EXAMINATION REPORT OF

UNITED FIRE & CASUALTY COMPANY

CEDAR RAPIDS, IOWA

AS OF DECEMBER 31, 2018

Cedar Rapids, Iowa
March 16, 2020

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

UNITED FIRE & CASUALTY COMPANY

CEDAR RAPIDS, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 118 Second Avenue SE, Cedar Rapids, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

United Fire & Casualty Company, hereinafter referred to as the "Company", was last examined, as of December 31, 2013. The examination reported herein was conducted as a coordinated examination of the United Fire Group, Inc. with the Insurance Division of Iowa acting as the Lead State. Representatives from the California Department of Insurance, Louisiana Department of Insurance, New Jersey Department of Banking and Insurance, Pennsylvania Insurance Department, and Texas Department of Insurance also participated.

The following insurance entities were examined as part of the coordinated examination, with separate examination reports prepared for each entity.

United Fire & Casualty Company (UFC)	**IA – NAIC #13021**
Addison Insurance Company (ADD)	IA – NAIC #10324
UFG Specialty Insurance Company (UFGS)	IA – NAIC #19526
Financial Pacific Insurance Company (FPIC)	CA – NAIC #31453
Franklin Insurance Company (FIC)	PA – NAIC #10728
Lafayette Insurance Company (LAF)	LA – NAIC #18295
Mercer Insurance Company (MIC)	PA – NAIC #14478
Mercer Insurance Company of New Jersey, Inc. (MNJ)	NJ – NAIC #43540
United Fire & Indemnity Company (UFI)	TX – NAIC #19496
United Fire Lloyds (UFL)	TX – NAIC #43559

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2014 to the close of business on December 31, 2018, 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 requires that we plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

The Company was incorporated under a perpetual charter as the United Casualty Company on January 2, 1946. An amendment to the Articles of Incorporation, adopted in January of 1950, changed the corporate name to United Fire & Casualty Company and authorization was obtained to write multiple lines of insurance under the provisions of Chapter 515, Code of Iowa.

In 1962, the United Life Insurance Company was formed to offer life insurance facilities to the Company’s fire and casualty agents. On March 30, 2018, United Life Insurance Company was sold to Kuvare US Holdings, Inc.

In September 1979, the Company purchased all the outstanding common stock shares of the Lafayette Insurance Company of New Orleans, Louisiana.

In June 1990, the Company acquired all of the common stock shares of Addison Farmers’ Insurance Company of Lombard, Illinois. March 1997, Addison Farmers’ Insurance Company changed its name to Addison Insurance Company.

On August 10, 1999 the Company acquired American Indemnity Financial Corporation (AIFC) as a wholly owned subsidiary. AIFC, domiciled in Delaware and based in Texas, was a holding company that was made up of the following regional property and casualty insurance companies: American Indemnity Company (AIC) domiciled in Texas, United Fire & Indemnity Company, Texas General Indemnity Company, and United Fire Lloyds.

On March 28, 2011, the Company purchased Mercer Insurance Group (Mercer). Mercer offered commercial and personal lines of insurance to businesses and individuals through its insurance subsidiaries: Mercer Insurance Company, Mercer Insurance Company of New Jersey, Inc., Franklin Insurance Company, and Financial Pacific Insurance Company.

On February 1, 2012, a reorganization of United Fire & Casualty Company and all the subsidiary/affiliated companies was completed. United Fire Group, Inc. (UFG), an Iowa corporation, replaced UFC as the publicly held corporation. The holders of UFC common stock were issued the same number of shares and same ownership percentage of UFG as they held immediately prior to the reorganization. On February 2, 2012, shares of UFG common stock commenced trading on the NASDAQ Global Select Market under the symbol "UFCS". The directors and executive officers remained the same.

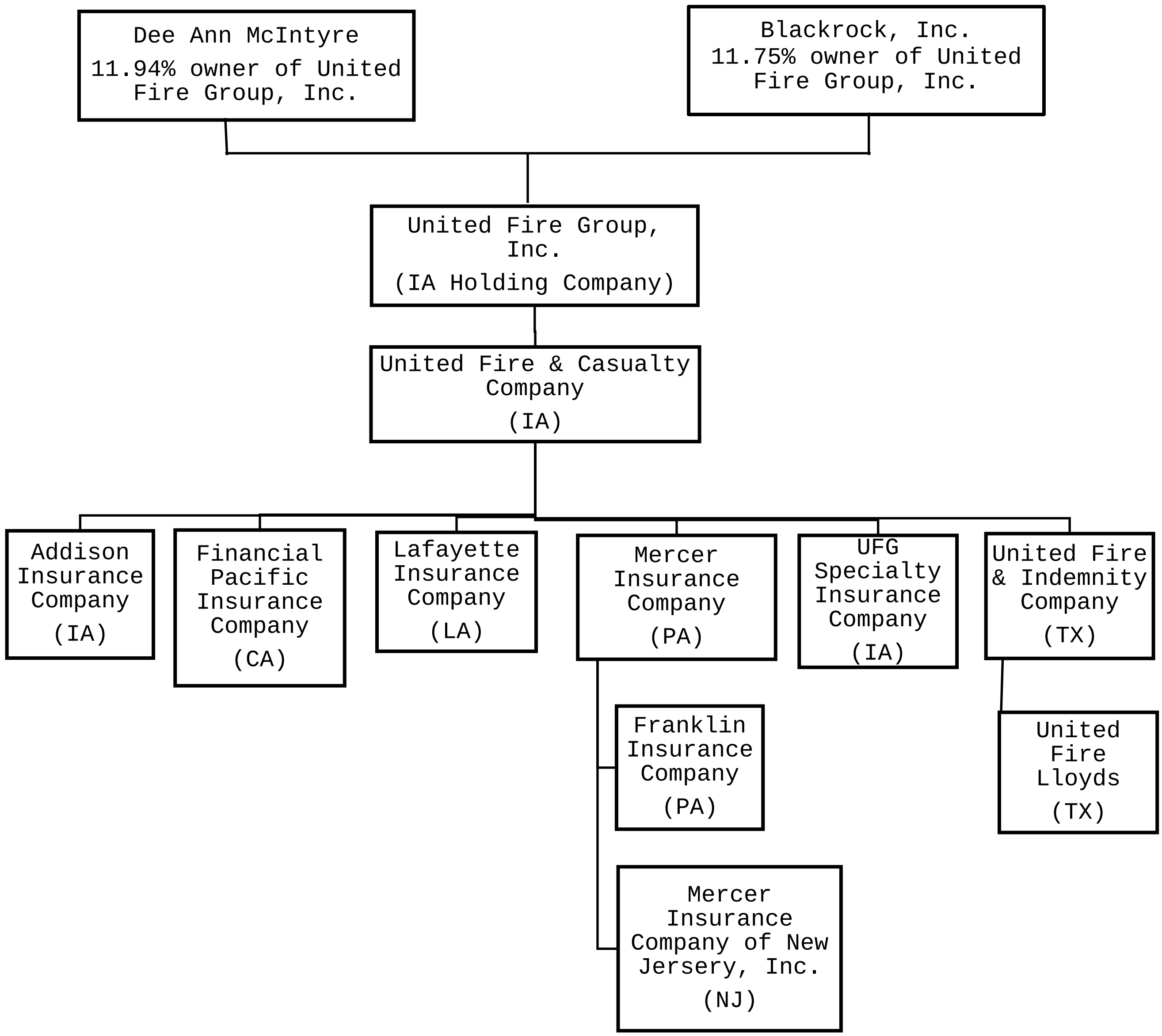
On April 1, 2015, Texas General Indemnity Company re-domesticated from Westminster, Colorado to Cedar Rapids, Iowa and the company was renamed UFG Specialty Insurance Company on July 1, 2015.

In 2015, the Company dissolved three of its holding companies in order to flatten their organizational chart. The companies dissolved were American Indemnity Financial Corporation, Mercer Insurance Group, Inc. and Financial Pacific Insurance Group, Inc.

INSURANCE HOLDING COMPANY SYSTEM

United Fire Group, Inc. (UFG, the Ultimate Parent, is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. The authorized capital stock of UFG is 75,000,000 shares of common stock having a par value of $.001, and 10,000,000 shares of serial preferred stock having no par value per share. At December 31, 2018, 25,097,408 common shares were outstanding and stockholders' equity totaled $888,375,000.

An organizational chart identifying the Holding Company System as of December 31, 2018 follows:



CAPITAL STOCK AND DIVIDENDS THEREON

The authorized capital stock of the Company consisted of 75,000,000 shares of common stock with a par value of $3.33 1/3 per share and 10,000,000 shares of preferred stock with no par value per share. Issued and outstanding capital, as of December 31, 2018 consists of 2,100,000 shares of common stock. Capital paid up and gross paid in and contributed surplus totaled $7,000,000 and $206,707,831, respectively. Cash dividends paid to stockholder during the examination period under review are as follows:

2014 -	$ 29,000,000
2015 -	22,500,000
2016 –	24,000,000
2017 -	40,000,000
2018 -	105,000,000

MANAGEMENT AND CONTROL

SHAREHOLDERS

The annual shareholders meeting, for the election of directors and for the transaction of such other business as may properly come before the meeting, shall be held on the third Wednesday in the month of May in each year, provided the Board may fix some other date which is within 30 days before or after said date. If such day shall be a legal holiday, the meeting shall be held on the following day. The place of meetings shall be held at the corporate office or within the State of Iowa.

BOARD OF DIRECTORS

The Bylaws provide that the business and affairs of the Company are managed by a Board of Directors consisting of at least five and no greater than nine in number. Each director shall hold office until the next annual meeting of shareholders and until the director’s successor has been elected and qualified.

A regular meeting of the Board of Directors shall be held without other notice than as prescribed in the Bylaws immediately after, and at the same place as the annual meeting of shareholders.

Elected and qualified members serving as directors at December 31, 2018 were as follows:

Name	Principal Business Affiliation	Term Expires
David E. Conner Cedar Rapids, IA	Vice President, Chief Claims Officer United Fire & Casualty Company	2019
Jack B. Evans Cedar Rapids, IA	President Hall-Perrine Foundation	2019
Dawn M. Jaffray Cedar Rapids, IA	Vice President and CFO United Fire Group	2019
Randy A. Ramlo Cedar Rapids, IA	President and Chief Executive Officer United Fire Group	2019
Neal R. Scharmer Cedar Rapids, IA	Vice President, General Counsel & Secretary United Fire & Casualty Company	2019
Michael T. Wilkins Lisbon, IA	Executive Vice President, COO United Fire Group	2019

OFFICERS

The Bylaws provide that the Board of Directors shall annually elect a President, a Vice President, a Secretary, and a Treasurer. The Board of Directors may appoint other officers or assistant officers as it deems necessary.

Officers serving as of December 31, 2018 were:

Name	Title
Randy A. Ramlo	President and Chief Executive Officer
Janice A. Martin	Treasurer

Name	Title
Neal R. Scharmer	Secretary
Robert F. Cataldo	Vice President, Chief Strategy Officer
Barrie W. Ernst	Vice President, Chief Investment Officer
Brian J. Frese	Vice President, Chief Technology Officer
Dawn M. Jaffray	Senior Vice President, Chief Financial Officer
David E. Conner*	Vice President, Chief Claims Officer
Allen R. Sorensen	Vice President, Corporate Underwriting
Michael T. Wilkins	Executive Vice President, Chief Operational Officer

*note: David Conner retired and was replaced by Corey Ruehle in February 2019.

In addition to the above, the Company has twelve named assistant officers. The salaries of the above officers are shown in Exhibit A, found immediately following the signature page of this report.

CONFLICT OF INTEREST

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

The minutes were silent as to the results of the examination report for the period ending December 31, 2013.

AFFILIATED COMPANY AGREEMENTS

Agents’ Balances Payment and Reimbursement Agreement

Per the agreement and related to the intercompany pooling agreement, United Fire & Casualty Company makes all payments to, and receives all payments from appointed agents and insureds on behalf of the other insurance entities in the United Fire Group. All amounts due from agents are recorded as agents' balances on the books of United Fire & Casualty Company. A corresponding 'payable to affiliate' is recorded by United Fire & Casualty Company for agents' balances related to the other agreement members. Affiliated members record a 'receivable from affiliate' for the amounts due for their direct premiums written, less the direct commissions paid. Settlement of amounts payable for agents' balances shall be within 30 days following the end of each month.

Intercompany Credit Agreements

Per the credit agreement, the Company may borrow short-term funds from its subsidiaries up to 10% of the subsidiary’s prior quarter reported surplus with an aggregate borrowing maximum of $50,000,000.

An additional credit agreement provides that each listed subsidiary may access the Company’s remaining borrowing capacity on its revolving credit facility up to a maximum of $5,000,000 per subsidiary.

Intercompany Investment Apportionment Agreement

The Company provides investment management services for itself and for the benefit of its subsidiary/affiliate companies. In exchange, the Company will charge each subsidiary/affiliate a pro-rata share of consolidated investment expenses based on the sum of the par value of its bonds and market value of its nonaffiliated securities in relation to that of the consolidated group. The projected investment expenses are calculated on an annual basis.

Federal Income Tax Allocation Agreement

The Company’s federal income tax return is consolidated with United Fire Group, Inc. and named subsidiaries. The method of allocation between the companies is subject to a written agreement approved by the Board of Directors. The allocated tax liability for each insurer will not be greater than the tax liability it would have incurred if it had been filing separate tax returns. Intercompany balances are settled within 30 days after the filing of a return, an amendment, or receipt of a refund.

FIDELITY BOND AND OTHER INSURANCE

The Company and its affiliates are protected by an insurance company’s fidelity bond in the amount of $2,000,000 single limit and $4,000,000 aggregate limit. Other coverages in place appear to adequately protect the interests of the Company. All policies are written with companies authorized to write in Iowa.

EMPLOYEES’ WELFARE

The United Fire & Casualty Company provides eligible employees a core of health related benefits which include:

- Medical insurance
- Dental insurance
- Vision insurance
- Short- and long-term disability
- Life insurance
- Long-term care
- Wellness program

The United Fire & Casualty Company provides eligible employees retirement related benefits which include:

- Employee Stock Purchase Plan
- Pension Plan
- 401(k) Plan

Formerly there was an Employee Stock Ownership Plan (ESOP) which was terminated on October 31, 2015. Each employee’s balance in the ESOP was transferred to their 401(k) account at the termination date.

REINSURANCE

INTER-COMPANY POOLING

All insurance affiliates belong to an intercompany reinsurance pooling arrangement whereby the companies cede all insurance business to United Fire & Casualty Company. The business that is ceded, plus the direct, assumed and ceded business of United Fire & Casualty Company is accumulated for pooling. Each subsidiary records their allocation from the pool as assumed business. Direct and net pooled premiums totaled $1,111,703,274 and $1,061,664,219, respectively, for 2018.

Pooling participation at December 31, 2018 is as follows:

United Fire & Casualty Company	64%
Mercer Insurance Company	9
Financial Pacific Insurance Company	8
Lafayette Insurance Company	7
Addison Insurance Company	4
Mercer Insurance Company of New Jersey	3
United Fire & Indemnity Company	2
UFG Specialty Insurance Company	1
Franklin Insurance Company	1
United Fire Lloyds	1

ASSUMED REINSURANCE

United Fire & Casualty Company assumes a small participation of 5% or less in property quota share treaties placed through a reinsurance broker. The aggregate business assumed is not to exceed $20,000,000.

CEDED REINSURANCE

The United Fire Group utilizes reinsurance brokers to place external cover. Business ceded to external reinsurers for the pooled group is recorded on behalf of the pooled group by United Fire & Casualty Company.

Multiple Line Excess of Loss

Covers property and casualty business including, but not limited to, personal umbrella, commercial umbrella, employment practices liability, worker' compensation and employers' liability.

Section A - Property – the reinsurer shall be liable in respect of each and every risk, each and every loss, for 100% of the ultimate net loss in excess of $2,500,000 retention, subject to a maximum limit of liability to the reinsurer of $2,500,000, each and every risk, each and every loss and $7,500,000 of ultimate net loss in any one loss occurrence.

Section B - Casualty, Umbrella and Employment Practice Liability – the reinsurer shall be liable in respect of each and every loss occurrence, for 100% of the ultimate net loss in excess of $2,500,000 retention, subject to a maximum limit of liability to the reinsurer of $3,500,000, each and every loss occurrence. On business classified as Railroad Protective or Owners' and Contractors' Protective, a maximum of $5,000,000 of each policy limit and any one loss occurrence shall apply, subject to a maximum limit of liability to the reinsurer of $10,000,000 of ultimate net loss in the aggregate.

Section C – Terrorism – as respects property business, the reinsurance shall be liable in respect of each and every risk, each and every loss, for 100% of the ultimate net loss in excess of $2,500,000 retention, subject to a maximum limit of liability to the reinsurer of $2,500,000, each and every risk, each and every loss, arising out of an act of terrorism. As respects to casualty business, the reinsurance shall be liable in respect of each and every risk, each and every loss, for 100% of the ultimate net loss in excess of $2,500,000 retention, subject to a maximum limit of liability to the reinsurer of $3,500,000, each and every risk, each and every loss, arising out of an Act of Terrorism. In no event shall the reinsurers' liability exceed $10,500,000 of the ultimate net loss in the aggregate for covered terrorism losses during the term of the contract.

Section A and B - in the event a loss occurrence involves losses to both Section A and Section B business, irrespective of whether such losses exceed the applicable retentions provided under Section A and Section B above, the reinsurer shall be liable for 100% of the ultimate net loss in excess of $2,500,000 each and every loss occurrence, subject to a limit of $2,500,000 each and every loss occurrence.

Property Second Per Risk Excess of Loss

Section A – the reinsurer shall be liable in respect of each and every risk, each and every loss, for 100% of the ultimate net loss in excess of $5,000,000 retention, subject to a maximum limit of liability to the reinsurer of $10,000,000, each and every risk, each and every loss.

Section B – the reinsurer shall be liable in respect of each and every risk, each and every loss, for 100% of the ultimate net loss in excess of $5,000,000 retention, subject to an annual aggregate limit of liability to the reinsurer of $10,000,000 of ultimate net loss arising out of an act of terrorism.

Property Third Per Risk Excess of Loss

Section A – the reinsurer shall be liable in respect of each and every risk, each and every loss, for 100% of the ultimate net loss in excess of $15,000,000 retention, subject to a maximum limit of liability to the reinsurer of $10,000,000, each and every risk, each and every loss, and $10,000,000 on ultimate net loss in any one loss.

Section B – the reinsurer shall be liable in respect of each and every risk, each and every loss, for 100% of the ultimate net loss in excess of $15,000,000 retention, subject to an annual aggregate limit of liability to the reinsurer of $10,000,000 of ultimate net loss arising out of an act of terrorism. The reinsurer's liability also shall not exceed $10,000,000 on ultimate net loss as respects all risks in any one loss.

Casualty Second Excess of Loss

Covers liability business, including but not limited to, automobile liability, liability other than automobile, workers' compensation and employers liability, employment practices liability, and umbrella business.

Section A - the reinsurer shall be liable in respect of each and every loss occurrence for 100% of the ultimate net loss in excess of $6,000,000 retention, subject to a maximum limit of liability to the reinsurer of $5,000,000, each and every loss occurrence.

Section B - the reinsurer shall be liable in respect of each and every loss occurrence for 100% of the ultimate net loss in excess of $6,000,000 retention, subject to an annual aggregate limit of liability to the reinsurer of $5,000,000 of ultimate net loss arising out of an act of terrorism.

Casualty Third-Fifth Excess of Loss

Third Excess Section A – the reinsurer shall be liable in respect of each and every loss occurrence for 100% of the ultimate net loss in excess of $11,000,000 retention, each and every loss occurrence; subject to a maximum limit of liability to the reinsurers of $9,000,000, each and every loss occurrence.

Third Excess Section B - the reinsurer shall be liable in respect of each and every loss occurrence for 100% of the ultimate net loss in excess of $11,000,000 retention, each and every loss occurrence arising from an Act of Terrorism; subject to an annual aggregate limit of liability to the reinsurers not to exceed $9,000,000 of ultimate net loss.

Fourth Excess Section A – the reinsurer shall be liable in respect of each and every loss occurrence for 100% of the ultimate net loss in excess of $20,000,000 retention, subject to a maximum limit of liability to the reinsurer of $20,000,000, each and every loss occurrence.

Fourth Excess Section B - the reinsurer shall be liable in respect of each and every loss occurrence for 100% of the ultimate net loss in excess of $20,000,000 retention, each and every loss occurrence arising from an Act of Terrorism; subject to an annual aggregate limit of liability to the reinsurers not to exceed $20,000,000 of ultimate net loss.

Fifth Excess Section A – the reinsurer shall be liable in respect of each and every loss occurrence for 100% of the ultimate net loss in excess of $40,000,000 retention, subject to a maximum limit of liability to the reinsurer of $20,000,000, each and every loss occurrence.

Fifth Excess Section B - the reinsurer shall be liable in respect of each and every loss occurrence for 100% of the ultimate net loss in excess of $40,000,000 retention, each and every loss occurrence arising from an Act of Terrorism; subject to an annual aggregate limit of liability to the reinsurers not to exceed $20,000,000 of ultimate net loss.

All Lines Aggregate Excess of Loss

The reinsurer shall be liable for 100% of the aggregate net loss of the company in excess of an amount equal to a 6.78% loss ratio, subject to a minimum retention of $58,500,000 and a maximum retention of $71,500,000. In no event shall the reinsurer be liable for more than $30,000,000 aggregate net loss during the term of the contract. Aggregate net loss shall be limited to the total of the following:

Property business in respect of each and every risk, the amount of net loss in excess of $1,000,000, subject to a limit of $1,500,000 each and every risk, and $7,500,000 each occurrence, if any; plus

Property business in respect of each loss occurrence, the amount of net loss in excess of $1,000,000 each loss occurrence subject to a limit of $19,000,000 each loss occurrence if any, subject to a maximum contribution from each risk of $1,000,000, if any; plus

Workers’ compensation and employers liability business, the amount of net loss in excess of $1,000,000 per occurrence subject to a limit of $1,500,000 each occurrence, if any; plus

Casualty business, the amount of net loss in excess of $1,500,000 per occurrence subject to a limit of $1,000,000 each occurrence.

Property Catastrophe Excess

First Layer - The reinsurer shall be liable to indemnify the company for each and every loss occurrence, for 100% of the excess net loss above an initial net loss to the company of $20,000,000 each and every loss occurrence; but the reinsurers shall not be liable for more than $20,000,000 of net loss for each and every loss occurrence. The reinsurers' liability in respect of excess net loss for the contract period shall be limited to $40,000,000 in all as respects all net loss on business covered as a result of all loss occurrences taking place during the contract.

Second Layer - The reinsurer shall be liable to indemnify the company for each and every loss occurrence, for 100% of the excess net loss above an initial net loss to the company of $40,000,000 each and every loss occurrence; but the reinsurers shall not be liable for more than $60,000,000 of net loss for each and every loss occurrence. The reinsurers' liability in respect of excess net loss for the contract period shall be limited to $120,000,000 in all as respects all net loss on business covered as a result of all loss occurrences taking place during the contract.

Third Layer - The reinsurer shall be liable to indemnify the company for each and every loss occurrence, for 100% of the excess net loss above an initial net loss to the company of $100,000,000 each and every loss occurrence; but the reinsurers shall not be liable for more than $150,000,000 of net loss for each and every loss occurrence. The reinsurers' liability in respect of excess net loss for the contract period shall be limited to $300,000,000 in all as respects all net loss on business covered as a result of all loss occurrences taking place during the contract.

Surety Excess of Loss

Covers liability as a result of loss or losses under Bonds classified as surety business by The Surety & Fidelity Association of America.

The reinsurer shall be liable in respect of any one Principal, any one loss discovered for the ultimate net loss over and above the initial ultimate net loss retention(s) set forth in the schedule below for any one principal, any one loss discovered, subject to a limit of liability to the reinsurer as set forth in the schedule below for any one principal, any one loss discovered. Furthermore, the reinsurer's liability for all losses discovered during the term of this contract shall not exceed the aggregate limit amounts set forth in the schedule below:

Layer	Company's Retention	Reinsurer's Limits of Liability	
	Ultimate Net Loss in respect of any one Principal, any one Loss Discovered	Ultimate Net Loss in respect of any one Principal, any one Loss Discovered	Aggregate Limit - Ultimate Net Loss in respect of all Losses Discovered subject hereto
First	$1,500,000	$3,500,000	$14,000,000
Second	$5,000,000	$10,000,000	$20,000,000
Third	$15,000,000	$30,000,000	$60,000,000

STATUTORY DEPOSIT

As of December 31, 2018, the book/adjusted carrying value of special deposits held in trust for the benefit of all policyholders totaled $4,240,890. 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:

California	$ 100,000
Georgia	126,519
Massachusetts	151,822
Missouri	1,467,617
Nevada	229,545
New Mexico	408,080
Oregon	408,080
Total	$2,891,663

TERRITORY AND PLAN OF OPERATION

The Company holds certificates of authority and is authorized to transact business in 46 states, excluding Delaware and New Hampshire, and is licensed in the District of Columbia. The Company is a qualified reinsurer in Connecticut and Rhode Island.

Property and casualty insurance business for UFG is produced by approximately 1,200 independent agencies and underwritten through six regional offices:

Rocky Mountain Regional Office	Westminster, CO
East Coast Regional Office	Pennington, NJ
Great Lakes Regional Office	Cedar Rapids, IA
Gulf Coast Regional Office	Webster, TX
Midwest Regional Office	Cedar Rapids, IA
West Coast Regional Office	Rocklin, CA

Each regional office is staffed with administrative, claims, loss control, marketing and underwriting personnel to service the policies written. A claims office is also maintained in New Orleans, Louisiana.

While the Company writes both personal and commercial lines, approximately 92% of the premium volume is written in traditional commercial line products.

GROWTH OF COMPANY

The following significant data, as taken from the office copies of the Company's filed annual statements for the years indicated, reflects the growth of the Company:

Year	Admitted Assets	Surplus to Policyholders	Net Premiums Earned	Net Losses Incurred	Investment Income Earned
2014	$ 1,661,866,621	$ 685,866,133	$ 498,510,104	$ 265,269,491	$ 32,438,478
2015	1,777,893,050	722,404,199	545,084,974	257,619,839	35,291,520
2016	1,893,910,347	770,908,325	599,123,607	341,982,309	45,325,899
2017	1,987,833,621	757,443,069	638,394,730	384,938,015	40,268,324
2018	2,020,197,240	774,257,466	663,968,597	385,711,682	42,215,314

ACCOUNTS AND RECORDS

The Company’s general ledgers are maintained on an electronic, accrual basis. Trial balances were prepared for the examination years under review. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the filed annual statements for assets, liabilities, income or disbursements.

SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Department will continue to monitor COVID-19 developments.

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: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2018.

STATEMENT OF ASSETS AND LIABILITIES
EXAMINATION PERIOD ENDING DECEMBER 31, 2018

ASSETS

	Ledger	Not Admitted	Admitted
Bonds	$ 808,806,269		$ 808,806,269
Preferred stocks	8,271,428	594,524	7,677,371
Common stocks	591,640,428		591,640,428
Mortgage loans on real estate:			
First liens	25,828,048		25,828,048
Real estate:			
Properties occupied by the Company	32,939,071		32,939,071
Cash and short-term investments	21,694,278		21,694.278
Other invested assets (Schedule BA)	81,122,927		81,122,927
Investment income due and accrued	7,425,128		7,425,128
Uncollected premiums and agents’ balances in the course of collection	51,172,382	4,656,791	46,515,591
Deferred premiums and agents’ balances and installments book but deferred and not yet due	324,347,101		324,347,101
Amounts recoverable from reinsurers	28,708,833		28,708,833
Funds held by or deposited with reinsured companies	5,785,329		5,785,329
Current federal and foreign income tax recoverable and interest thereon	12,562,037		12,562,037
Net deferred tax asset	10,033,873		10,033,873
Guaranty funds receivable or on deposit	98,443		98,443
EDP equipment and software	13,812,137	11,872,130	1,940,007
Furniture and equipment	6,238,619	6,238,619	
Aggregate write-in for other than invested assets	29,275,285	16,202,779	13,072,506
Total assets	$2,059,762,083	$39,564,843	$2,020,197,240

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$ 608,326,239
Reinsurance payable on paid losses and loss adjustment expenses	20,597,732
Loss adjustment expenses	193,684,470
Commissions payable, contingent commissions and other similar charges	19,822,963
Other expenses (excluding taxes, licenses and fees)	11,244,846
Taxes, licenses, and fees (excluding federal and foreign income taxes)	3,406,151
Unearned premiums	310,947,179
Ceded reinsurance premiums payable (net of ceding commissions)	32,543,344
Funds held by Company under reinsurance treaties	176,787
Amounts withheld or retained by company for account of others	759,769
Remittances and items not allocated	135,008
Provision for reinsurance	177,497
Net adjustments in assets and liabilities due to foreign exchange rates	(27,590)
Payable to parent, subsidiaries and affiliates	4,473,968

Aggregate write-in for liabilities	39,671,411
Total liabilities	1,245,939,774
Common capital stock	7,000,000
Gross paid in and contributed surplus	206,707,831
Unassigned funds (surplus)	560,549,635
Surplus as regards policyholders	774,257,466
Total liabilities and surplus	$2,020,197,240

STATEMENT OF INCOME
ONE-YEAR PERIOD ENDING DECEMBER 31, 2018

Underwriting Income		
Premiums earned		$ 663,968,597
Deductions		
Losses incurred	$385,711,682	
Loss adjustment expenses incurred	82,961,194	
Other underwriting expenses incurred	225,378,147	
Total underwriting deductions		694,051,023
Net underwriting gain or loss		(30,082,426)
Investment Income		
Net investment income earned	$ 42,215,314	
Net realized capital gains (losses) less capital gain tax	197,575,604	
Net investment income		239,790,918
Other Income		
Net gain from agents or premium balance charged off	(1,797,943)	
Finance and service charges not included in premiums	1,092,397	
Aggregate write-ins for miscellaneous income	2,656,618	
Total other income		1,951,072
Net income before dividend to policyholder		211,659,564
Dividend to policyholder		5,799,577
Net income after dividend to policyholder after capital gains tax and before all other federal and foreign income taxes		$ 205,859,577
Federal and foreign income taxes incurred		(5,340,584)
Net income		$ 211,200,571

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, prior year	$ 757,443,069
Gain and (Losses) in Surplus	
Net Income	$ 211,200,571
Change in net unrealized capital gains or losses	(109,400,115)
Change in net unrealized foreign exchange capital	416,691
Change in net deferred income tax	(4,408,414)
Change in non-admitted assets	(14,085,431)
Change in provision for reinsurance	45,963
Surplus adjustments	
Paid in	1,627,833
Dividend to stockholders	(105,000,000)
Aggregate write-ins for gains and losses in surplus	36,417,029
Change in surplus as regards policyholders for the year	16,814,397
Surplus as regards policyholders, December 31, 2018	$ 774,257,466

CASH FLOW STATEMENT
ONE-YEAR PERIOD ENDING DECEMBER 31, 2018

Cash from Operations

Premiums collected net of reinsurance	$ 659,355,705	
Net investment income	46,059,605	
Miscellaneous income	385,255	
Total		$705,800,565
Benefit and loss related payments	365,940,331	
Commission, expenses paid and aggregate		
Write-ins for deductions	319,996,531	
Dividend to policyholders	5,799,577	
Federal income taxes paid (recovered)	25,719,058	
Total		717,455,497
Net cash from operations		(11,654,932)

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	16,030,340	
Stocks	297,835,815	
Mortgage loans	24,812	
Other invested assets	9,102,326	
Net gain or (losses) on cash, cash equivalents and short term investments	177,088	
Total investment proceeds		468,170,381
Cost of investments acquired (long-term only):		
Bonds	347,278,985	
Stocks	7,815,937	
Mortgage loans	25,852,890	
Real estate	3,081,324	
Other invested assets	26,943,819	
Total investments acquired		410,972,956
Net cash from investments		57,197,426

Cash from Financing and Miscellaneous Sources

Capital and paid in surplus, less treasury stock	$ 1,627,833	
Dividends to stockholders	105,000,000	
Other cash provided (applied)	28,499,863	
Net cash from financing and misc. sources		$(74,872,304)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net gain in cash and short-term investments	$(29,329,810)
Cash and short-term investments:	
Beginning of year	51,024,088
End of year	$ 21,694,278

STATEMENT OF INCOME
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2018

Underwriting Income		
Premiums earned		$2,945,082,012
Deductions		
Losses incurred	$1,635,521,336	
Loss expenses incurred	382,239,639	
Other underwriting expenses incurred	956,684,790	
Total underwriting deductions		2,974,445,765
Net underwriting gain (loss)		(29,363,753)
Investment Income		
Net investment income earned	$ 195,539,535	
Net realized capital gains (losses)	206,010,318	
Net investment income		401,549,853
Other Income		
Net (loss) from agents’ balances charge off	$ (6,229,089)	
Finance and service charges not included in premiums	9,932,853	
Aggregate write-ins for miscellaneous income	13,037,727	
Total other income		16,741,491
Net income before dividends to policyholder		$ 388,927,591
Dividends to policyholders		22,708,810
Net income before Federal income tax		366,218,781
Federal and foreign income taxes incurred		20,766,272
Net Income		$ 345,452,509

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	$ 665,772,186
Gain and (Losses) in Surplus	
Net income	345,452,509
Change in net unrealized capital gains or (losses)	(20,001,452)
Change in net unrealized foreign exchange capital gain (loss)	(105,225)
Change in net deferred income tax	(10,396,690)
Change in non-admitted assets	(19,658,400)
Change in provision for reinsurance	542,626
Surplus adjustments: paid in	5,887,822
Dividend to stockholders	(220,500,000)
Aggregate write-ins for gains and losses in surplus	27,264,281
Change in surplus as regard policyholders for the exam period	$ 108,485,281
Surplus as regards policyholders, December 31, 2018	$ 774,257,467

<u>CONCLUSION</u>

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, the following Iowa Insurance Division examiners participated in the examination and preparation of this report:

Andrya Carter
Tessa Lemons
Kathleen Madsen
Alex Matovu
Josh Pietan

A review of loss and loss adjusting expense reserves was performed under the direction of Dave Heppen, FCAS, MAAA, and Andrew Chandler, ACAS, MAAA, of Risk & Regulatory Consulting.

A review of the information technology systems was performed under the direction of Tom Hayden of Risk & Regulatory Consulting.

Respectfully submitted,

<u>/s/ Amanda Theisen</u>
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Examiner-in-Charge
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