

EXAMINATION REPORT OF  
GUIDEONE MUTUAL INSURANCE COMPANY  
WEST DES MOINES, IOWA  
AS OF DECEMBER 31, 2017

West Des Moines, Iowa  
June 25, 2019

HONORABLE DOUG 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

GUIDEONE MUTUAL INSURANCE COMPANY

WEST DES MOINES, IOWA

AS OF DECEMBER 31, 2017

at its Home Office, 1111 Ashworth Road, West Des Moines, Iowa.

INTRODUCTION

GuideOne Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2012. The examination reported herein was conducted solely by examiners for the Iowa Insurance Division.

Concurrently with the examination of the Company, the Company's affiliate via interlocking directors, GuideOne Specialty Mutual Insurance Company and subsidiary companies, GuideOne Property & Casualty Insurance Company, GuideOne America Insurance Company, GuideOne Elite Insurance Company, and GuideOne National Insurance Company, were also examined.

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 National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (the "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 December 26, 1946 for the purpose of insuring any and all risks permitted by Section 515.48, Subsections 5 and 6, Code of Iowa. The Articles of Incorporation were amended on January 24, 1958 authorizing the writing of multiple lines of insurance under the provisions of Chapter 515, Code of Iowa.

The Articles of Incorporation were amended on January 30, 1964 and on February 9, 1971 granting perpetual corporate existence and changing the principal place of business from Des Moines, Iowa to West Des Moines, Iowa, respectively.

Effective January 22, 1998, the Company changed its name from Preferred Risk Mutual Insurance Company to Guidant Mutual Insurance Company.

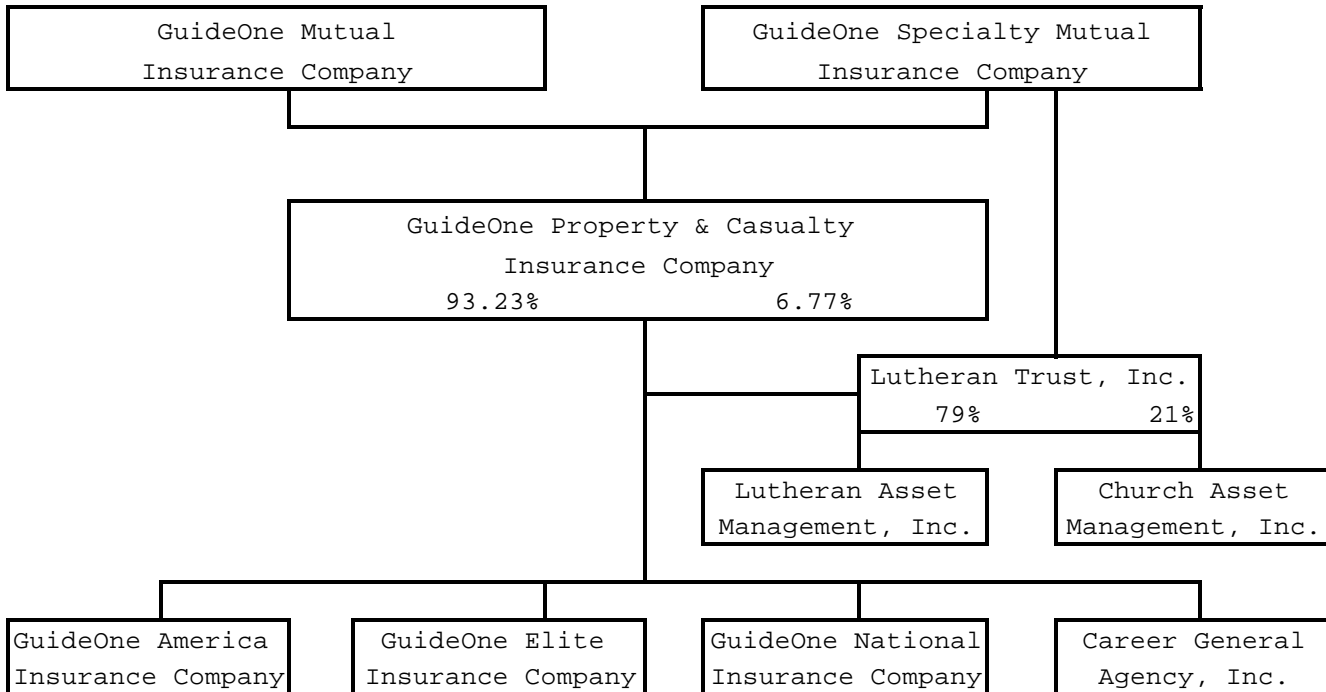
Effective January 29, 1999, the Company changed its name to GuideOne Mutual Insurance Company.

SURPLUS NOTES

On December 20, 2017, the Company issued two surplus notes for 30 years at 7.875%. Each payment of principal and interest may be made only with the prior written approval of the Iowa Insurance Commissioner.

HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. The Company has 93.23 percent and GuideOne Specialty Mutual Insurance Company has 6.77 percent ownership of GuideOne Property & Casualty Insurance Company, the holding company for the downstream stock affiliates. An organizational chart identifying the Holding Company System as of December 31, 2017 follows:



The following summarizes material holding company transactions occurring during the examination period:

October 3, 2013 and on March 28, 2016, GuideOne Property & Casualty Insurance Company contributed additional capital totaling \$7,500,000 and \$1,000,000 respectively to GuideOne National Insurance Company.

During 2016, GuideOne Property & Casualty Insurance Company declared distributions totaling \$22,375,200 and \$1,624,800 to GuideOne Mutual Insurance Company and GuideOne Specialty Insurance Company, respectively.

#### MANAGEMENT AND CONTROL

##### MEMBERSHIP

The Articles of Incorporation provide that every individual, co-partnership, public or private corporation, board or association, trustee, administrator, executor or other legal entity who holds a policy of insurance in force, issued by the Company, shall be a member.

The Company's regular annual meeting of the members to elect directors and to transact other business is held at 10:00 a.m. on the fourth Thursday in January at the Company's Home Office. Notice of the time and place of the annual meeting is contained in the insurance policy issued to each member. No other notice of the annual meeting shall be given.

Special meetings of the members may be called at any time by the President, and shall be called by the President upon written request by three-fourths of the members of the Board of Directors or upon written request of a majority of members. Not less than fifteen days' notice of all such special meetings shall be given to each member at the last known address of such member.

Each member is entitled to one vote at any meeting of the membership which may be cast in person or by proxy, provided that such proxy had been filed with the Secretary at least twelve days prior to the date of the meeting at which it is to be exercised.

Members present in person or represented by proxy at any annual meeting or special meeting of the membership constitute a quorum.

##### BOARD OF DIRECTORS

The Articles of Incorporation provide that the general control and management of the Company shall be vested in a Board of not fewer than five nor more than 21, who shall be members of the corporation and shall serve for a term not to exceed three years. Any vacancy on the Board of Directors may be filled by a majority vote of the remaining directors for the balance of the unexpired term or declared vacant. A director elected to fill a vacancy shall be elected to serve until the next annual meeting of the members. A majority of the number of directors fixed by the Bylaws shall constitute a quorum for the transaction of business, unless a greater number is required by the Bylaws, but in no event shall a quorum consist of less than half the number of authorized directors, plus one.

The directors may hold a regular annual meeting of the board, at a date, time and place to be set by resolution of the board. The Board of Directors shall have the power to hold its meetings, either regular or special, within or without the State of Iowa, at such places as may be designated by the Bylaws or by resolution of the Board.

Elected members serving as directors were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Matthew R. Foran Austin, Texas	Chief Executive Officer EvoSure, LLC	2018
Cara K. Heiden Urbandale, Iowa	Retired (previously President) Wells Fargo Home Mortgage	2018
Paul E. Larson Waukee, Iowa	Retired	2018
Robert S. Morette Winnetka, Illinois	Partner/Director Bain & Company	2018
Jessica E. Clark West Des Moines, Iowa	President and Chief Executive Officer GuideOne Insurance Group	2019
Bernard L. Hengesbaugh Wheaton, Illinois	Chief Operating Officer American Medical Association	2019
Harry L. Horak West Des Moines, Iowa	Non-Executive Chairman Retired	2019
Karen E. Shaff Des Moines, Iowa	Executive Vice President and General Counsel Principal Life Insurance Company	2019

Matthew R. Foran resigned from the board effective February 2, 2018.

GuideOne Mutual Insurance Company compensates directors who are not officers of the Company as follows: The annual retainer for Board members is \$70,000. The Board chairpersons (non-executive) receive an additional annual retainer of \$50,000. A regular board meeting fee of \$2,200, executive committee meeting fee of \$1,500, and phone meetings are compensated at \$500. In addition, committee chairpersons receive a fee of \$2,300 rather than the regular committee meeting fee of \$1,400.

#### COMMITTEES

The Bylaws provide that the Board of Directors, by resolution, may establish one or more committees, including an Executive Committee. Each committee to consist of two or more directors elected by the Board of Directors. Each committee shall have the power and duties delegated to it by the Board of Directors. In addition to the Executive Committee, the Company appointed, by resolution, a Human Resource Committee and Audit Committee.

#### OFFICERS

The Articles state that the officers of the Company shall be a chairman of the board, a president, one or more vice presidents, a secretary, a treasurer and such other officers as the Board of Directors may deem necessary and elect annually. Each officer shall hold office until the successor shall have been duly elected and shall have qualified.

Primary executive officers elected and serving, as of December 31, 2017, were as follows:

<u>Name</u>	<u>Title</u>
Jessica E. Clark	President and Chief Executive Officer
Andrew L. Noga	Senior Vice President, Secretary and General Counsel
Elisabeth Sandersfeld	Senior Vice President, Treasurer and Chief Financial Officer
Philip R. Cole <sup>1</sup>	Senior Vice President, Chief Underwriting Officer
David M. Dietz <sup>2</sup>	Senior Vice President, Sales and Field Operations
Brian J. Hughes	Senior Vice President, Chief Investment Officer
Marquis D. James <sup>3</sup>	Senior Vice President, Sales
Michelle L. Glasl	Vice President, Strategic Initiatives and Chief Information Officer
Brian H. Nelson	Vice President, Chief Claims Officer
Joseph S. Highbarger <sup>4</sup>	Vice President, Chief Actuary

<sup>1</sup>Philip Cole elected to leave the Company in late 2018 and as of the date of the report is working remotely while the Companies perform a search for his replacement.

<sup>2</sup>David Dietz changed roles in the Company in 2018 and was replaced by Rob Huber in February 2019.

<sup>3</sup>Marquis James left the Company in 2019, his role as head of distribution management has not yet been filled.

<sup>4</sup>Tim Fleming became Chief Actuary in 2018 and at that time Joseph Highbarger assumed oversight of the pricing function and later left the Company in January of 2019.

The salaries of the above named officers are shown in Exhibit A immediately following the signature page of this report.

#### CONFLICT OF INTEREST STATEMENTS

The Company has a documented conflict of interest policy and an established procedure for the annual disclosure to its Board of Directors and Audit Committee of any material interest or affiliation on the part of its directors, officers or key employees which is in, or likely to, conflict with the official duties of such person. While conflicts were disclosed, none were found to have a material impact on the Company and all were addressed by the Audit Committee.

#### CORPORATE RECORDS

The following amendments (with proper approval by the Board and approved by the Iowa Insurance Commissioner) were made to the Articles of Incorporation during the exam period.

January 23, 2014. Article VIII, Section 3, Directors no longer have to be members of the corporation, this section was deleted in its entirety. Article VIII, Section 4 through 18, were renumbered to take into account the deletion of Section 3

October 5, 2017. Article VIII, Section 10, the articles were amended and restated to change the payment of dividends in accordance with state laws.

The following amendments (with proper approval by the Board and filed with and approved by the Iowa Insurance Commissioner) were made to the Bylaws during the examination period:

May 27, 2015. Amended and restated Article IV, Section 3. The Board of Directors approved resolution to amend and restate GuideOne Mutual and GuideOne Specialty's bylaws whereby Article IV, Section 3 of the bylaws for each company are amended to set the number of directors between six and twelve to be set by resolution.

February 16, 2016. Amended and restated Article IV, Section 3. The Board of Directors approved resolution to amend and restate GuideOne Mutual and GuideOne Specialty's bylaws whereby Article IV, Section 3 of the bylaws for each company are amended to require a director who turns age 72 to retire the day before the first annual meeting of members. Prior language called for a director who turns age 70 to retire on the first day of the month in which the annual meeting of the board of directors is held.

AFFILIATED AGREEMENTS

Intercompany Operating Agreement

The Company has entered into an Intercompany Operating agreement on April 1, 1999. The Companies within the Group share common facilities, personnel and services. Actual expenses are allocated to companies within the Group pursuant to this agreement using various metrics and intercompany pooling percentages.

The Company files a consolidated Federal income tax return with the following entities:

- GuideOne America Insurance Company
- GuideOne Property & Casualty Insurance Company
- GuideOne Elite Insurance Company
- GuideOne National Insurance Company

The written agreement, approved by the Board of Directors, states that the Parent and Subsidiaries agree that the consolidated tax liability for each year shall be allocated to the members of the group on the basis of the percentage of the total tax which the tax of such member, if computed on a separate return, would bear to the total amount of the taxes for all members of the group so computed.

FIDELITY BONDS AND OTHER INSURANCE

A \$10,000,000 fidelity bond, that meets the NAIC recommended minimum amount, covers the Company and named affiliates. Other coverages in place are placed with companies authorized to transact business in the State of Iowa.

EMPLOYEES' WELFARE

Personnel services are provided to the insurance entities by GuideOne Mutual Insurance Company, through the intercompany operating agreement. Eligible employees are provided the following core benefits:

- 401(k) Savings Plan and Employee Incentive Plan
- Basic Employee Life Insurance
- Basic Accidental Death & Dismemberment Insurance
- Medical, Dental and Vision Plans on a contributory basis
- Telemedicine

Paid time off  
Flexible Spending Plan  
Prepaid Legal Expense on a contributory basis  
Long and Short-term Disability

REINSURANCE

POOLING

The following GuideOne companies are parties to an Inter-company Pooling Agreement whereby the companies cede all insurance business to the Company, the Pool administrator. The Company retains 64% of the net business and cedes 20% to GuideOne Property & Casualty Insurance Company and 16% to GuideOne Specialty Mutual Insurance Company.

GuideOne Mutual Insurance Company (the Company)  
GuideOne Specialty Mutual Insurance Company  
GuideOne Property & Casualty Insurance Company  
GuideOne America Insurance Company  
GuideOne Elite Insurance Company  
GuideOne National Insurance Company

Cessions to excess of loss, quota share and 100% fronting arrangements with non-affiliated reinsurers are prior to inter-company pooling. All pool members are parties to the various reinsurance agreements with non-affiliated reinsurers.

CEDED REINSURANCE

Excess of Loss (working layer)

The working layer is comprised of two multiline covers, one placed with domestic (or U.S.) reinsurers at 85% and the second placed with non-U.S. reinsurers at 15%. A \$2 million batch retention applies to both. The cover placed with domestic reinsurers provides unlimited recoveries. The cover placed with non-U.S. reinsurers limits to maximum of \$33 million for the \$3 million x \$2 million layer for property and casualty but is unlimited for umbrella. The non-U.S. reinsurer cover \$5 million x \$5 million layer is unlimited. Terrorism coverage for the domestic cover is \$10 million each coverage, \$20 million in aggregate (nuclear, biological, chemical, and radiological coverage is included). Terrorism coverage for the non-U.S. reinsurer cover is \$10 million each coverage, \$20 million aggregate (with a \$10 million for nuclear, biological, chemical, and radiological coverage).

Property: The reinsurer shall be liable up to \$8,000,000 of ultimate net loss each risk, each loss occurrence, in excess of the Company's \$2,000,000 retention. The reinsurer's liability for losses on property business shall further be subject to a limit each loss occurrence of \$19,850,000. Domestic per-risk excess of loss also includes a \$1 million x \$1 million aggregate cover of \$10 million excess of a \$12.5 million deductible and this cover is placed at 85%.

Casualty: The reinsurer shall be liable up to \$8,000,000 of ultimate net loss, each loss occurrence, in excess of the Company's \$2,000,000 retention.

Umbrella: The reinsurer shall be liable up to \$9,000,000 of ultimate net loss, each loss occurrence, each Policy, in excess of the Company's \$1,000,000 retention.

Casualty/Umbrella: In the event a loss occurrence involves losses arising from both casualty and umbrella business, the reinsurer shall be liable for up to \$8,000,000



of ultimate net loss each loss occurrence in excess of the Company's \$2,000,000 retention.

Property/Casualty/Umbrella: In the event a loss occurrence involves losses arising from property business as well as casualty and/or umbrella business the Company shall be required to retain only \$2,000,000 of ultimate net loss each loss occurrence.

Excess Per Risk - Commercial Property including Inland Marine

The Company's retention and the reinsurer's per risk, per occurrence limit and term limit for each layer of the excess cover is as follows:

<u>Excess Layer</u>	<u>Company's Retention</u>	<u>Reinsurer's Occurrence Limit</u>	<u>Reinsurer's Term Limit</u>
First	\$10,000,000	\$10,000,000	\$ 30,000,000
Second	20,000,000	65,000,000	130,000,000

Excess of Loss - Casualty and Umbrella Liability

<u>Excess Layer</u>	<u>Company's Retention</u>	<u>Reinsurer's Occurrence Limit</u>	<u>Reinsurer's Occurrence Per Contract Year</u>
First	\$10,000,000	\$10,000,000	\$ 40,000,000
Second	20,000,000	10,000,000	30,000,000

Umbrella is covered in the First layer. The Second layer covers 10 umbrella policies without referral. Maximum Any One Life is \$15 million.

Catastrophe Excess of Loss - Property

The Company's retention and the reinsurer's per occurrence limit and annual limit for each layer of the excess catastrophe cover is as follows:

<u>Excess Layer</u>	<u>Placed</u>	<u>Company's Retention</u>	<u>Reinsurer's Occurrence Limit</u>	<u>Reinsurer's Term Limit</u>
First	88.75%	\$ 20,000,000	\$10,000,000	\$30,000,000
Second	95.00%	30,000,000	30,000,000	90,000,000
Third	95.00%	60,000,000	60,000,000	120,000,000
Fourth	95.00%	120,000,000	60,000,000	120,000,000
Fifth	100.00%	180,000,000	20,000,000	40,000,000

Master Net Line Quota Share

Quota share of up to \$2 million of Net Loss (new and renewal) for all lines of business in our Health Services, Non-Profit, and Education niches. This cover is placed at 50%.

Boiler and Machinery

The Company shall cede 100% of all equipment breakdown liability subject to the reinsurer's maximum liability not to exceed \$100,000,000 for any one accident, any one policy.

Multi-Peril Crop Insurance

The Company is a participant in fronting arrangements to write multiple peril crop and livestock insurance produced by managing general agents. Under one program, the Company shall cede to the reinsurer (holder of the Standard Reinsurance Agreement) 100% of all business written. For the crop year 2018 only, the Company is the SRA holder under another program whereby the Company shall cede a portion of the risk to the FCIC with the remaining risk ceded 100% under quota share agreements with non-affiliated reinsurers.

The Company is a participant in a fronting arrangement where it shall cede to the reinsurer 100% of all crop hail insurance produced by a managing general agent.

Prepaid Legal Expense

The Company is a participant in a fronting arrangement where it shall cede to the reinsurer 100% of all prepaid legal expense insurance produced by a managing general agent.

STATUTORY DEPOSIT

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

Arkansas	\$ 225,000	Montana	\$ 26,078
California	73,444,658	Nevada	310,000
Delaware	500,000	New Mexico	300,000
Georgia	240,000	North Carolina	318,203
Idaho	52,156	Oregon	1,580,000

The book/adjusted carrying value of special deposits held in trust for the protection of all policyholders is \$76,996,095 as of December 31, 2017.

TERRITORY AND PLAN OF OPERATION

The Company is currently licensed in all 50 states and the District of Columbia. Direct written premiums for 2017 total \$334,330,579. California, Texas, New York, Florida and Louisiana represent the top five states in premium volume.

August 3, 2016, it was announced that all GuideOne Insurance Companies would exit the personal lines of business beginning in the fourth quarter of 2016.

July 5, 2017, it was announced that all GuideOne Insurance Companies would exit the liability coverage in the for-profit SLC business, both admitted and non-admitted and the liability coverages for the non-profit claims-made SLC business, both admitted and non-admitted.

The GuideOne Group focuses on providing property and casualty insurance products primarily to churches and church affiliated services, private schools and colleges, senior living facilities.

GROWTH OF COMPANY

The following historical data, taken from the Company's filed annual statements for the years indicated, reflects the financial position of the Company:

<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	\$1,814,524,221	\$ 406,049,085	\$ 315,757,827	\$ 197,306,026	\$ 15,930,667
2014	1,695,178,682	442,119,072	347,764,700	208,462,058	16,504,414
2015	1,232,046,553	464,107,062	363,266,600	208,791,218	14,917,150
2016	1,214,660,024	421,779,317	359,489,555	237,983,068	36,978,088
2017	1,049,108,644	363,058,100	288,550,006	268,190,863	17,634,623

ACCOUNTS AND RECORDS

The figures contained in the Company's filed annual statements for the years under review were found to be in agreement or reconciled to those recorded in the general ledger for assets, liabilities, income, and disbursement accounts. The accounting records are generally maintained using electronically processed data, however various subsidiary records are maintained using manually prepared excel worksheets. Supporting electronic data files were reconciled to financial policy and claim records and confirmed in accordance with Financial Condition Examiners Handbook guidance.

During the course of the examination, no material aggregate surplus difference was identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2017.

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  
Examination Period Ending December 31, 2017

ASSETS

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 490,564,497		\$ 490,564,497
Preferred Stocks	500,000		500,000
Common stocks	230,761,308		230,761,308
Mortgage loans on real estate:			
First liens	13,093,570		13,093,570
Real estate:			
Properties occupied by the company	9,882,269	721	9,881,548
Properties held for the production of income	3,260,660		3,260,660
Properties held for sale	27,845		27,845
Cash and short-term investments	74,055,800		74,055,800
Derivatives	99,167		99,167
Other invested assets	22,889,212	10	22,889,202
Rabbi Trust	5,911,540		5,911,540
Investment income due and accrued	3,338,791		3,338,791
Uncollected premiums and agents' balances			
In the course of collection	37,414,967	385,406	37,029,561
Premiums booked but deferred and not yet due	90,565,109	414,241	90,150,868
Amounts recoverable from reinsurers	18,652,818		18,652,818
Current federal income tax recoverable	762,109		762,109
Net deferred tax asset	49,040,626	5,181,667	43,858,959
Guaranty funds	65,740		65,740
Electronic data equipment	7,562,957	6,640,077	922,880
Furniture and equipment	482,291	482,291	
Receivable from affiliates	41,250		41,250
Prepaid pension cost	11,833,768	11,833,768	
Overfunded Pension Asset	(11,833,768)	(11,833,768)	
Agent deferred compensation	1,840,080		1,840,080
Account Receivable	811,769		811,769
Account Receivable-CGB Diversified	588,682		588,682
Prepaid expense	938,747	938,747	
Unsecured Loans	234,910	234,910	
Auto	130	130	
Total assets	<u>\$1,063,386,844</u>	<u>\$14,278,200</u>	<u>\$1,049,108,644</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 383,886,640
Reinsurance payable on paid losses	13,803,069
Loss adjustment expenses	96,532,628
Commissions payable, contingent and other similar charges	24,775,018
Other expenses	30,058,311
Taxes, licenses and fees	1,003,260
Unearned premiums	136,001,056
Dividends declared and unpaid-policyholders	172,274
Ceded reinsurance premiums payable	30,789,941
Amounts withheld or retained for account of others	6,848,009
Remittances and items not allocated	4,378,467
Provision for reinsurance	115,200
Drafts outstanding	87,365
Payable to parent and affiliates	5,975,686
Retroactive Reinsurance Recoverable	(112,627,041)
Liability for Plan Benefits	51,773,187
Reinsurance payable	8,202,596
Unclaimed property	1,733,272
Accounts Payable -Premia	<u>2,541,606</u>
 Total liabilities	 \$ <u>686,050,544</u>
 Aggregated write-ins for other-than-special surplus funds:	
Surplus reserve fund	\$ 1,250,000
Special surplus for Retroactive Reinsurance	8,745,253
Surplus notes	100,000,000
Unassigned funds (surplus)	253,062,847
 Surplus as regards policyholders	 \$ <u>363,058,100</u>
 Total liabilities and surplus	 \$ <u>1,049,108,644</u>

STATEMENT OF INCOME

ONE YEAR PERIOD ENDING DECEMBER 31, 2017

Underwriting Income

Premiums earned \$ 288,550,006

Deductions

Losses incurred	\$268,190,863	
Loss adjustment expenses incurred	45,928,548	
Other underwriting expenses incurred	94,663,970	
Total underwriting deductions		<u>408,783,381</u>

Net underwriting (loss) \$ (120,233,375)

Investment Income

Net investment income earned	\$ 17,634,623	
Net realized capital gains (losses), less capital gains tax	5,318,400	
Net investment income		<u>22,953,022</u>

Other Income

Net gain (loss) from agents' or premium balances charged off	\$ (715,204)	
Finance and service charges not included in premiums	1,268,544	
Retroactive Reinsurance Income	8,745,253	
Administrative Fees	935,898	
Gain (loss) on fixed asset	(176,008)	
Surplus Note Issuance Cost	(1,500,000)	
Miscellaneous Income	(13,020)	
Total other income		<u>8,545,463</u>

Net income before dividends to policyholders \$ (88,734,889)

Dividends to policyholders 201,335

Net income before federal income tax \$ (88,936,224)

Federal and foreign income taxes incurred (3,454,155)

Net income \$ (85,482,069)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016	\$ 421,779,317
<u>Gains and (Losses)in Surplus</u>	
Net Income	\$ (85,482,069)
Change in net unrealized capital gains or (losses)	(15,954,395)
Change in net unrealized foreign exchange capital(loss)	(1,327,678)
Change in net deferred income tax	(3,280,496)
Change in non-admitted assets	3,284,922
Change in provision for reinsurance	321,041
Change in surplus notes	50,000,000
Change in Liability for Plan Benefits	<u>(6,282,542)</u>
Change in surplus as regards policyholders for the year	<u>\$ (58,721,217)</u>
Surplus as regards policyholders, December 31, 2017	<u>\$ 363,058,100</u>



CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$ 285,338,881	
Net investment income	20,276,128	
Miscellaneous income	9,260,666	
Total		\$ 314,875,675
Benefit and loss related payments	\$ 225,260,206	
Commissions, expenses paid and aggregate write-ins for deductions	156,592,399	
Dividends to policyholders	359,352	
Federal income taxes (paid) recovered	(8,737,045)	
Total		<u>373,474,912</u>
Net cash from operations		\$ (58,599,237)

Cash from Investments

Proceeds from investments sold, matured or repaid		
Bonds	\$ 184,401,953	
Stocks	69,430,112	
Mortgage loans	3,595,812	
Real estate	18,719	
Other invested assets	2,429,854	
Miscellaneous proceeds	1,206,405	
Total investment proceeds		\$ 261,082,855
Cost of investments acquired (long-term only):		
Bonds	\$ 79,493,326	
Stocks	20,084,263	
Mortgage loans	486,736	
Real estate	516,636	
Other invested assets	4,437,595	
Total investments acquired		<u>105,018,556</u>
Net cash from investments		\$ <u>156,064,299</u>

Cash from Financing and Miscellaneous Sources

Cash provided:		
Surplus notes, capital notes	\$ 50,000,000	
Other cash provided (applied)	(101,534,954)	
Net cash from financing and miscellaneous sources		\$ (51,534,954)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments		\$ 45,930,108
Cash and short-term investments:		
Beginning of year		<u>28,125,692</u>
End of year		<u>\$ 74,055,800</u>

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

Underwriting Income

Premiums earned		\$1,674,828,688
<u>Deductions</u>		
Losses incurred	\$1,120,733,233	
Loss expenses incurred	178,755,326	
Other underwriting expenses incurred	<u>577,973,557</u>	
Total underwriting deductions		<u>1,877,462,116</u>
Net underwriting gain(loss)		\$ (202,633,428)

Investment Income

Net investment income earned	\$ 101,964,942	
Net realized capital gains (losses)	<u>14,830,294</u>	
Net investment income		116,795,236

Other Income

Net (loss) from agents' balances charged off	\$ (4,285,202)	
Finance and service charges not included in premiums	10,111,377	
Aggregate write-ins for miscellaneous income	(48,162,323)	
Total Income		<u>\$ (42,336,148)</u>

Net before dividends to policyholders		\$ (128,174,340)
Dividends to policyholders		<u>1,841,232</u>
Net income before Federal income tax		\$ (130,015,572)
Federal and foreign income taxes incurred		<u>(21,545,268)</u>
Net Income		<u>\$ (108,470,304)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		\$ 423,389,410
<u>Gains and (Losses)in Surplus</u>		
Net Income		\$ (108,470,304)
Change in net unrealized capital gains or (losses)		(21,620,317)
Change in net unrealized foreign exchange capital(loss)		1,309
Change in net deferred income tax		12,899,260
Change in non-admitted assets		7,662,279
Change in provision for reinsurance		134,800
Change in surplus notes		50,000,000
Cumulative effect of change in accounting principles		4,366,178
Prior period adjustment		( 2,464,106)
Change in liability plans		(2,840,409)
Change in surplus as regards policyholders for the period		<u>\$ (60,331,310)</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 363,058,100</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, examiners from the Iowa Insurance Division and Assurity Resources, Inc. participated in the examination and the preparation of this report.

A review of loss and loss adjusting expense reserves was performed under the direction of Wes Campbell, FCAS, FSA, MAAA, Principal & Consulting Actuary, Apex Actuarial Solutions, LLC.

A review of the information technology system was performed by Bob Wong, CFE, examiner for the Iowa Insurance Division.

Respectfully submitted,

      /s/ Thomas Allen      

Thomas Allen, CFE  
Examiner-in-Charge  
Assurity Resources, Inc. on behalf of the  
Iowa Insurance Division

      /s/ Daniel Mathis      

Daniel Mathis, CFE  
Supervisor and Assistant Chief Examiner  
Iowa Insurance Division