

REPORT ON EXAMINATION
OF
QUEENSWAY INTERNATIONAL INDEMNITY
COMPANY
JACKSONVILLE, FLORIDA
(NOW KNOWN AS
NORTH POINTE CASUALTY INSURANCE
COMPANY)

AS OF
DECEMBER 31, 2003

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
May 7, 2004

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2003, of the financial condition and corporate affairs of:

**QUEENSWAY INTERNATIONAL INDEMNITY COMPANY
10199 SOUTHSIDE BOULEVARD
BUILDING 1, SUITE 200
JACKSONVILLE, FLORIDA 32256**

Hereinafter referred to as the "Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2001 through December 31, 2003. The Company was last examined as of December 31, 2000 by representatives of the Georgia Insurance Department due to the insolvency of the Company's parent, International Indemnity Company (IIC), a Georgia domiciled insurer. The Company was not insolvent; however, the Company's parent, IIC, was placed under a liquidation order on January 18, 2001 by the State of Georgia. In accordance with Section 624.316(2)(a), FS, the Florida Office of Insurance Regulation (Office) participated in the prior examination. This examination commenced with planning at the Office on April 5, 2004 to April 9, 2004. The fieldwork commenced on April 12, 2004, and was concluded as of May 7, 2004. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was a statutory financial examination conducted in accordance with the Financial Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code (FAC), with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the

A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2003. Transactions subsequent to year-end 2003 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

The previous examination report did not utilize a materiality level normally established in the course of conducting an examination, therefore, many immaterial adjustments were reflected in the December 31, 2000 examination report. These adjustments in total amounted to an immaterial adjustment to surplus as regards policyholders for the December 31, 2000 year-end. Therefore, we are not including those immaterial adjustments in the adverse findings section of this report.

HISTORY

General

The Company was incorporated in Florida on May 9, 1980 and commenced business on July 1, 1980 as Florida International Indemnity Company. The Company changed its name to Queensway International Indemnity Company on April 21, 1997.

Subsequent event: On March 11, 2004, following its sale to North Pointe Financial Services, Inc., the Company changed its name to North Pointe Casualty Insurance Company.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2003:

| | |
|------------------------|---------------------------------|
| Fire | Commercial Automobile Liability |
| Allied Lines | Commercial Auto Physical Damage |
| Homeowners Multi Peril | Surety |
| Commercial Multi Peril | Glass |
| Inland Marine | Burglary and Theft |
| Workers Compensation | Other Liability |
| Fidelity | Mobile Home Multi Peril |

The Company had not written insurance coverage in these lines during 2003 due to the insolvency of the Company's parent, IIC, who was placed under a liquidation order on January 18, 2001 by the Georgia Insurance Department.

The articles of incorporation and bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2003, the Company's capitalization was as follows:

| | |
|--|-------------|
| Number of authorized common capital shares | 10,000,000 |
| Number of shares issued and outstanding | 1,500,000 |
| Total common capital stock | \$3,510,000 |
| Par value per share | \$2.34 |

Control of the Company was maintained by its parent, IIC, who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by Sun States Insurance Group, Inc. Sun States Insurance Group, Inc., was owned by Queensway Holdings, Inc., which in turn was owned by Queensway Financial Holdings Limited, a Canadian stock holding company. The

Company owned Queensway Casualty Insurance Company (QCIC), a Florida domiciled insurance company, which had been placed in liquidation.

Subsequent event: On February 27, 2004, the liquidator of the Company's parent sold all the outstanding shares of the Company's common stock to North Pointe Financial Services, Inc. for a cash purchase price of \$11,000,000. The effective date of the sale was January 1, 2004. In connection with the purchase, \$1,564,735 of the total purchase price was placed in escrow, pending the final resolution of a reinsurer claim for retrospective premiums.

Profitability of Company

The Company's net underwriting gains and (losses) were (\$1,557,847), \$108,072 and (\$177,723) for years 2003, 2002 and 2001, respectively. Net losses for those years were (\$435,140), (\$140,599), and (\$933,443) in 2003, 2002, and 2001, respectively. The Company's net investment income and (loss) was \$606,697, \$578,016, and (\$4,923,833) for years 2003, 2002, and 2001 respectively. The net investment loss incurred in 2001 was mainly attributable to the write-off of the Company's subsidiary, QCIC.

Dividends to Stockholders

The Company did not declare any dividends during the examination period

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2003, were:

Directors

| Name and Location | Principal Occupation |
|--|---|
| Harry Lanham Sivley, Jr. Roswell, Georgia | Assistant Deputy Liquidator, Regulatory Technologies, Inc. |
| Bryan Kent Southard Roswell, Georgia | Regulatory Technologies, Inc. |
| Roland Fuller Sheehan Roswell, Georgia | Regulatory Technologies, Inc. |
| Charles Bowen Carter Roswell, Georgia | Under Contract to Regulatory Technologies, Inc |
| Robert Frederick Craig Roswell, Georgia | Under Contract to Regulatory Technologies, Inc |

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

| Name | Title |
|--------------------------|---------------------|
| Harry Lanham Sivley, Jr. | President |
| Bryan Kent Southard | Vice President |
| Roland Fuller Sheehan | Secretary/Treasurer |

The Company's board did not appoint internal committees in accordance with Section 607.0825, FS, since the Company was under an Order of Liquidation as a result of the insolvency of the Company's parent.

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

On February 27, 2004, the liquidator of the Company's parent sold all the outstanding shares of the Company's common stock to North Pointe Financial Services, Inc. for a cash purchase price of \$11,000,000. The effective date of the sale was January 1, 2004.

Surplus Debentures

The Company did not have any outstanding surplus debentures at December 31, 2003.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida during 2000, as required by Section 628.801, FS, and Rule 69O-143.046, FAC. The Company had not updated holding company registration statements during the period of this examination due to the insolvency of certain members of the holding company system.

Claims Service Agreement

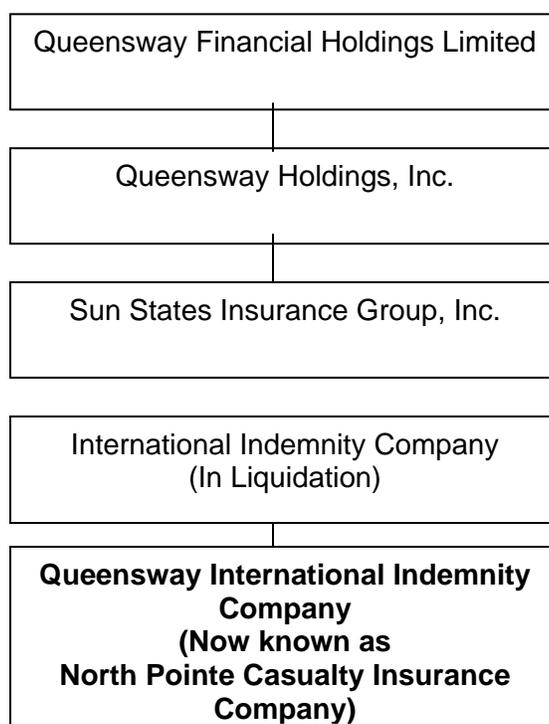
The Company had a claims service agreement with North Pointe Financial Services, Inc., a Michigan corporation, effective January 1, 2001. North Pointe Financial Services, Inc. purchased the Company effective as of January 1, 2004.

Tax Allocation Agreement

The Company, along with its parent and other affiliates, filed a consolidated federal income tax return. On December 31, 2003, the method of allocation of tax liability between the companies was based upon the ratio of the consolidated taxable income attributable to each member of the group having taxable income with no member paying more than the amount calculated on a separate return basis.

A simplified organizational chart as of December 31, 2003, reflecting the holding company system, is shown below. Schedule Y of the Company's 2003 annual statement provided a list of all related companies of the holding company group.

**QUEENSWAY INTERNATIONAL INDEMNITY COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2003**



FIDELITY BOND AND OTHER INSURANCE

As of year-end December 31, 2003, the Company did not maintain fidelity bond coverage. The Company had directors & officers liability in the amount of \$3,000,000 with a retention of \$500,000 with National Union Fire Insurance Company of Pittsburgh, PA for the period February 20, 2003 to February 20, 2004.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company did not have any employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

| State | Description | Par Value | Market Value |
|------------------------|--------------------------|--------------------|--------------------|
| FL | USTBDS, 7.875%, 02/15/21 | \$ 110,000 | \$ 146,369 |
| FL | USTBDS, 8.0%, 11/15/21 | 110,000 | 148,569 |
| FL | USTBDS, 3.5%, 11/15/06 | 1,000,000 | 1,033,750 |
| FL | USTBDS, 4.375%, 05/15/07 | <u>300,000</u> | <u>317,718</u> |
| TOTAL FLORIDA DEPOSITS | | \$1,520,000 | \$1,646,406 |
| AR | USTBDS, 7.25%, 08/15/22 | \$ 110,000 | \$ 138,841 |
| LA | USTBDS, 4.375%, 05/15/07 | 50,000 | 52,953 |
| LA | USTBDS, 7.125%, 02/15/23 | 20,000 | 24,963 |
| NV | CD, 4.5%, 6/16/07 | 100,000 | 100,000 |
| NV | CASH | <u>100,000</u> | <u>100,000</u> |
| TOTAL OTHER DEPOSITS | | \$ 380,000 | \$ 416,757 |
| Total Special Deposits | | <u>\$1,900,000</u> | <u>\$2,063,163</u> |

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company did not issue any policies during the year 2003.

Territory and Plan of Operation

The Company was authorized to transact insurance in the following states, in accordance with Section 624.401(2), FS:

Florida

Louisiana

Nevada

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS.

REINSURANCE

The Company had no reinsurance agreements in effect for current business, since it was in run-off due to the sale of all of its assets and ongoing business in 2001. Various reinsurance contracts remain in effect for business written in prior years.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2000, 2001 and 2003, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company maintained a claims office in Jacksonville, Florida. The examination was conducted at Regulatory Technologies, Inc., the liquidator for the State of Georgia, in Roswell, Georgia.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodian agreement dated July 3, 1998 with SunTrust Bank for the safekeeping of the Company's securities in compliance with Rule 69O-143.042, FAC.

Independent Auditor Agreement

The Company had an agreement with Porter Keadle Moore, LLP, to perform a certified audit of their financial statement for the years 2001, 2002, and 2003.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, and the results of its operations for the year then ended as determined by this

examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

QUEENSWAY INTERNATIONAL INDEMNITY COMPANY

**Assets
December 31, 2003**

| Classification | Per Company | Examination Adjustments | Per Examination |
|--|--------------------|------------------------------------|------------------------|
| Bonds | \$4,294,642 | | \$4,294,642 |
| Stocks: | | | |
| Common | 554,175 | | 554,175 |
| Cash & Short-term Investment | 14,559,438 | | 14,559,438 |
| Receivable for Securities | 29,878 | | 29,878 |
| Investment income due & accrued | 58,364 | | 58,364 |
| Guaranty funds receivable or on deposit | 13,763 | | 13,763 |
| | <hr/> | | <hr/> |
| Totals | \$19,510,260 | \$0 | \$19,510,260 |

QUEENSWAY INTERNATIONAL INDEMNITY COMPANY

**Liabilities, Surplus and Other Funds
December 31, 2003**

| Liabilities | Per Company | Examination Adjustments | Per Examination |
|---|---------------------|----------------------------|---------------------|
| Losses | \$2,507,720 | | \$2,507,720 |
| Loss adjustment expenses | 833,201 | | 833,201 |
| Other expenses | 134,791 | | 134,791 |
| Amounts withheld or retained of others | 218,180 | | 218,180 |
| Aggregate write-in for liabilities | 2,438,666 | | 2,438,666 |
| Total Liabilities | \$6,132,558 | | \$6,132,558 |
| Common capital stock | 3,510,000 | | 3,510,000 |
| Gross paid in and contributed surplus | 13,005,000 | | 13,005,000 |
| Unassigned funds (surplus) | (3,137,298) | | (3,137,298) |
| Surplus as regards policyholders | 13,377,702 | | 13,377,702 |
| Total liabilities, capital and surplus | \$19,510,260 | \$0 | \$19,510,260 |

QUEENSWAY INTERNATIONAL INDEMNITY COMPANY

Statement of Income December 31, 2003

Underwriting Income

| | |
|---|--------------------|
| Premiums earned | (\$21,301) |
| DEDUCTIONS: | |
| Losses incurred | 494,144 |
| Loss expenses incurred | 654,181 |
| Other underwriting expenses incurred | 275,041 |
| Aggregate write-ins for underwriting deductions | 113,180 |
| Total underwriting deductions | <u>\$1,536,546</u> |
| Net underwriting gain or (loss) | (\$1,557,847) |

Investment Income

| | |
|--|------------------|
| Net investment income earned | \$305,570 |
| Net realized capital gains or (losses) | 301,127 |
| Net investment gain or (loss) | <u>\$606,697</u> |

Other Income

| | |
|---|------------------|
| Net gain or (loss) from agents' or premium balances charged off | \$0 |
| Finance and service charges not included in premiums | 0 |
| Aggregate write-ins for miscellaneous income | 516,010 |
| Total other income | <u>\$516,010</u> |

| | |
|---|--------------------|
| Net income before dividends to policyholders and before federal & foreign income taxes | (\$435,140) |
| Dividends to policyholders | 0 |
| Net Income, after dividends to policyholders, but before federal & foreign income taxes | <u>(\$435,140)</u> |
| Federal & foreign income taxes | 0 |
| Net Income | (\$435,140) |

Capital and Surplus Account

| | |
|--|--------------|
| Surplus as regards policyholders, December 31 prior year | \$13,945,640 |
|--|--------------|

Gains and (Losses) in Surplus

| | |
|--|----------------------------|
| Net Income | (\$435,140) |
| Net unrealized capital gains or losses | 173,725 |
| Change in nonadmitted assets | (329,323) |
| Change in provision for reinsurance | 22,800 |
| Change in surplus as regards policyholders for the year | (\$567,938) |
| Surplus as regards policyholders, December 31 current year | <u><u>\$13,377,702</u></u> |

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$3,340,921

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2003, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

QUEENSWAY INTERNATIONAL INDEMNITY COMPANY

**Comparative Analysis of Changes in Surplus
DECEMBER 31, 2003**

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders
per December 31, 2003, Annual Statement \$13,377,702

| | <u>PER</u> <u>COMPANY</u> | <u>PER</u> <u>EXAM</u> | INCREASE (DECREASE) <u>IN SURPLUS</u> |
|--|------------------------------|---------------------------|---|
| ASSETS: | | | |
| No adjustment needed. | | | |
| LIABILITIES: | | | |
| No adjustment needed. | | | |
| Net Change in Surplus: | | | <u>0</u> |
| Surplus as Regards Policyholders December 31, 2003, Per Examination | | | <u><u>\$13,377,702</u></u> |

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the material comments made in the prior examination report.

Current examination comments and corrective action

The Company was under the control of the Receivership of the State of Georgia and there were no material findings in this examination as of December 31, 2003.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **QUEENSWAY INTERNATIONAL INDEMNITY COMPANY** (now known as North Pointe Casualty Insurance Company) as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$13,377,702, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Michael Hampton, CFE, CPA, DABFA, CFE, Financial Examiner/Analyst Supervisor and Owen Anderson, Financial Examiner/Analyst II participated in the examination.

Respectfully submitted,

Donna Letterio, CFE, CPA, MS
Financial Specialist
Florida Office of Insurance Regulation