



**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

**ORDER**

After full consideration and review of the report of the financial examination of Vanliner Insurance Company for the period ended December 31, 2015, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, 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, territory and plan of operation, reinsurance, financial statements, comments on financial statements, examination changes, and general comments and/or recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Vanliner Insurance Company as of December 31, 2015 be and is hereby ADOPTED as filed and for Vanliner Insurance Company 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) 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 5<sup>th</sup> day of June, 2017.



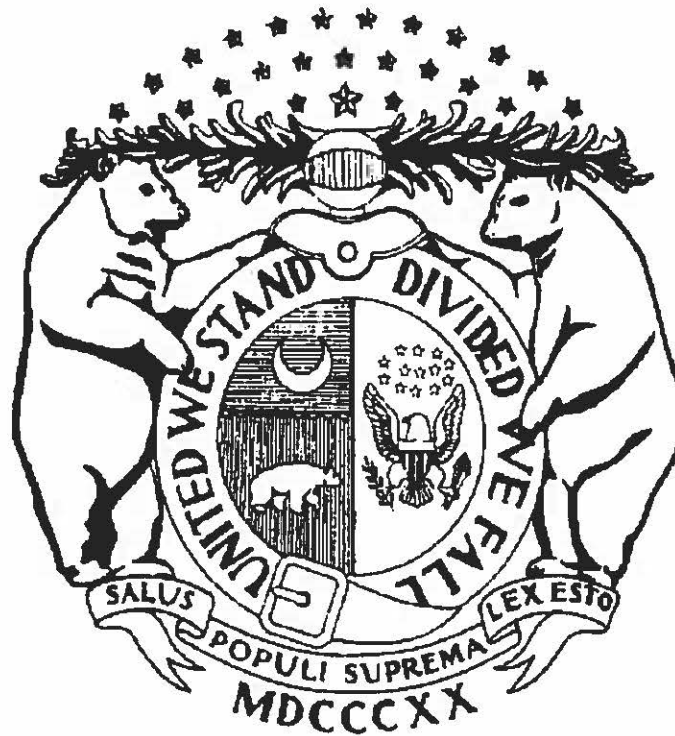
*Chlora Lindley-Myers*

Chlora Lindley-Myers, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

**REPORT OF THE  
FINANCIAL EXAMINATION OF  
VANLINER INSURANCE COMPANY**

**AS OF  
DECEMBER 31, 2015**

**FILED**  
**JUN 15 2017**  
**DIRECTOR OF INSURANCE  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION**



**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI**

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Fenton, Missouri  
April 27, 2017

Honorable Chlora Lindley-Myers, Director  
Missouri Department of Insurance, Financial Institutions  
and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Lindley-Myers:

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

**Vanliner Insurance Company**

hereinafter referred to as “Vanliner” or the “Company”. Its administrative office is located at One Premier Drive, Fenton, Missouri, 63026, telephone number (636) 660-9300. The examination began on November 14, 2016, and concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

We have performed a multi-state examination of Vanliner. The last examination was completed as of December 31, 2010. This examination covers the period of January 1, 2011, through December 31, 2015. This examination also included the material transactions or events occurring subsequent to December 31, 2015.

**Procedures**

This examination was conducted using guidelines set forth in the Financial Condition Examiners Handbook (Handbook) of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (“Department” or “DIFP”) or statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the 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.

This examination was coordinated with the concurrent examinations conducted by the Ohio Department of Insurance (ODI) for the following insurance companies: National Interstate Insurance Company (NIIC), National Interstate Insurance Company of Hawaii (NIIC-Hawaii), and Triumphe Casualty Company (TCC). The ODI was the lead state in the coordinated examinations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This includes assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. 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 is documented separately following the Company's financial statements. The following key activities were identified during the examination: Investments, Premiums, Underwriting, Claims Handling, Reserving, Related Party Transactions and Taxes.

This examination report includes significant findings of fact and general information about the Company 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 report but separately communicated to other regulators and/or the Company.

The examiners relied upon information provided by the Company's independent auditor, Ernst & Young, LLP (E&Y), of Cleveland, Ohio, for its audit covering the period from January 1, 2015, through December 31, 2015. Areas in which the testing and results from the E&Y workpapers were relied upon included journal entry testing, fraud assessment, internal controls identification and testing, bank confirmations, investment reconciliations, claim payment approval authority testing, actuarial reserve review, risk transfer testing, legal expense analysis, and attorney representation letters.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

### **SUBSEQUENT EVENTS**

There were no significant subsequent events noted from December 31, 2015 through the date of this report.

## COMPANY HISTORY

### General

Vanliner was originally incorporated as Great Southwest Fire Insurance Company under the laws of the State of Arizona on April 16, 1953 and commenced business on April 1, 1954. UniGroup, Inc. purchased 100% of the Company's common stock on September 10, 1986 and the name was changed to the current Vanliner Insurance Company. Simultaneous with the purchase, UniGroup, Inc. contributed the ownership of Vanliner common stock to its wholly owned subsidiary, Vanliner Group, Inc. The Company redomiciled from Arizona to Missouri in 2005.

National Interstate Insurance Company purchased 100% of Vanliner Group, Inc. and its subsidiaries (including Vanliner), on July 1, 2010. Vanliner Group, Inc. was dissolved, effective July 30, 2013, and Vanliner became a direct subsidiary of NIIC. Employees of NIIC perform various administrative functions for Vanliner from the NIIC headquarters in Richfield, Ohio. Vanliner employees located in the St. Louis office perform underwriting, billing and collection, claims handling, and marketing functions.

### Dividends and Capital Contributions

Vanliner paid stockholder dividends to the former direct parent, Vanliner Group, Inc., of \$10,500,000 in 2011 and \$18,000,000 in 2012. The Company did not make any other dividend payments during the examination period. No capital contributions were made or received by Vanliner during the examination period.

### Mergers and Acquisitions

An upstream parent of Vanliner, Great American Insurance Company (GAIC), entered into an agreement to purchase 49% of the common stock of National Interstate Corporation, on July 25, 2016. National Interstate Corporation (NIC) is the direct parent of NIIC. The transaction closed on November 10, 2016. This acquisition increased GAIC's ownership of National Interstate Corporation from 51% to 100%.

## CORPORATE RECORDS

A review was made of the Articles of Incorporation and Bylaws for the examination period. The Articles of Incorporation and Bylaws were both amended and restated on September 11, 2013. Numerous changes were made to both corporate documents to achieve consistency with the provisions and wording of other affiliates in the holding company system. Significant changes to the Articles of Incorporation were to (1) remove the listing of names and addresses of director and (2) remove sections about internal operations of the Company (i.e., annual meeting date, indemnification, election of directors) that are addressed by the Bylaws. Significant changes to

the Bylaws were to (1) add a section for stock transfer restrictions and (2) add a section regarding indemnification and insurance for directors, officers and employees.

The minutes of the Vanliner Board of Directors’ meetings, Vanliner stockholder’s meetings, and NIC committee meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company’s major transactions and events for the period under examination.

## MANAGEMENT AND CONTROL

### Corporate Governance

The management of the Company is vested in a Board of Directors, which are elected by the policyholders. The Company’s Bylaws specify that the Board of Directors shall consist of a minimum of nine and a maximum of twenty-five directors. The Board of Directors appointed and serving, as of December 31, 2015, were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
Arthur J. Gonzales	Richfield, OH	Senior Vice President and General Counsel, NIC
Julie A. McGraw	Hinckley, OH	Vice President and Chief Financial Officer, NIC
Anthony J. Mercurio	Richfield, OH	President and Chief Executive Officer, NIC
David W. Michelson	Hudson, OH	Retired (former President and CEO, NIC)
Gary N. Monda	Chagrin Falls, OH	Vice President and Chief Investment Officer, NIC
James A. Parks	Canton, OH	Vice President and Chief Underwriting Officer, NIC
Terry E. Phillips	Sagamore Hills, OH	Senior Vice President, NIC
Stephen E. Winborn	Hudson, OH	Vice President of Claims, NIC
Raymond F. Wise*	Wildwood, MO	President, Vanliner

\* Resigned in November 2016 and replaced by Matthew J. Grimm

### Committees

The Bylaws of Vanliner allow for the establishment of committees, but none were active during the examination period. However, the parent, National Interstate Corporation, has committees that review and approve transactions that are applicable to all insurers in the National Interstate Group, including Vanliner. The following committees of the NIC Board of Directors were active, as of December 31, 2015: Audit Committee, Compensation Committee, Nominating and Governance Committee.



**Officers**

The officers elected by the Board of Directors and serving, as of December 31, 2015, were as follows:

<u>Officer</u>	<u>Position</u>
Raymond F. Wise*	President
Julie A. McGraw	Vice President, Chief Financial Officer and Treasurer
Arthur J. Gonzales	Senior Vice President, General Counsel and Secretary
Gary N. Monda	Vice President, Chief Investment Officer and Asst. Treasurer
Stephen E. Winborn	Vice President
Michael D. Lucas	Assistant Vice President
Colleen F. Shepherd	Assistant Vice President

\* Resigned in November 2016 and replaced by Matthew J. Grimm

The following additional officers were elected on March 1, 2016:

<u>Officer</u>	<u>Position</u>
Anthony J. Mercurio	Executive Vice President
Anthony D. Brown	Vice President of Human Resources
Scott E. Noerr	Vice President and Chief Information Officer

**Holding Company, Subsidiaries and Affiliates**

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by the parent, Great American Insurance Company, on behalf of Vanliner and affiliated insurers for each year of the examination period.

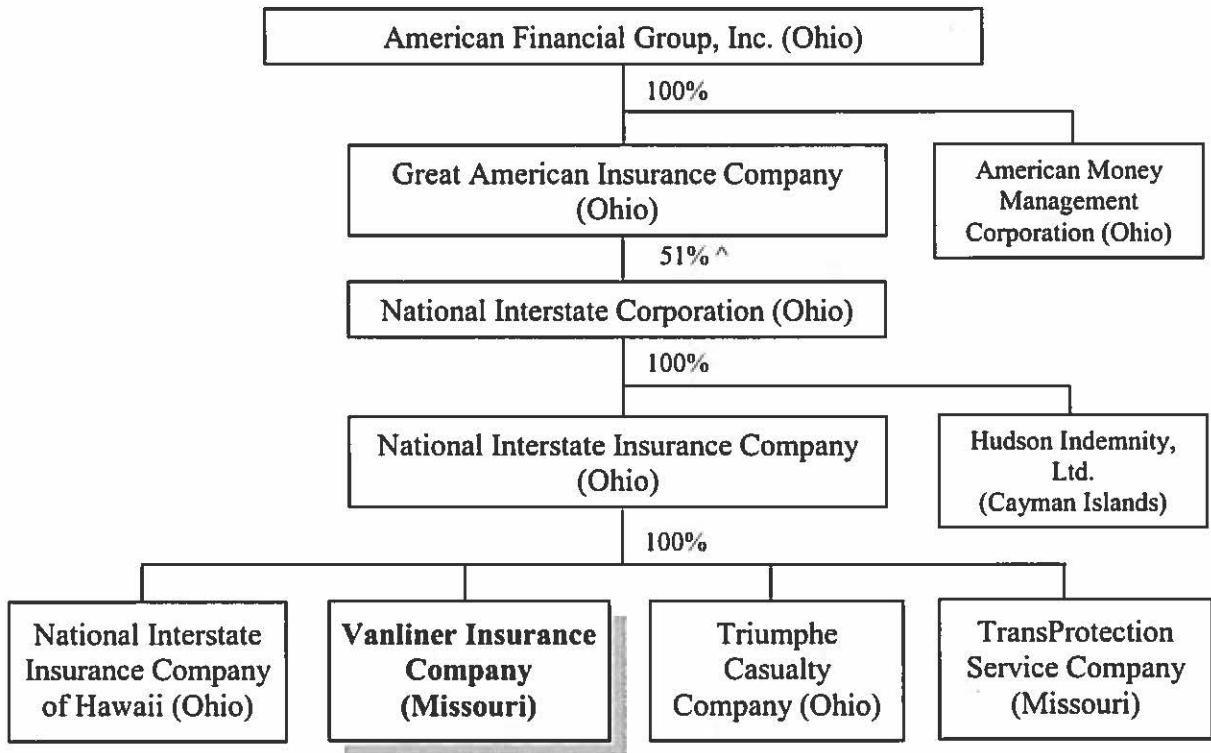
The ultimate controlling entity of the Company is American Financial Group, Inc. (AFG), a publicly traded company. Below is a description of insurers and other entities within AFG that have significant transactions with Vanliner:

- **Great American Insurance Company** – An Ohio domiciled insurer that owns approximately 30 property and casualty insurance companies, including the four insurers in National Interstate Group.
- **National Interstate Corporation** – A holding company for National Interstate Group. This entity was a publicly traded company until it became a 100% subsidiary of GAIC in November 2016, as explained in the Mergers and Acquisitions section of this report.
- **National Interstate Insurance Company** – NIIC is an Ohio domiciled insurer that directly owns 100% of Vanliner. NIIC specializes in insurance for various transportation related industries.

- **Hudson Indemnity, Ltd** – A Cayman Islands reinsurer that is utilized for Vanliner and NIIC policyholders that participate in a captive insurance program.
- **American Money Management Corporation (AMMC)** – A subsidiary of AFG that manages the investment portfolio of Vanliner and other AFG insurers.

**Organizational Chart**

Below is the organizational chart of Vanliner’s parent companies and select affiliates, as of December 31, 2015.



^ ownership increased to 100% in 2016

**Intercompany Agreements**

The Company's intercompany agreements that were in effect, as of December 31, 2015, and subsequent periods are outlined below.

- 1. Type:** Tax Allocation Agreement  
**Affiliates:** American Financial Group, Inc. and various other affiliates  
**Effective:** December 31, 2005 (Vanliner added as a party on November 11, 2016)  
**Terms:** AFG files a consolidated federal income tax return on behalf of itself and its subsidiaries. The tax liability for each affiliate shall be the ratio that each entity's taxable income bears to the consolidated taxable income of the group. The subsidiaries will pay their share of estimated tax payments to AFG within 3 days prior to the date that the consolidated payment is due to the Internal Revenue Service. AFG will refund any amounts due to the subsidiaries within 3 days after the refund is received or will apply a credit towards the next tax payment.
- 2. Type:** Claims Services Agreement  
**Affiliate:** Great American Insurance Company  
**Effective:** January 6, 2014  
**Terms:** GAIC provides claims adjusting and settlement services for Vanliner's physical damage claims for policies involving long haul trucks and trailers. GAIC has authority to authorize repairs for any claims of \$35,000 or less. GAIC provides reserve recommendations for each claim and provides a monthly report of claims activity. The Company pays per claim fees to GAIC for each tractor and trailer.
- 3. Type:** Investment Management Agreement  
**Affiliates:** American Money Management Corporation, NIIC, NIIC-Hawaii, TCC  
**Effective:** October 1, 2012  
**Terms:** AMMC is the appointed investment manager for Group and provides investment advisory and management services. AMMC executes securities purchases and sales that must be in compliance with the limitations and instructions set forth in Schedule B of the agreement. Each insurer in the Group pays AMMC quarterly fees based upon an annual rate 0.15% of the value of the portfolio balances under management.

4. **Type:** Amended and Restated Pooling Agreement  
**Affiliates:** NIIC, NIIC-Hawaii, TCC  
**Effective:** January 1, 2011  
**Terms:** Vanliner, NIIC-Hawaii and TCC cede 100% of direct and assumed written premiums and 100% of incurred direct and assumed losses and loss adjustment expenses (LAE) to NIIC. Premiums and losses ceded to external reinsurers are deducted before determining the amounts ceded to NIIC. The net premiums written and net losses and LAE incurred by NIIC are combined with the business assumed from Vanliner, NIIC-Hawaii and TCC to determine the net pooled business for the Group. NIIC retrocedes the pooled premiums, losses and LAE to each entity based upon the following percentages: Vanliner – 26%, NIIC-Hawaii – 2%, TCC – 2%. NIIC retains the remaining 70% of pooled business. NIIC provides quarterly reports that show all pooling transactions.
5. **Type:** Management Agreement  
**Affiliate:** National Interstate Insurance Company  
**Effective:** July 1, 2010  
**Terms:** NIIC provides the following services for Vanliner: premium billing and collection, employee benefits, reinsurance management, agency appointments and terminations, commission payments, financial reporting, accounting, income taxes, actuarial, data processing, and other services. Vanliner reimburses NIIC on a quarterly basis for the direct and allocated expenses incurred (actual cost basis) in the provision of services.
6. **Type:** Reinsurance Allocation Agreement  
**Affiliates:** NIIC, NIIC-Hawaii, TCC  
**Effective:** July 1, 2010  
**Terms:** This agreement is applicable to joint reinsurance agreements involving two or more insurers of the Group. Reinsurance premiums from joint agreements are allocated to each insurer based upon the proportionate share of each insurer's premium to the total premiums subject to the reinsurance agreement. Reinsurance recoveries are allocated based upon the proportion that each insurer's loss bears to the total loss for each occurrence.
7. **Type:** Tax Allocation Agreement  
**Affiliates:** National Interstate Corporation, NIIC, NIIC-Hawaii, TCC, and various other affiliates  
**Effective:** January 1, 2005 (Vanliner added as a party on July 1, 2010)  
[This agreement was superseded by the Tax Allocation Agreement with AFG, which added Vanliner as a party in November 2016, as explained above.]

**Terms:** National Interstate Corporation files a consolidated federal income tax return on behalf of itself and its subsidiaries. NIIC is the appointed agent. The tax liability for each affiliate is based upon the ratio that each entity's taxable income bears to the consolidated taxable income of the Group, in accordance with applicable Internal Revenue Code. Each subsidiary pays its share of tax payments to NIIC within 30 days of the notice given of the amount due. NIIC will refund any amounts due to the subsidiaries within 30 days after the determination that refund is due or will apply a credit towards the next year's tax payments.

**8. Type:** Cost Sharing Agreement

**Affiliate:** NIIC, NIIC-Hawaii, TCC, and various other affiliates

**Effective:** September 8, 2003 (Vanliner added as a party on July 1, 2010)

**Terms:** The following services are performed between the participating parties to the agreement: printing, copying, telecommunications, purchasing, personnel, data processing, administrative, and other services. Each party receiving services pays the party providing services on a cost basis. Allocations of costs are based upon current statutory accounting practices and procedures. Statements of services provided are to be provided on at least a quarterly basis and payments are due within 30 days of the date of the statements.

**9. Type:** Cash Management Agreement

**Affiliates:** National Interstate Corporation, NIIC, NIIC-Hawaii, TCC, and various other affiliates

**Effective:** September 1, 2000 (Vanliner added as a party on July 1, 2010)

**Terms:** NIIC serves as the manager of a cashier account in which the other parties to the agreement may deposit funds. Each party has a separate receivable account from NIIC that represents the amount of each party's funds in the cashier account. NIIC provides monthly statements that will show the activity in each party's receivable account. Balances in the receivable accounts are settled within 30 to 60 days after the end of each quarter.

**10. Type:** Agency Agreement

**Affiliate:** TSC

**Effective:** January 1, 1987

**Terms:** TSC is an agent for Vanliner that accepts proposals and issues contracts of insurance for the lines of business specified in the Addendum to the agreement. Vanliner pays TSC a commission equal to 5.5% of the net premiums received.

In addition, the Company has several reinsurance agreements with Hudson Indemnity Limited for policyholders that use a captive insurance program. A separate agreement is executed for each captive insurance entity that is established, which are described in the Reinsurance (Ceded) section of this report.

**Intercompany Payments**

The following table summarizes the fees paid during the examination period, between Vanliner and affiliates, pursuant to intercompany agreements that involve services provided.

Agreement	Net Fees Paid / (Received)				
	2011	2012	2013	2014	2015
Claims Services	\$ 0	\$ 152	\$ 18,458	\$ 67,542	\$ 6,530
Investment Management	0	52,984	283,498	224,668	324,907
Management	822,044	1,124,321	1,249,289	1,394,559	1,494,503
Cost Sharing	1,419,921	1,932,391	1,473,609	923,219	1,177,332
Agency	1,545,900	1,595,437	1,787,995	1,881,387	1,968,577
<b>TOTAL</b>	<b>\$3,787,865</b>	<b>\$4,705,285</b>	<b>\$4,812,849</b>	<b>\$4,491,375</b>	<b>\$4,971,849</b>

The Company also had investment transactions with NIIC in the examination period for purposes of settling intercompany balances. The total consideration paid (received) by Vanliner for bond acquisitions and sales was as follows: 2013 – (\$10,818,806), 2014 – \$14,096,389, 2015 – \$8,156,610.

**TERRITORY AND PLAN OF OPERATION**

Vanliner is licensed as a property and casualty insurer by the Missouri DIFP under Chapter 379 RSMo (Insurance Other than Life). Vanliner is licensed and writes business in all 50 states plus the District of Columbia. The five states with the largest percentage of direct written business in 2015 were as follows: California – 12.6%, Missouri – 9.8%, Illinois – 8.1%, Florida – 6.4%, New Jersey – 6.2%. The Company has a niche business plan with products specializing in the moving and storage industry, home delivery transportation, and commercial fleets.

Vanliner’s operations compliment the transportation related industries that are marketed by the parent, NIIC, and the two smaller insurers in the Group. NIIC products include the following transportation industries: trucking, petroleum transportation, refuse collection, ambulances, commercial and tour buses, school buses, and heavy construction vehicles. NIIC is also licensed and writes business in all 50 states. The percentage of 2015 direct written premiums produced by each insurer of the Group was as follows: Vanliner – 22%, NIIC – 67%, TCC – 6%, NIIC-Hawaii – 5%.

The Group exclusively uses independent agents to produce business. Over 600 agencies had direct written premium for the Group in 2015. The affiliate, TransProtection Service Company wrote 29% of total direct business for Vanliner in 2015, while the next largest non-affiliated agency produced 6% of the Company's direct written premiums.

The major lines of business for Vanliner and the pooled Group, based upon 2015 written premiums, are listed in the table below.

<u>Line of Business</u>	<u>Vanliner 2015 Direct Written Premiums</u>	<u>Direct % of Total</u>	<u>Group 2015 Net Written Premiums</u>	<u>Group % of Total</u>
Workers' Compensation	\$ 75,887,878	49.90%	\$275,616,821	39.30%
Commercial Auto Liability	39,649,341	26.10%	261,197,315	37.30%
Other Liability - Occurrence	18,955,563	12.50%	59,762,359	8.50%
Auto Physical Damage	11,876,522	7.80%	81,946,619	11.70%
All Other	5,708,773	3.80%	22,271,999	3.20%
Total	<u>\$152,078,077</u>	<u>100.00%</u>	<u>\$700,795,113</u>	<u>100.00%</u>

Vanliner and NIIC also have an Alternative Risk Transfer (ART) program, which are policies designed as captive insurance for large policyholders. The policyholders in the ART program retain a specified amount of losses, which can range from as low as \$50,000 per occurrence to \$600,000 per occurrence. ART policyholders also share in the profits that result of their own risks. The affiliate, Hudson Indemnity, Ltd., is the reinsurer utilized to facilitate the captive arrangement for most ART policies.

## REINSURANCE

### General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Direct Business	\$ 99,422,013	\$109,120,869	\$131,187,379	\$146,374,886	\$152,078,077
Assumed – Affiliates	132,832,149	96,836,819	103,126,869	108,160,085	109,679,350
Assumed – Non-affiliates	902,887	1,471,278	2,603,361	3,370,160	4,655,626
Ceded – Affiliates	(134,338,030)	(96,890,238)	(117,601,206)	(131,082,777)	(139,905,376)
Ceded – Non-affiliates	(11,494,894)	(13,702,443)	(16,189,533)	(18,662,269)	(16,828,326)
Net Premiums Written	<u>\$ 87,324,125</u>	<u>\$ 96,836,285</u>	<u>\$103,126,870</u>	<u>\$108,160,085</u>	<u>\$109,679,351</u>

### Assumed

The Company is included in an Amended and Restated Pooling Agreement with NIIC, NIIC-Hawaii, and TCC, which is described in the Intercompany Agreements section of this report.

This Agreement accounted for all assumed business from affiliates during the examination period.

Vanliner’s non-affiliated assumed business is exclusively from involuntary pools and associations.

**Ceded**

The Company cedes 100% of net premiums, losses and LAE to NIIC, pursuant to the Amended and Restated Pooling Agreement.

The reinsurance program with external reinsurers involves a combination of agreements that cover (1) pooled risks for all four insurers in the National Insurance Group (Vanliner, NIIC, NIIC-Hawaii, and TCC), (2) risks for the Group excluding Vanliner, and (3) risks for Vanliner direct policies only. The allocation of premiums and losses between affiliated insurers for joint reinsurance agreements are determined by the Reinsurance Allocation Agreement, which is described in the Intercompany Agreements section of this report.

Coverage provided from significant external reinsurance agreements for Group pooled risks are summarized below:

<u>Risks</u>	<u>Retention</u>	<u>Reinsurance Limit Excess of Retention</u>
Property	\$ 100,000	\$15,000,000
Property Catastrophe	500,000	20,000,000
Commercial Auto Liability – Primary **	500,000	500,000 #
Commercial Auto Liability – Excess **	1,000,000	6,000,000 #
Workers’ Compensation	250,000	50,000,000
Casualty Clash	1,000,000	20,000,000

\*\* NIIC, NIIC-Hawaii and TCC only

# 10% quota share in primary layer; 90% quota share in excess layer

The Company has a reinsurance agreement applicable to Vanliner cargo risks only that reinsures 100% of losses up to \$60 million per risk in excess of a \$500,000 retention per occurrence. Another agreement applicable only to Vanliner policies provides umbrella liability coverage. The agreement provides quota share reinsurance for 95% of liability losses up to \$5 million per occurrence. The agreement also reinsures 100% of losses up to \$5 million per occurrence in excess of the \$5 million quota share layer.

The largest external reinsurer (in regards to ceded reserves) for Vanliner direct risks was General Reinsurance Corporation, which accounted for 48% of total reserves ceded, as of December 31, 2015. The largest external reinsurers for pooled risks of NIIC were Maiden Reinsurance



Company and Swiss Reinsurance America Corporation, which accounted for 22% and 17%, respectively, of non-affiliated ceded reserves, as of December 31, 2015.

The Company has several reinsurance agreements with the affiliate, Hudson Indemnity Ltd. (Hudson), pertaining to captive reinsurance arrangements for the ART product. Vanliner cedes to Hudson a level of first dollar losses that ranges from \$50,000 to \$600,000 per occurrence, depending on the reinsurance agreement for each captive program. The losses ceded to Hudson represent the policyholders' retention layer.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

### FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Missouri DIFP and present the financial condition of Vanliner Insurance Company for the period ending December 31, 2015. The accompanying "Comments on Financial Statements" section reflect any examination adjustments to the amounts reported in the 2015 Annual Statement and should be considered an integral part of the financial statements.

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

**ASSETS**  
as of December 31, 2015

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$226,742,508	\$ 0	\$226,742,508
Preferred Stocks	11,578,834	0	11,578,834
Common Stocks	14,090,665	0	14,090,665
Cash and Short-Term Investments	4,345,643	0	4,345,643
Other Invested Assets	16,614,689	0	16,614,689
Receivables for Securities	242,646	0	242,646
Investment Income Due and Accrued	2,187,471	0	2,187,471
Uncollected Premiums and Agents' Balances	18,179,416	53,948	18,125,468
Deferred Premiums	56,824,521	159,329	56,665,192
Accrued Retrospective Premiums	4,270,126	0	4,270,126
Amounts Recoverable from Reinsurers	8,485,552	0	8,485,552
Funds Held By Reinsured Companies	1,604,552	0	1,604,552
Federal Income Tax Recoverable	87,282	0	87,282
Net Deferred Tax Asset	7,852,993	144,200	7,708,793
EDP Equipment and Software	67,615	0	67,615
Furniture and Equipment	28,447	28,447	0
Receivables from Parent, Sub., Affiliates	65,137	0	65,137
Aggregate Write-In Assets	1,472,710	52,995	1,419,715
<b>TOTAL ASSETS</b>	<b><u>\$374,740,807</u></b>	<b><u>\$ 438,919</u></b>	<b><u>\$374,301,888</u></b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**as of December 31, 2015**

Losses	\$	122,246,856
Loss Adjustment Expenses		27,484,254
Commissions Payable		4,038,558
Other Expenses		2,153,764
Taxes, Licenses and Fees		1,655,924
Unearned Premiums		49,411,448
Advance Premium		176,772
Ceded Reinsurance Premiums Payable		8,623,707
Funds Held Under Reinsurance Treaties		18,330,766
Amounts Withheld or Retained by Company		3,783,948
Payable to Parent, Subsidiaries and Affiliates		5,600,115
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>243,506,110</b>
Common Capital Stock		3,000,000
Gross Paid In and Contributed Surplus		4,000,000
Unassigned Funds (Surplus)		123,795,778
<b>Surplus as Regards Policyholders</b>	<b>\$</b>	<b>130,795,778</b>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<b>\$</b>	<b>374,301,888</b>

**STATEMENT OF INCOME**  
**For the Year Ended December 31, 2015**

<b>Premium Earned</b>	<b>\$</b>	<b>109,149,692</b>
<b>DEDUCTIONS:</b>		
Losses Incurred		68,104,737
Loss Adjustment Expenses Incurred		13,877,022
Other Underwriting Expenses Incurred		29,507,792
<b>Total Underwriting Deductions</b>	<b>\$</b>	<b>111,489,551</b>
<b>Net Underwriting Gain</b>	<b>\$</b>	<b>(2,339,859)</b>
Net Investment Income Earned		9,960,399
Net Realized Capital Losses		(1,551,517)
<b>Net Investment Gain</b>	<b>\$</b>	<b>8,408,882</b>
Other Income		(194,092)
Federal Income Taxes Incurred		899,649
<b>Net Income</b>	<b>\$</b>	<b>4,975,282</b>

**RECONCILIATION OF SURPLUS**  
**Changes from December 31, 2010 to December 31, 2015**  
**(\$000's omitted)**

	2011	2012	2013	2014	2015
Capital and Surplus, End of Prior Year	\$ 106,336	\$ 115,935	\$ 110,854	\$ 121,918	\$ 127,260
Net Income	22,527	13,199	9,466	4,940	4,975
Change in Net Unrealized Gains (Losses)	(63)	316	1,253	942	(2,021)
Change in Net Deferred Income Tax	(4,893)	(1,318)	(1,560)	(1,624)	428
Change in Non-Admitted Assets	3,827	735	2,053	837	144
Change in Provision for Reinsurance	(39)	(14)	(149)	248	9
Dividends to Stockholders	(10,500)	(18,000)	0	0	0
Agg. Write-Ins for Gains (Losses) in Surplus	(1,260)	0	0	0	0
<b>Change in Capital and Surplus for the Year</b>	<b>9,599</b>	<b>(5,082)</b>	<b>11,063</b>	<b>5,343</b>	<b>3,535</b>
<b>Capital and Surplus, End of Current Year</b>	<b>\$115,935</b>	<b>\$110,854</b>	<b>\$121,918</b>	<b>\$127,260</b>	<b>\$130,796</b>

**COMMENTS ON FINANCIAL STATEMENTS**

None.

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**EXAMINATION CHANGES**

None.

**GENERAL COMMENTS AND/OR RECOMMENDATIONS**

None.

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of Vanliner Insurance Company during the course of this examination is hereby acknowledged and appreciated.

**VERIFICATION**

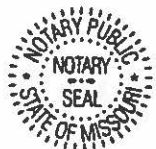
State of Missouri            )  
                                          )  
County of                    )

I, Tim L. Tunks, 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 Vanliner Insurance Company 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.

Tim L. Tunks  
Tim L. Tunks, CPA, CFE  
Examiner-In-Charge  
Missouri DIFP

Sworn to and subscribed before me this 26<sup>th</sup> day of April, 2017.

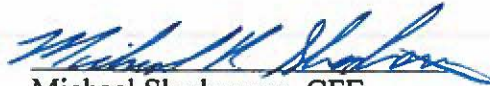
My commission expires: 2-6-18 Scott Forrest  
Notary Public



DAVID SCOTT FORREST  
My Commission Expires  
February 6, 2018  
Boone County  
Commission #14545654

## 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 NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Michael Shadowens, CFE  
Audit Manager  
Missouri DIFP