

EXAMINATION REPORT OF
CENTURION CASUALTY COMPANY
DES MOINES, IOWA
AS OF DECEMBER 31, 2017

Des Moines, Iowa
May 31, 2019

HONORABLE DOUGLAS OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

CENTURION CASUALTY COMPANY

DES MOINES, IOWA

AS OF DECEMBER 31, 2017

at the Company's Home Office, 800 Walnut Street, Des Moines, Iowa.

INTRODUCTION

Centurion Casualty Company, hereinafter referred to as the "Company", was previously examined as of December 31, 2012. The examination reported herein was conducted solely by examiners for the Iowa Insurance Division. The Company's affiliate, Centurion Life Insurance Company, was examined concurrently with this examination.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2013 to the close of business on December 31, 2017, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires the examination to be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the organization, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the organization were considered in accordance with the risk-focused examination process. The Company's assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2017.

HISTORY

The Company was incorporated on February 9, 1983 under the name of Consumers Casualty Company with authorized and paid in capital of \$1,000,000 and contributed surplus of \$1,000,000. The Company commenced business on March 21, 1983 under authority granted by the Insurance Commissioner of Iowa to write casualty insurance as then defined by Iowa statutes.

On May 5, 1983, by legal adoption of amendments to the Company's Articles of Incorporation, the corporate title was changed to Centurion Casualty Company.

CAPITAL STOCK AND DIVIDENDS

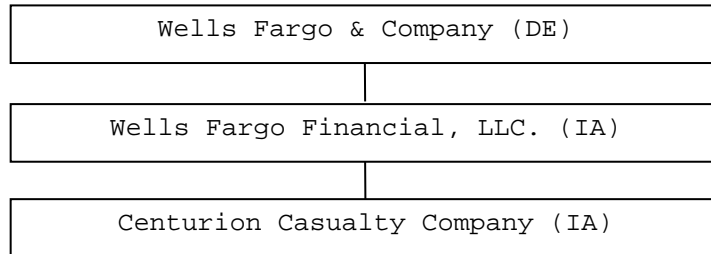
Authorized capital stock consists of 300,000 shares of common stock, par value \$10.00 per share. Outstanding capital consists of 260,000 shares with common capital stock of \$2,600,000 and gross paid in and contributed surplus of \$1,000,000. All outstanding stock is held by Wells Fargo Financial, LLC.

During the period under review, dividends in the amount of \$130 million were paid to stockholders in December 2016.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined by Chapter 521A, Code of Iowa. Wells Fargo & Company, a Delaware corporation, is the ultimate controlling person for the group. An Insurance Holding Company System Registration Statement was filed annually with the Iowa Insurance Division for each year of the examination period.

A partial chart depicting the organizational structure follows:



MANAGEMENT AND CONTROL

STOCKHOLDERS

The annual meeting of the stockholders for the election of directors and the transaction of such other business as may properly come before the meeting is held annually at the Company's principal place of business in Des Moines, Iowa. Such meetings may be held at such other times as soon thereafter as is conveniently possible, or at such other place, or both, as may be specified in a notice given hereinafter provided or in consent and waiver of notice thereof signed by all stockholders.

Special meetings of the stockholders are held by order of the Board of Directors and the President upon request of the stockholders owning one-half of the common stock. Written or printed notice stating the place and time of the meeting and in case of special meetings, the purpose for which the meeting is called must be delivered not

less than ten days before the date of the meeting, either personally or by mail to each stockholder of record entitled to vote at such meeting.

A majority of the outstanding shares of the Company entitled to vote, represented in person or by proxy, shall constitute a quorum at any meeting of the stockholders. The owner of each outstanding share of common stock shall be entitled to one vote on each matter decided.

BOARD OF DIRECTORS

The business and affairs of the Company are vested in a Board of Directors consisting of not less than five, with the actual number of directors to be set forth in, or determined in accordance with procedures prescribed in, the Bylaws. Directors hold office until the next succeeding annual meeting of the stockholders and until a successor has been elected and qualified, or until death, resignation or removal. Any vacancy on the Board may be filled for the unexpired term by a majority vote of the remaining directors.

Elected and qualified directors at December 31, 2017 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Alan M. Holck Des Moines, IA	President Centurion Casualty Company	2018
Scott E. Casady West Des Moines, IA	Vice President, Treasurer Centurion Casualty Company	2018
William F. Bunch White Bear Township, MN	Vice President, Finance Manager Wells Fargo	2018
Bruce A. Miller Urbandale, IA	Accounting Manager Wells Fargo	2018
Laurie B. Nordquist Minneapolis, MN	Executive Vice President Wells Fargo	2018

The annual meeting of the directors is held as soon as conveniently possible after adjournment of the annual meeting of the stockholders. Special meetings may be held within or without the State of Iowa whenever called by order of the President or any one director. Written notice stating the place, time and date of the meeting, either personally or by mail or telegraph, shall be delivered to each director. A majority present constitutes a quorum for the transaction of business.

OFFICERS

The Bylaws state that the executive officers of the Company shall consist of a President, one or more Vice Presidents, a Secretary, a Treasurer and other officers as deemed necessary. Any two or more offices may be held by the same person, except where prohibited by law. The officers, with the exception of the President, need not be directors.

Officers listed on the Jurat page serving as of December 31, 2017 were as follows:

<u>Name</u>	<u>Title</u>
Alan M. Holck	President
Beth E. Mack	Secretary
Scott E. Casady	Vice President and Treasurer
Jeffrey O. Fink	Vice President
Chris L. Livingston	Vice President
Kevin M. Maher	Vice President
George I. McLanahan	Vice President

Compensation for the above officers is provided through their employment with the parent company, Wells Fargo & Co.

CONFLICT OF INTEREST STATEMENTS

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors, or key employees which is in, or likely to, conflict with the official duties of such person. No material conflicts were noted.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended during the period under review. The recorded minutes of the stockholders and Board of Directors meetings were read and noted.

The results of the examination report, for the period ending December 31, 2012, were reported at the annual meeting of the Board of Directors on March 7, 2014.

RELATED PARTY AGREEMENTS

Effective June 21, 2016, the Company and Wells Fargo Bank, N.A. (WFBNA), entered into an Asset Management Agreement and an International Swaps and Derivatives Association, Inc. (ISDA) 2002 Master Agreement for purposes of WFBNA managing the Company's investment portfolio. Effective July 1, 2017, an amendment was made to the ISDA Master agreement to allow interest rate swaps. Effective August 14, 2017, an amendment was made to the Asset Management Agreement to allow the asset manager to delegate certain duties to sub-managers.

Effective August 1, 2017, the Company entered into a Master Intercompany Services Agreement, Letter of Accession, Intermediate Addendum and Service Level Agreements (SLAs) with its affiliate WFBNA. The agreement allows for certain shared services to be provided to the Company, as a service recipient, by WFBNA and its affiliates.

Effective December 12, 2017, the Affiliate Tax Settlement Policy was updated, between Wells Fargo & Company (WFC) and its affiliates, including Centurion Casualty Company, for purposes of tax settlement, tax returns, and tax payment.

FIDELITY BONDS AND OTHER INSURANCE

Wells Fargo & Company, along with its subsidiaries as named insureds, is protected by a blanket bond which covers the fidelity of each officer and employee up to \$150,000,000 for any one occurrence. The bond is written by an authorized insurer with a closed expiration date. It was noted that the coverage meets the N.A.I.C.'s suggested minimum amount of fidelity insurance for the Company.

EMPLOYEE WELFARE

All services for the operations of the Company are performed by employees of its affiliates. The Company does not provide or contribute directly to any employee or agent benefits. All benefits are provided by Wells Fargo & Company and its affiliates.

REINSURANCE

The Company assumed credit unemployment insurance sold by Wells Fargo Financial and assumed on a coinsurance basis, commercial multi-peril insurance sold by Wells Fargo Financial Leasing, Inc. The Company ceased new business for credit unemployment insurance in 2010. The commercial multi-peril insurance was terminated as of November 8, 2018. The assumed credit unemployment insurance was terminated as of December 1, 2018.

STATUTORY DEPOSIT

The book/adjusted carrying values of special deposits held in trust, which are not held for the protection of all policyholders of the Company, are as follows:

Guam	\$ 50,000
Massachusetts	130,241
New Mexico	484,979
North Carolina	351,097
Oregon	335,654
Virginia	<u>130,679</u>
Total	<u>\$1,482,650</u>

The book/adjusted carrying value of special deposits held in trust for the protection of all policyholders was \$3,461,456 as of December 31, 2017.

TERRITORY AND PLAN OF OPERATION

The Company assumed through reinsurance, credit related coverages, principally involuntary unemployment insurance. A majority of the company's business was derived from Wells Fargo Financial, LLC's affiliated lending activities and was marketed in conjunction with consumer loans, credit cards and revolving lines of credit. The Company also assumed non-credit commercial multi-peril insurance associated with lease transactions of an affiliate company Wells Fargo Financial Leasing. The credit unemployment insurance ceased new business in 2010. The commercial multi-peril insurance was terminated as of November 8, 2018. The assumed credit unemployment insurance was terminated as of December 1, 2018.

The Company is authorized to transact business in the following jurisdictions:

Alabama	Maine	Oregon
Arizona	Maryland	Rhode Island
California	Massachusetts	South Carolina
Colorado	Minnesota	South Dakota
Connecticut	Mississippi	Tennessee
Delaware	Missouri	Texas
Florida	Montana	Utah
Hawaii	Nebraska	Virginia
Idaho	Nevada	Washington
Illinois	New Jersey	West Virginia

Indiana
Iowa
Kansas
Kentucky
Louisiana

New Mexico
North Carolina
North Dakota
Ohio
Oklahoma

Wisconsin
Wyoming
Guam
Northern Mariana Islands

GROWTH OF COMPANY

The following historical financial data, as taken from the Company's annual statements for the years indicated, displays its growth:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Investment Income Earned</u>
2013	\$131,918,494	\$130,777,186	\$15,128,797	\$1,030,762	\$5,267,533
2014	142,948,252	142,049,687	13,489,125	584,770	5,635,416
2015	152,649,030	152,086,025	11,699,853	460,130	5,906,316
2016	34,421,173	33,961,447	10,271,022	466,814	4,721,763
2017	39,812,140	39,510,140	9,931,932	389,705	793,900

ACCOUNTS AND RECORDS

Trial balances of the Company's general ledger accounts were prepared for each year under examination and were found to be in agreement with the office copies of the filed annual statements for those years. Cash receipts and disbursements were tested to the extent deemed necessary.

During the course of the examination, no statutory violations or differences with the amounts reflected in the financial statements, as presented in the annual statement at December 31, 2017, were identified.

F I N A N C I A L S T A T E M E N T S
A N D C O M M E N T S T H E R E O N

NOTE: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2017, and the assets and liabilities as of that date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	Non	<u>Admitted</u>
		<u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 22,611,268	\$	\$ 22,611,268
Cash and short-term investments	16,464,391		16,464,391
Investment income due and accrued	229,456		229,456
Uncollected premiums in course of collection	398,419		398,419
Current federal/foreign income tax recoverable/interest thereon	101,534		101,534
Net deferred tax asset	4,000		4,000
Receivables from parent, subsidiaries and affiliates	2,267		2,267
Arizona insurance examiners' deposit	100		100
State/premium tax receivable	705		705
	<hr/>		<hr/>
Total assets	\$ 39,812,140	\$ 0	\$ 39,812,140

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 285,000
Reinsurance payable on paid losses and loss adjustment expense	9,000
Loss adjustment expenses	8,000
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Total liabilities	\$ 302,000
	<hr/>
Common capital stock	\$ 2,600,000
Gross paid in and contributed capital	1,000,000
Unassigned funds (surplus)	35,910,140
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Surplus as regards policyholders	\$39,510,140
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Total liabilities and surplus	\$39,812,140

STATEMENT OF INCOME
ONE YEAR PERIOD ENDING DECEMBER 31, 2017

<u>Underwriting Income</u>		
Premiums earned		\$ 9,931,932
 <u>Deductions</u>		
Losses incurred	\$ 389,705	
Loss adjustment expenses incurred	16,350	
Other underwriting expenses incurred	<u>1,758,139</u>	
Total underwriting deductions		<u>2,164,194</u>
 Net underwriting gain (loss)		 \$ 7,767,738
 <u>Investment Income</u>		
Net investment income earned	\$ 793,900	
Net realized capital gains (losses)	<u>0</u>	
Net investment income		793,900
 <u>Other Income</u>		
Net income, before dividends to policyholders after capital gains tax, and before other federal/foreign income taxes	\$ 8,561,638	
Federal and foreign income taxes incurred	<u>3,008,945</u>	
 Net income		 <u>\$ 5,552,693</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$ 33,961,447</u>
 Gains and (Losses) in Surplus		
Net income	\$ 5,552,693	
Change in net deferred income tax	(4,000)	
 Change in surplus as regards policyholders for the year		 <u>\$ 5,548,693</u>
 Surplus as regards policyholders, December 31, 2017		 <u>\$ 39,510,140</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$10,045,461	
Net investment income	1,086,526	
Total		\$ 11,131,987
Benefit and loss related payments	\$ 493,705	
Commissions, expenses paid and aggregate write-ins	1,769,307	
Federal and foreign income taxes paid	3,169,205	
Total		<u>5,432,217</u>
Net cash from operations		<u>\$ 5,699,770</u>

Cash from Investments

Proceeds from bonds sold, matured or repaid	\$ 3,693,000	
Cost of bonds acquired (long-term only)	771,773	
Net cash from investments		<u>\$ 2,921,227</u>

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)		<u>(1,981)</u>
Net cash from financing and miscellaneous sources		<u>\$ (1,981)</u>

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ 8,619,015	
Cash and short-term investments:		
Beginning of year	7,845,376	
End of year		<u>\$ 16,464,391</u>

STATEMENT OF INCOME
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2017

<u>Underwriting Income</u>		
Premiums earned		\$ 60,520,729
 <u>Deductions</u>		
Losses incurred	\$2,932,181	
Loss expenses incurred	38,633	
Other underwriting expenses incurred	8,650,741	
Total underwriting deductions		<u>11,621,555</u>
Net underwriting gain (loss)		\$ 48,899,174
 <u>Investment Income</u>		
Net investment income earned	\$22,324,928	
Net realized capital gains (losses)	4,552,465	
Net investment income		26,877,393
 <u>Other Income</u>		
Miscellaneous income	142	
Total other income		<u>142</u>
Net income before Federal income taxes		\$75,776,709
Federal and foreign income taxes incurred		<u>24,398,805</u>
Net income		<u>\$ 51,377,904</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2012		<u>\$ 118,255,158</u>
 <u>Gains and (Losses) in Surplus</u>		
Net income		\$ 51,377,904
Change in unrealized capital gains or losses		(66,922)
Change in net deferred income tax		(56,000)
Dividends to stockholders		<u>(130,000,000)</u>
Change in surplus as regards policyholders for the exam period		<u>\$ (78,745,018)</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 39,510,140</u>

CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Company during this examination.

In addition to the undersigned, Bob Wong, CFE, CISA; and Randy Guzman and Tessa Lemons, examiners for the Iowa Insurance Division, participated in the examination and preparation of this report.

Respectfully submitted,

/s/Amanda Theisen
Amanda Theisen, CFE
Insurance Company Examiner Specialist
Iowa Insurance Division
State of Iowa