	Chief Executive Officer
Michael E. North	President and Chief Operating Officer
Mindy Appel	Vice President, General Counsel and Secretary
William J. Broich, Jr.	Senior Vice President, Chief Financial Officer and Treasurer
Katherine H. Antonello	Vice President, Policy Services and Internal Audit
Carol A. Salamida	Vice President, Workers Compensation Claims
James T. Trenter	Vice President, Western Region
Wilfred J. Nance	Senior Vice President, Operations
Craig R. Smith	Vice President, Technical Services
Maurice A. Vialette	Vice President and Chief Agent, Canada

FIDELITY BONDS AND OTHER INSURANCE

The Alliance is a named insured on a $5,000,000 financial institution bond issued to the attorney-in-fact, U.S. Epperson Underwriting Company. The amount of coverage exceeds the suggested minimum amount recommended by the NAIC.

The attorney-in-fact also maintains the following coverage: property and liability, workers' compensation and employers' liability, directors' and officers' liability, professional liability, data processing, aviation, auto and umbrella. The coverage appears to adequately protect the attorney-in-fact's operations.

PENSIONS, INSURANCE PLANS AND EMPLOYEE BENEFITS

The Alliance has no employees; all personnel services are provided by the attorney-in-fact, U. S. Epperson Underwriting Company. Employees of U.S. Epperson Underwriting Company are provided with a benefit package which includes group health insurance, group term life insurance, accidental death and dismemberment insurance, dental insurance, a vision plan, long term and short term disability plan, a defined benefit plan (restricted to employees hired before January 1, 2008), a defined contribution 401(k) plan and medical and dependent-care flexible spending accounts. The Alliance incurs no liabilities related to employee benefit plans.

TERRITORY AND PLAN OF OPERATION

The Alliance is licensed by the Department as a multi-line carrier under RSMo Chapter 379 (Insurance Other than Life). The Alliance is licensed in all states except Alaska and Hawaii. The Alliance is also licensed in the District of Columbia and in all provinces in Canada. As noted above (Acquisitions, Mergers and Major Corporate Events), in 2011 the Alliance decided to exit the Canadian market.

The Alliance specializes in providing commercial property coverage to the forest products industry, assisted-living facilities and plastics manufacturers. The Alliance also specializes in providing first-dollar and high-deductible workers compensation coverage to professional employer organizations (PEOs).

Prior to 2010, the Alliance had been a direct writer. Beginning in early 2010, the Alliance began marketing through designated brokers. By transitioning to a broker-based system, the Alliance anticipated increasing its portfolio of smaller accounts, thereby decreasing its average account size and ultimately reducing its average exposure. Although the Alliance retains some direct-written business, it will increasingly rely upon the broker-based system.

GROWTH OF COMPANY

The table below details the changes in the Company's surplus and premium income over the examination period. The Company's premiums-to-surplus ratio over the examination period is also included.

	2011	2010	2009
Policyholders' Surplus	57,706,700	88,046,701	90,369,089
Change from prior year	-34.5%	-2.6%	-3.7%
Net Premium Written	63,644,277	81,742,924	74,771,602
Change from prior year	-22.1%	9.3%	-16.2%
Premium : Surplus ratio	1.10	0.93	0.83

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last three years.

	2011	2010	2009
Premiums Earned	$ 83,269,928	$ 80,335,442	$ 65,925,410
Total U/W Deductions	(118,195,736)	(91,732,826)	(88,548,302)
Net U/W Loss	(34,925,808)	(11,397,384)	(22,622,892)
Investment Income	9,450,190	8,964,063	8,579,636
Other Income	(2,480,656)	(992,150)	(520,569)
Net Income *	$ (27,956,274)	$ (3,425,471)	$ (14,563,825)

*Before subscriber dividends and federal income taxes.

REINSURANCE

General

The Alliance secures reinsurance in order to: balance liabilities and risks assumed to levels appropriate to its capital structure; reduce or limit exposure on particular risks or classes of risks; protect against accumulation of losses arising from catastrophes; and, provide stability to operating results over time. The Alliance's premiums on a direct written, assumed and ceded basis for the current examination period were as follows:

	2011	2010	2009
Direct	$ 108,270,247	$ 120,280,376	$ 114,209,217
Assumed	3,860,672	1,854,217	229,054
Ceded	(48,486,642)	(40,391,669)	(39,666,669)
Net	$ 63,644,277	$ 81,742,924	$ 74,771,602

Assumed

Property Liability

During 2011, the Alliance entered into a fronting agreement with Companion Property and Casualty Insurance Company and Companion Specialty Insurance Company ("Companion companies"), whereby the Companion companies cede 100% of select property business in return for a 7% ceding commission. The Alliance then retrocedes a portion of this business under the terms of the current reinsurance programs in place for the Alliance's direct business. The liabilities assumed under these agreements are similar to those covered by the Alliance's direct policies.

Ceded

Workers Compensation Excess of Loss
Effective January 1, 2011, the Alliance retains the first one million dollars ($1,000,000) of workers' compensation exposure. The Alliance cedes the next forty-nine million ($49,000,000) in four layers: $4 million excess of $1 million; $5 million excess of $5 million; $10 million excess of $10 million; and, $30 million excess of $20 million. AonBenfield, the Alliance's reinsurance intermediary, places the reinsurance with various reinsurers, including Lloyd's Underwriters. The Alliance has decreased its initial retention from $5 million to $1 million since the previous examination.

Property per Risk Excess of Loss
Effective January 1, 2011, the Alliance retains the first two million dollars ($2,000,000) of property per risk exposure. The Alliance cedes the next forty-eight million ($48,000,000) in four layers: $2 million excess of $2 million; $6 million excess of $4 million; $15 million excess of $10 million; and, $25 million excess of $25 million. AonBenfield, the Alliance's reinsurance intermediary, places the reinsurance with various reinsurers, including Lloyd's Underwriters. The Alliance has decreased its initial retention from $4 million to $2 million since the prior examination.

Property Catastrophe Excess of Loss
Effective January 1, 2011, the Alliance retains the first four million dollars ($4,000,000) of property catastrophe exposure. The Alliance cedes the next sixty-six million ($66,000,000) in four layers: $4 million excess of $4 million; $10 million excess of $8 million; $12 million excess of $18 million; and, $40 million excess of $30 million. AonBenfield, the Alliance's reinsurance intermediary, places the reinsurance with various reinsurers, including Lloyd's Underwriters.

Certified Terrorism Excess of Loss
Effective January 1, 2011, the Alliance retains the first $4 million dollars ($4,000,000) of certified terrorism exposure. The Alliance cedes 100% of the next forty-six million ($46,000,000) in a single layer. The reinsurance was placed with Lloyd's Underwriters through AonBenfield, the Alliance's reinsurance intermediary.

Equipment Breakdown/Boiler & Machinery
Under an agreement effective January 1, 2010, the Alliance cedes 100% of its equipment breakdown coverage (U.S.) to Factory Mutual Insurance Company. There is a limit of one-hundred million dollars ($100,000,000) for any one accident. The Alliance is paid a 35% ceding commission. Under an agreement effective January 1, 2009, the Alliance cedes 100% of its boiler and machinery coverage (Canada) to The Boiler Inspection and Insurance Company of Canada. There is a limit of one-hundred million dollars ($100,000,000) for any one accident on any one policy. The Alliance is paid a 30% ceding commission for policies effective after January 1, 2009.

ACCOUNTS AND RECORDS

Independent Accountant

Johnson Lambert & Company, LLP, an AICPA-member public accounting firm, has audited the Alliance's financial statements annually since 2010. The most recent audit work papers were reviewed and were used in the course of the examination as deemed appropriate.

Independent Actuary

Vincent F. Yezzi, FCAS, MAAA, of Towers Watson, reviewed and certified the 2011 reserves and related actuarial items reported in the financial statements.

Consulting Actuary

Pursuant to a contract with the Department, Patrick Glenn, ASA, FCAS, MAAA, and Gregory S. Wilson, FCAS, MAAA of Lewis & Ellis, Inc., reviewed the adequacy of the Alliance's reserves and related actuarial items at December 31, 2011. The Lewis & Ellis, Inc. Statement of Actuarial Opinion concluded that all actuarial items included in the review were fairly stated in accordance with accepted actuarial loss reserving standards and principles, met the requirements of the insurance laws of Missouri, and reasonably provided for all unpaid loss and loss adjustment expense obligations of the Alliance under the terms of its policies and agreements..

Information Systems

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Department, conducted a review of the Company's information systems. No material exceptions were noted.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Department as of December 31, 2011, as reflected below, were deemed sufficient to meet the $1,200,000 deposit requirement for the state of Missouri per Section 379.098 RSMo (Securities deposit).

Type of Security	Par Value	Market Value	Statement Value
Various MO municipal bonds	$ 1,540,000	$ 1,666,927	$ 1,540,768
U.S. Treasury Note	500,000	551,410	550,625
Totals	$ 2,040,000	$ 2,218,337	$ 2,091,393

Deposits with other States

The Company has funds on deposit with other states in which it is licensed to satisfy their statutory deposit requirements. Those funds on deposit as of December 31, 2011, were as follows:

State	Type of Security	Par Value	Market Value	Statement Value
Arizona	Various	$ 7,069,000	$ 7,974,456	$ 7,139,477
California	Various	19,805,000	22,400,754	20,341,608
Delaware	US Treasury Note	100,000	111,422	107,341
Georgia	GA municipal bond	130,000	146,927	131,765
Idaho	US Treasury Note	200,000	222,844	214,682
Massachusetts	Various	1,400,000	1,695,820	1,474,505
Montana	US Treasury Note	110,000	130,505	116,947
Nevada	Wal-Mart Stores	125,000	154,158	126,152
New Mexico	OH State Bond	325,000	358,579	328,063
North Carolina	Various	431,641	471,453	457,164
Oklahoma	WA State Bond	300,000	342,813	306,915
Oregon	Various	1,175,000	1,298,073	1,203,640
South Carolina	WA State Bond	500,000	564,175	513,264
Virginia	Fed. Farm Credit Bnk	230,000	280,876	246,095
Total		$31,900,641	$ 36,152,855	$ 32,707,618

Other Deposits

The Alliance also has funds on deposit in Canada, where it is licensed in all provinces. Those funds on deposit as of December 31, 2011 were as follows:

Type of Security	Par Value	Market Value	Statement Value
Various CN securities	$ 27,800,000	$ 30,146,504	$ 28,067,093

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Alliance as of December 31, 2011, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements or comments regarding such are made in the "Comments on the Financial Statements" which follow the financial statements.

There may have been additional differences found in the course of this examination which are not shown in the "Comments on the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Alliance and noted in the workpapers for each individual financial statement item.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 172,690,757	$ -	$ 172,690,757
Common stocks	2,846,640	-	2,846,640
Cash and short-term investments	16,492,582	-	16,492,582
Derivatives	95,245	-	95,245
Investment income due and accrued	2,074,515	-	2,074,515
Uncollected premiums and agents' balances	12,915,221	436,877	12,478,344
Deferred premiums	55,795,539	130,413	55,665,126
Accrued retrospective premiums	19,752,502	992,901	18,759,601
Amounts recoverable from reinsurers	5,614,524	-	5,614,524
Net deferred tax asset	23,581,048	15,921,061	7,659,987
Guaranty funds receivable or on deposit	515,669	-	515,669
Accounts receivable	205,128	-	205,128
Amounts receivable under deductible policies	11,707,647	662,538	11,045,109
Prepaid expenses	146,642	146,642	-
Total assets	$ 324,433,659	$ 18,290,432	$ 306,143,227

LIABILITIES AND SURPLUS

Losses	$ 115,621,691
Loss adjustment expenses	15,658,857
Commissions payable	630,757
Other expenses	5,834,928
Taxes; licenses and fees	4,009,073
Unearned premiums	72,154,283
Ceded reinsurance premiums payable	4,902,914
Funds held by company under reinsurance treaties	756,791
Amounts withheld or retained for account of others	27,522,610
Provision for reinsurance	857,668
Derivatives	199,854
Miscellaneous payable	257,749
Excess Ceding Commission	29,352
Total liabilities	$ 248,436,527
Additional admitted deferred tax asset	$ 2,553,329
Surplus notes	22,484,660
Unassigned funds (surplus)	32,668,711
Total surplus	$ 57,706,700
Total liabilities and surplus	$ 306,143,227

STATEMENT OF INCOME

Premiums earned		$ 83,269,928
Losses incurred	$ 67,805,185	
Loss adjustment expenses incurred	13,699,122	
Other underwriting expenses incurred	36,691,429	
Total underwriting deductions		118,195,736
Net underwriting gain (loss)		(34,925,808)
Net investment income earned	7,848,904	
Net realized capital gains (losses)	1,601,286	
Net investment gain (loss)		9,450,190
Net gain (loss) from agents' or premium balances charged off	(9,702)	
Other balances recovered (charged off)	(1,329,440)	
Realized foreign exchange	(1,141,514)	
Total other income		(2,480,656)
Dividends to policyholders		359,775
Net income		$ (28,316,049)

SURPLUS RECONCILIATION

	2011	2010	2009
Surplus as regards policyholders, December 31 prior year	$ 88,046,701	$ 90,369,089	$ 93,792,949
Net income	(28,316,049)	(2,675,507)	(12,307,993)
Change in net unrealized capital gains or (losses)	(66,683)	233,140	637,333
Change in net unrealized foreign exchange capital gain (loss)	126,241	355,984	3,899,079
Change in net deferred income tax	10,354,382	(395,405)	342,897
Change in nonadmitted assets	(12,320,134)	469,195	3,553,721
Change in provision for reinsurance	(117,758)	(309,795)	451,103
Change in surplus notes	594,419	1,455,467	1,358,694
Change in surplus note accrued interest	(594,419)	(1,455,467)	(1,358,694)
Additional admitted deferred tax asset	(1,015,489)	(466,764)	4,035,582
Reclassification of additional admitted deferred tax asset	1,015,489	466,764	(4,035,582)
Change in surplus as regards policyholders for the year	(30,340,001)	(2,322,388)	(3,423,860)
Surplus as regards policyholders, December 31 current year	$ 57,706,700	$ 88,046,701	$ 90,369,089

EXAMINATION CHANGES

There were no examination changes resulting from the current examination.

COMMENTS ON FINANCIAL STATEMENTS

None.

SUMMARY OF RECOMMENDATIONS

As noted in the Summary of Significant Findings (page 2), the Alliance experienced a material adverse development in 2011, a 34.5% decline in surplus. The Alliance has undertaken initiatives to alleviate the surplus decline including: exiting the unprofitable Canadian market; increasing premium rates; transitioning from a direct writer to a broker-based system of marketing; exploring complementary industry niches (plastics, assisted-living facilities); and, rebalancing their mix of business between property and workers compensation. The Alliance should continue to monitor these developments to gauge their effectiveness in stabilizing operating results and in generating surplus.

ACKNOWLEDGMENT

The assistance and cooperation extended by Lumbermen's Underwriting Alliance during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Arthur Palmer, CFE, Jennifer Danz, AFE, CPA and Andrew T. Balas, CFE, AES, CPA, examiners for the Department, and Patrick Glenn, ASA, FCAS, MAAA, and Gregory S. Wilson, FCAS, MAAA of Lewis & Ellis, Inc., participated in this examination.

VERIFICATION

State of Missouri)
) ss
City of St. Louis)

I on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Alliance, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Thomas J. Cunningham

Thomas J. Cunningham, CFE, CPA
Examiner-in-Charge
Department of Insurance, Financial Institutions and Professional Registration

Sworn to and subscribed before me this 13 day of August, 2012.
My commission expires:

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
CYNTHIA L. DALPIAZ
My Commission Expires
May 12, 2015
St. Louis County
Commission #11389126

Cynthia L. Dalpiaz
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Michael R. Shadowens

Michael Shadowens, CFE
Audit Manager
Department of Insurance, Financial Institutions and Professional Registration

Lumbermen's Underwriting Alliance

A Reciprocal Inter-Insurance Exchange
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INSURING THE FUTURE
LUA
SINCE 1905

William J. Broich
Senior Vice President,
Chief Financial Officer,
Treasurer

October 9, 2012

Tammy Rodieck
Exam Coordinator
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

RE: Examination Report for the Period Ending 12/31/11
Lumbermen's Underwriting Alliance

Dear Ms. Rodieck:

In accordance with the letter addressed to me from Mr. Frederick G. Heese dated September 28, 2012, I am acknowledging the Examination Report for the period ending December 31, 2011. I have no need to submit a response or rebuttal to the report since there were no examination changes or comments.

The above noted Examination Report did include one comment in the Summary of Recommendations. It noted the several initiatives taken by management to stabilize and improve operating results and suggested that these be monitored for effectiveness. Management has and will continue to monitor the initiatives and can report that there have been very positive results from these changes during 2012.

If you have any questions or comments, please do not hesitate to contact me.

Yours truly,

William J. Broich Jr., CPA
Senior Vice President, CFO and Treasurer