

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

West Des Moines, Iowa
June 26, 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 SPECIALTY 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 Specialty 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 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 July 10, 1948 under the provisions of Chapter 491, Code of Iowa. Actual writing of business commenced on September 1, 1948.

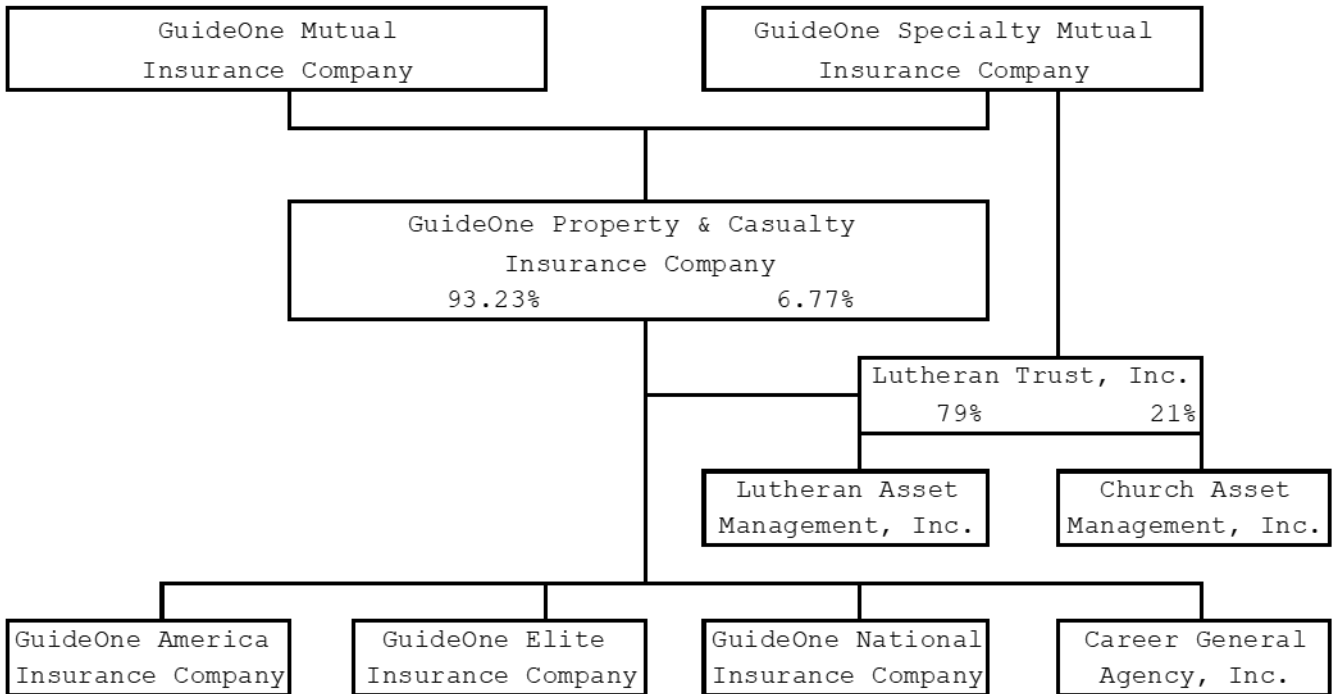
The Articles of Incorporation were amended granting perpetual corporate existence and changing the principal place of business to West Des Moines, Iowa.

Effective January 16, 1998, the Company changed its name from Midwest Mutual Insurance Company to Guidant Specialty Mutual Insurance Company.

Effective January 15, 1999, the Company changed its name to GuideOne Specialty Mutual Insurance Company.

HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. The Company has 6.77 percent and GuideOne Mutual Insurance Company has 93.23 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 2:00 p.m. on the third Friday 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, but in no event shall a quorum consist of less than the number of authorized directors plus one.

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. In the event of a vacancy on the Board of Directors, the remaining members of the Board shall elect a successor to serve until the next annual meeting of the members. A director shall be required to retire from the board on the day before the first annual meeting of members held after he or she reaches the age of seventy-two (72) years. The number of directors shall be set by the Board within the number authorized by the Articles of Incorporation, and shall be set by resolution between six (6) and twelve (12) in number.

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

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
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 Specialty Mutual Insurance Company compensates directors who are not officers of the Company as follows: The annual retainer for Board members is \$20,000 form of payment maybe cash or deferred with the annual deferred compensation of \$30,000. The Board chairpersons receive an additional annual retainer of \$5,000 for service as lead director. A regular board meeting fee of \$700, executive committee meeting fee of \$1,400, and phone meetings 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 and shall fix its own rules governing the conduct of its activities as the Board of Directors may request. 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 lead director, 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, or until they reach the age of 65, or until they shall resign or shall have been removed in the manner prescribed in the Bylaws. Any two or more offices may be held by the same person except for the offices of President and Secretary.

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 ¹	Senior Vice President, Chief Underwriting Officer
David M. Dietz ²	Senior Vice President, Sales and Field Operations
Brian J. Hughes	Senior Vice President, Chief Investment Officer
Marquis D. James ³	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 ⁴	Vice President, Chief Actuary

¹Philip 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.

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

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

⁴Tim 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 17, 2014. Article VIII, Section 3, this section was deleted in its entirety. Article VIII, Section 4 through 18, were renumbered to take into account the deletion of Section 3

January 16, 2015. Article II was changed to state that the affirmative vote to dissolve was changed from three fourths to two-thirds. Any special meeting to dissolve the corporation shall have been given to all members by the president and secretary at least twenty days prior to the meeting. Article XIII Section 2 sub-section was revised to indemnify officers, directors, employees as set forth in Article XIII. Article XII, Directors

Conflicts of Interest, was re-organized and revised to describe conflicts of interest and state the required recusal of Directors from voting on transactions that they may have a direct or in-direct interest in.

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

February 14, 2018. Article VIII, Section 9 was amended to identify the nomination

The following amendments (with proper approval by the Board 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 26, 2016. Article IV, Section 3 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.

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 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 GuideOne Mutual Insurance Company, the Pool administrator. GuideOne Mutual Insurance Company retains 64% of the net business and cedes 20% to GuideOne Property & Casualty Insurance Company and 16% to the Company.

GuideOne Mutual Insurance Company
GuideOne Specialty Mutual Insurance Company (the 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, GuideOne Mutual Insurance Company

is the SRA holder under another program whereby GuideOne Mutual Insurance 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	\$130,389	New Mexico	\$330,000
Delaware	115,756	North Carolina	306,799
Georgia	114,743	Oregon	259,955
Nevada	99,995	Virginia	550,064

The book/adjusted carrying value of special deposits held in trust for the protection of all policyholders is \$1,907,701 as of December 31, 2017.

TERRITORY AND PLAN OF OPERATION

The Company is currently licensed in 45 states and the District of Columbia. Direct written premiums for 2017 total \$115,830,583. Minnesota, California, Texas, Louisiana and New Jersey represent the top five states in premium volume.

August 3, 2016, the Company announced it would exit the personal lines of business beginning in the fourth quarter of 2016.

July 5, 2017, the Company announced it 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:

Year	Admitted Assets	Surplus to Policyholders	Net Premiums Earned	Net Losses Incurred	Investment Income Earned
2013	\$ 465,256,795	\$ 93,350,631	\$ 78,939,457	\$ 49,326,506	\$ 4,117,404
2014	392,516,963	95,827,684	86,941,175	52,115,514	6,043,945
2015	265,383,196	98,090,369	90,816,650	52,197,804	5,074,421
2016	267,988,284	94,237,778	89,872,389	59,495,767	5,870,555
2017	226,644,139	79,316,888	72,137,502	67,047,716	8,868,587

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	\$ 138,381,641		\$138,381,641
Common stocks	18,598,349	\$ 413,834	18,184,515
Cash and short-term investments	8,411,783		8,411,783
Derivatives	99,167		99,167
Other invested assets	8,377,567	10	8,377,557
Investment income due and accrued	1,001,428		1,001,428
Uncollected premiums and agents' balances in course of collection	8,848,979		8,848,979
Premiums booked but deferred and not due	22,537,927	210	22,537,717
Amounts recoverable from reinsurer	5,691,015		5,691,015
Current federal and foreign income tax recoverable and interest thereon	3,629,367		3,629,367
Net deferred tax asset	4,354,248		4,354,248
Guaranty funds receivable or on deposit	16,435		16,435
Receivable from parent and affiliates	3,198,035		3,198,035
Reinsurance recoverable	3,588,294		3,588,294
Account receivable - Premia	114,599		114,599
Account receivable - CGB Diversified	147,170		147,170
Account receivable	<u>62,189</u>		<u>62,189</u>
 Total assets	 <u>\$227,058,193</u>	 <u>\$ 414,054</u>	 <u>\$226,644,139</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$ 95,971,660
Reinsurance payable on paid losses		3,093,570
Loss adjustment expenses		24,133,157
Commissions payable, contingent and other		4,327,088
Other expenses		1,478,119
Taxes, licenses and fees		250,815
Unearned premiums		34,000,264
Ceded reinsurance premiums payable		10,875,761
Amounts withheld or retained for account of others		237,119
Remittances and items not allocated		1,094,617
Drafts outstanding		21,841
Retroactive Reinsurance Recoverable		<u>(28,156,760)</u>
Total liabilities		<u>\$147,327,251</u>
 Surplus Reserve Fund		 \$ 1,250,000
Special Surplus for Retroactive Reinsurance		2,186,313
Surplus notes		5,000,000
Unassigned funds (surplus)		<u>70,880,575</u>
 Surplus as regards policyholders		 <u>\$ 79,316,888</u>
 Total liabilities and surplus		 <u>\$226,644,139</u>

UNDERWRITING AND INVESTMENT EXHIBIT
ONE-YEAR PERIOD ENDING DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 72,137,502
<u>Deductions</u>		
Losses Incurred	\$ 67,047,716	
Loss expenses incurred	11,482,137	
Other underwriting expenses incurred	<u>24,084,318</u>	
Total underwriting deductions		<u>\$ 102,614,171</u>
Net underwriting gain (loss)		\$(30,476,669)
<u>Investment Income</u>		
Net investment income earned	\$ 8,868,587	
Net realized capital gains (losses)	<u>1,131,401</u>	
Net investment income		\$ 9,999,988
<u>Other Income</u>		
Net gain or (loss) from agents' balances charges off	\$ (178,801)	
Finance and service charges not included in premiums	317,136	
Miscellaneous income (expense)	<u>2,181,913</u>	
Total other income		<u>\$ 2,320,248</u>
Net income before federal income tax		\$(18,156,433)
Federal and foreign income taxes incurred		<u>(1,519,379)</u>
Net Income		<u>\$(16,637,054)</u>

CAPTIAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$ 94,237,778</u>
<u>Gains and (Losses) in Surplus</u>		
Net Income		\$(16,637,054)
Change in net unrealized capital gains or (losses)		48,228
Change in net deferred income tax		1,718,180
Change in non-admitted assets		<u>(50,244)</u>
Change in surplus as regards policyholders for the year		<u>\$(14,920,890)</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 79,316,888</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$ 60,043,937	
Net investment income	9,280,882	
Miscellaneous income	<u>2,499,049</u>	
Total		\$ 79,823,868
Benefits and loss related payments	\$ 56,552,726	
Commissions, expenses paid and aggregate write-ins for deductions	<u>35,281,448</u>	
Total		\$ 91,834,174
Net cash from operations		<u>\$(12,010,306)</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 49,952,521	
Stocks	16,601,112	
Other invested assets	<u>775,031</u>	
Total Investment proceeds		\$ 67,328,664
Cost of investments acquired (long-term only):		
Bonds	\$ 20,355,675	
Stocks	3,796,951	
Other invested assets	<u>1,292,773</u>	
Total investments acquired		<u>\$ 25,445,399</u>
Net cash from investments		<u>\$ 41,883,265</u>

Cash from Financing and Miscellaneous Sources

Cash provided:		
Other cash provided (applied)	\$(27,761,391)	
Net cash from financing and miscellaneous sources		<u>\$(27,761,391)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$ 2,111,568
Cash and short-term investments:	
Beginning of year	6,300,215
End of year	<u>\$ 8,411,783</u>

UNDERWRITING AND INVESTMENT EXHIBIT
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 418,707,173
<u>Deductions</u>		
Losses Incurred	\$ 280,183,307	
Loss expenses incurred	44,688,832	
Other underwriting expenses incurred	<u>146,461,659</u>	
Total underwriting deductions		<u>\$ 471,333,798</u>
Net underwriting gain (loss)		\$(52,626,625)
<u>Investment Income</u>		
Net investment income earned	\$ 29,974,912	
Net realized capital gains (losses)	<u>5,410,683</u>	
Net investment income		\$ 35,385,595
<u>Other Income</u>		
Net gain or (loss) from agents' balances charges off	\$ (1,071,299)	
Finance and service charges not included in premiums	2,527,842	
Miscellaneous income (expense)	<u>2,165,113</u>	
Total other income		<u>\$ 3,621,656</u>
Net income before dividends to policyholders		<u>\$(13,619,374)</u>
Dividends to policyholders		
Net income before federal income tax		\$(13,619,374)
Federal and foreign income taxes incurred		<u>(512,624)</u>
Net Income		<u>\$(13,106,750)</u>

CAPTIAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31		<u>\$ 91,323,590</u>
<u>Gains and (Losses) in Surplus</u>		
Net Income		\$(13,106,750)
Change in net unrealized capital gains or (losses)		(490,733)
Change in net deferred income tax		2,200,565
Change in non-admitted assets		(413,771)
Prior period adjustment		(196,013)
Change in surplus as regards policyholders for the period		<u>\$(12,006,702)</u>
Surplus as regards policyholders, December 31, 2017		<u>\$ 79,316,888</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
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 /s/ Daniel Mathis

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