

EXAMINATION REPORT OF
EMCASCO INSURANCE COMPANY
DES MOINES, IOWA
AS OF DECEMBER 31, 2018

Des Moines, Iowa
June 9, 2018

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, affairs, and financial condition of the

EMCASCO INSURANCE COMPANY

DES MOINES, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 717 Mulberry Street, Des Moines, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

EMCASCO Insurance 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 an insurance holding company group with the Insurance Division of Iowa acting as the Lead State. Representatives from the North Dakota Insurance Department also participated.

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

<u>Company</u>	<u>Domicile</u>
Employers Mutual Casualty Company (Ultimate Parent)	Iowa
Dakota Fire Insurance Company	North Dakota
EMC Property & Casualty Company	Iowa
EMC Reinsurance Company	Iowa
EMCASCO Insurance Company	Iowa
Illinois EMCASCO Insurance Company	Iowa
Union Insurance Company of Providence	Iowa

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 on December 8, 1958 as a stock company having perpetual existence with the authorization to write insurance other than life. The Articles of Incorporation were amended in December 1960, whereby the Company was authorized to write multiple lines of insurance.

The original Articles of Incorporation provided for \$500,000 of authorized capital consisting of 50,000 shares of common stock, par value \$10 each. The Articles were amended on December 29, 1961 and March 11, 1981, whereby the number of authorized shares of common stock was increased to 100,000 and 350,000 shares, respectively.

EMCASCO Insurance Company and Farm and City Insurance Company, wholly owned subsidiaries of EMC Insurance Group Inc., merged on December 31, 2007 with EMCASCO Insurance Company being the surviving entity.

CAPITAL STOCK AND DIVIDENDS THEREON

The authorized capital stock of the Company is \$3,500,000 represented by 350,000 shares of common stock with a par value of \$10 per share. Issued and outstanding capital, as of December 31, 2018, consists of 250,000 shares of common stock, all of which is held by EMC Insurance Group Inc. Common capital stock and gross paid in and contributed surplus totaled \$3,300,000 and \$24,082,794, respectively. Cash dividends paid to the shareholder during the examination period are as follows:

2014	\$ 0
2015	2,000,000
2016	1,000,000
2017	2,700,000
2018	7,260,000

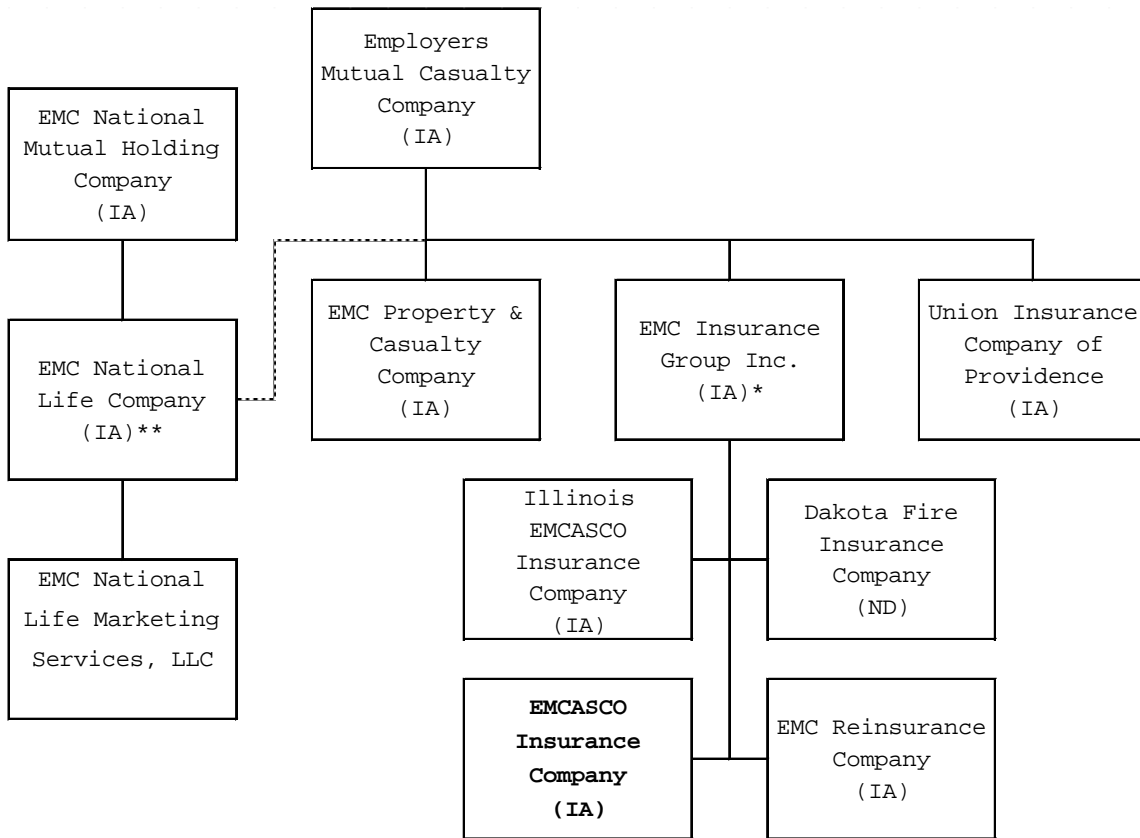
The Company issued a surplus note to Employers Mutual Casualty Company on December 28, 2001 in the amount of \$10,000,000 with an interest rate of 3.09%. Effective February 1, 2018, the surplus note was refinanced at a rate of 2.73%.

The note does not have a stated maturity date. The principal amount of the note and interest thereon shall be repaid only out of surplus earnings of the Company. Interest payments are due January 1 of each year upon approval of the State of Iowa Insurance Division.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System (known as EMC Insurance Companies) as defined by Chapter 521A, Code of Iowa. Employers Mutual Casualty Company (EMCC), an Iowa domestic insurance entity, is the Ultimate Parent of the Holding Company System.

The identity of holding company members is shown as of December 31, 2018 in the following organizational chart:



*Employers Mutual Casualty Company owns 54.5 percent of the voting stock, the remainder is publicly owned. As of the date of this report EMC Insurance Group is 100 percent owned by Employers Mutual Casualty Company.

** EMC National Mutual Holding Company owns 51% of the voting stock, Employers Mutual Casualty Company owns 49% of the voting stock.

MANAGEMENT AND CONTROL

SHAREHOLDERS

The regular annual meeting of the shareholders shall be held during the first four months of each year, upon such date and at such time as may be determined by the Chief Executive Officer or Board of Directors, for the purpose of electing directors and for the transaction of such other business as may become before the meeting. Notice of the time and place of all meetings of the Company, whether annual or special, shall be given by the Chief Executive Officer, the Secretary or the persons calling the meeting not less than ten nor more than sixty days prior to said meeting.

Special meetings of the shareholders may be called by the Chief Executive Officer or by the Board of Directors and shall be called by the Chief Executive Officer at the request of the holders of not less than ten percent of all outstanding share of capital stock of the Company entitled to vote at the meeting.

Each shareholder at every meeting of the shareholders is entitled to one vote for each outstanding share held. A majority of the outstanding shares of stock entitled to vote, represented in person or by proxy, constitutes a quorum for the transaction of business at a meeting of shareholders.

BOARD OF DIRECTORS

All corporate powers shall be exercised by or under authority of, and the business and affairs of the corporation shall be managed under the direction of, the Board of Directors. The number of Directors shall be fixed at six. Each director shall hold office until the next annual meeting of shareholders. The majority of directors shall be residents of the State of Iowa.

A regular meeting of the Board of Directors shall be held without notice immediately after, and at the same place as, the annual meeting of shareholders. Additional regular meetings of the Board of Directors, if any, shall be held on call of the Chief Executive Officer or the Executive Committee at such time and place within or without the State of Iowa and upon such notice as he, she or it shall determine.

Directors serving at December 31, 2018 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Bradley J. Fredericks Des Moines, Iowa	Senior Vice President- Chief Investment Officer Employers Mutual Casualty Company	2019
Scott R. Jean Des Moines, Iowa	Executive Vice President- Finance and Strategy Employers Mutual Casualty Company	2019
Bruce G. Kelly Des Moines, Iowa	Chairman, President, Chief Executive Officer and Treasurer Employers Mutual Casualty Company	2019
Michael A. Lovell Des Moines, Iowa	Executive Vice President- Chief Operating Officer Employers Mutual Casualty Company	2019
Mark E. Reese Des Moines, Iowa	Senior Vice President- Chief Financial Officer Employers Mutual Casualty Company	2019
Lisa A. Simonetta Des Moines, Iowa	Senior Vice President- Chief Claims Officer Employers Mutual Casualty Company	2019

COMMITTEES

The Board of Directors at its regular annual meeting shall appoint an Executive Committee and such other committees as deemed essential. The Chief Executive Officer shall be a member and Chairman of the Executive Committee, and may be a member of any other committee. The Bylaws state that all committees shall consist of three or more directors.

The duly elected directors serving on committees were as follows:

Executive

Bruce G. Kelley (Chair)
Scott R. Jean
Mick A. Lovell

Investment

Scott R. Jean
Mark E. Reese
Bradley J. Fredericks

In addition, EMC Insurance Group Inc. has an established Audit Committee which provides oversight to the Company. Members serving on the Audit Committee were as follows:

Gretchen H. Tegeler (Chair)
Peter S. Christie
Stephen A. Crane

OFFICERS

The executive officers of the Company shall be a Chairman, a Vice Chairman, a President, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Secretary, a Treasurer and a General Counsel elected at the annual meeting of the Board of Directors. Any executive office, except that of Chairman, President, one Vice President, Treasurer and Secretary may be left unfilled as the Board may determine. Any two or more offices may be held by the same person except the offices of President and Secretary.

The principal elected officers serving at December 31, 2018 follows:

<u>Name</u>	<u>Title</u>
Bruce G. Kelley*	President, Chief Executive Officer & Treasurer
Scott R. Jean*	Executive Vice President - Finance & Strategy
Michael A. Lovell	Executive Vice President - Chief Operating Officer
Bradley J. Fredericks	Senior Vice President - Chief Investment Officer
Meyer T. Lehman	Senior Vice President - Chief Actuarial Officer
Larry W. Phillips	Senior Vice President - Chief Field Officer
Mark E. Reese	Senior Vice President - Chief Financial Officer
Lisa A. Simonetta	Senior Vice President - Chief Claims Officer
Todd A. Strother	Senior Vice President - General Counsel & Secretary

*Subsequent to the exam period, Bruce Kelley retired as President and Treasurer of EMC Insurance Companies on Jan. 3, 2020. As of that date, Scott Jean was named President and Treasurer of EMC by the Board of Directors. On March 11, 2020, Bruce Kelley retired as Chief Executive Officer, and Scott Jean became President, Treasurer and CEO for EMC Insurance Companies.

Subsequent to Scott Jean being named CEO, Mick Lovell, Meyer Lehman, Elizabeth Nigut, and Eric Faust, President & CEO of EMC National Life Insurance Company, were promoted to Executive Vice Presidents.

The salaries of the principal officers are shown in Exhibit A which follows the signature page of this report.

CONFLICT OF INTEREST

The Company has an established procedure for disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers or key employees which is in or likely to conflict with their official duties. Conflict of interest statements are circulated and reviewed annually. While conflicts were

disclosed, none were identified that would materially impact the Company and all were addressed by the Audit Committee.

CORPORATE RECORDS

The recorded minutes of the Shareholders, Board of Directors and committee meetings were read and noted. They were found to be properly attested. The Examination Report as of December 31, 2013 prepared by the Iowa Insurance Division was accepted at the Board of Directors meeting held August 11, 2015.

The Articles of Incorporation were not amended during the examination period. The Bylaws were amended on January 27, 2015 to increase the number of directors from thirteen to fourteen.

The Bylaws were amended March 28, 2016 to reduce membership from fourteen to seven directors and eliminated required 3 year staggered terms.

The Bylaws were amended November 21, 2016, to decrease number of Board meetings to one each year.

The Bylaws were amended December 3, 2018, to reduce the number of directors to six.

RELATED PARTY AGREEMENTS

Service Agreement

EMCC shall provide certain management, operational and administrative services to named affiliated and subsidiary companies. Payment for costs shall be due no later than 45 days after the end of each quarter. The term of the agreements is one year, automatically renews for a period of one year, and may be terminated by either party with at least prior written 90 day notice or shorter period if agreed upon by both parties.

Inter-Company Loan Agreement

Effective January 31, 2012, the Loan Agreement allows the EMC property and casualty companies to borrow or loan money to each other on short-term basis (up to 180 days) at market-based interest rates and sets loan repayment terms. No loans made pursuant to the Loan Agreement, in the aggregate, may exceed 5% of the lending party's admitted assets as of December 31 of the current preceding year.

Investment Management Agreement

EMCC shall perform those mutually agreed upon investment management services reasonably required to assist the named affiliated and subsidiary companies in overseeing investment activities. Payment for costs shall be due no later than 45 days after the end of each quarter. The term of the agreement is one year, automatically renews for a period of one year, and may be terminated by either party with at least prior written 90 day notice or shorter period if agreed upon by both parties.

Agreements for Payment of Taxes

EMCC shall advance on behalf of the named affiliated and subsidiary companies any tax owed at the time of the filing of the respective returns. Each named affiliate or subsidiary shall reimburse the Company for the payment of such advanced funds no

later than 45 days after the end of each applicable quarter. The term of the agreements is one year, automatically renews for a period of one year, and may be terminated by either party with at least prior written 90 day notice or shorter period if agreed upon by both parties.

FIDELITY BONDS AND OTHER INSURANCE

Employers Mutual Casualty Company (EMCC), its subsidiaries, and affiliate are included as joint insureds on policies of insurance currently in force that afford protection against loss for the usual hazards to which the companies have exposure, including cyber security. The blanket fidelity bond has a basic limit of \$20,000,000 and aggregate limit of \$40,000,000, which exceeds the minimum amount suggested by the NAIC. EMCC insures all companies within the group for property, auto, commercial general liability, umbrella, and insurance company professional liability coverages.

EMPLOYEE WELFARE

Employers Mutual Casualty Company performs all operations such as data processing, claims, financial, actuarial, legal, auditing, marketing and underwriting, for all of its subsidiaries and affiliate. Subsidiaries and the affiliate are allocated employee expenses based on their respective pooling participation or employee utilization.

REINSURANCE

INTERCOMPANY POOLING ARRANGEMENT

Employers Mutual Casualty Company (EMCC) and its affiliated property and casualty insurance companies are parties to a reinsurance pooling agreement. Under the terms of the pooling agreement, the affiliated companies cede all of their gross insurance business to EMCC and assume from EMCC an amount equal to their participation in the pool. All losses, loss adjustment expenses and other underwriting and administrative expenses, excluding the voluntary reinsurance business assumed by EMCC from unaffiliated insurance companies, are prorated among the companies on the basis of participation in the pool. EMCC will make up any shortfall or difference resulting from an error in its systems and/or computational process that would otherwise result in the required restatement of the pool participants' financial statements. Intercompany balances related to pooling activities are settled no later than 45 days after the end of each month. The investment activities and income tax liabilities of the pool participants are not subject to the pooling agreement.

Participation in the pooling agreement changed throughout the examination period. As of December 31, 2018 the interests in the agreement were as follows:

Employers Mutual Casualty Company	70.0%
EMCASCO Insurance Company	13.5
Illinois EMCASCO Insurance Company	10.0
Dakota Fire Insurance Company	6.5
EMC Property & Casualty Company	0.0
Union Insurance Company of Providence	0.0

Pooled net written premiums for 2018 totaled \$1,726,217,831. EMCC and pooling affiliates assumed written premiums from the pool of \$1,208,352,482 and \$517,865,349, respectively.

EMCC maintains two semi-annual aggregate catastrophe excess of loss agreements with subsidiaries EMCASCO Insurance Company, Illinois EMCASCO Insurance Company, and Dakota Fire Insurance Company in order to reduce the volatility of the subsidiaries' quarterly results from the pooling arrangement.

The Company is also a named participant in the EMCC ceded reinsurance program which provides property, casualty and umbrella excess of loss cover and catastrophe excess of loss cover for property and workers compensation business.

STATUTORY DEPOSITS

As of December 31, 2018, the book/adjusted carrying value of special deposits held in trust by the Iowa Insurance Commissioner, for the benefit of all policyholders, totaled \$2,014,804. 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:

Arkansas	\$219,458	Massachusetts	\$179,557
California	161,489	Nevada	335,247
Delaware	114,717	New Mexico	368,534
Georgia	98,170	North Carolina	319,420
Idaho	249,380	Oregon	451,041

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 46 jurisdictions with the majority of direct premium written in Kansas, Wisconsin and Iowa. The EMC Insurance Companies are a multiple-line property and casualty insurance writer that is licensed in all fifty states and the District of Columbia. The majority of direct business is written in other liability, commercial auto liability and workers' compensation lines of coverage.

Marketing of products for the pooling EMC Insurance Companies is conducted through 16 branch offices located throughout the U.S. and produced by approximately 1,900 local independent agencies. The Branch Offices operate as individual profit centers with underwriting, claims, marketing and loss control functions with the largest direct writers located in Des Moines, Charlotte, and Wichita.

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:

<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>
2014	\$436,624,689	\$124,659,228	\$190,071,396	\$110,133,654	\$15,452,381
2015	463,035,461	132,441,716	201,238,441	106,292,762	14,643,217
2016	485,667,672	144,786,930	205,409,934	113,682,536	14,935,303
2017	510,949,650	156,525,542	212,565,871	108,583,802	14,306,366
2018	508,061,231	146,079,819	222,950,890	126,753,606	15,101,729

ACCOUNTS AND RECORDS

The Company's general ledger is maintained on an 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 and disbursements.

SUBSEQUENT EVENTS

EMC Insurance Companies exited the sale of personal lines in April of 2019. All personal lines business is expected end by April 2020, with the exception of automobile coverage in the State of Idaho.

On September 19, 2019, Employers Mutual Casualty Company purchased all outstanding shares of common stock of EMC Insurance Group, Inc.

Effective December 31, 2019 the Company repaid the surplus note issued to Employers Mutual Casualty Company.

Effective January 1, 2020, the Intercompany Pooling Arrangement was amended to reduce the participation of affiliates EMCASCO Insurance Company, Illinois EMCASCO Insurance Company, and Dakota Fire Insurance Company to 0% with Employers Mutual Casualty Company retaining 100% of the pool. Pursuant to this amendment, EMCASCO Insurance Company, Illinois EMCASCO Insurance Company, and Dakota Fire Insurance Company issued promissory notes to Employers Mutual Casualty Company in order to transfer the pool-based reserves to Employers Mutual Casualty Company. The notes require the subsidiaries to pay these balances plus interest over a ten-year term.

Effective January 1, 2020, the two semi-annual aggregate catastrophe excess of loss agreements between Employers Mutual Casualty Company and subsidiaries EMCASCO Insurance Company, Illinois EMCASCO Insurance Company, and Dakota Fire Insurance Company was terminated concurrently with the amendment to the pooling arrangement.

COVID-19 Pandemic

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 Iowa Insurance Division 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

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$414,716,379		\$414,176,379
Preferred stocks	6,464,268		6,464,268
Common stocks	53,342,596		53,342,596
Cash and short term investments	5,422,064		5,422,064
Other invested assets	6,679,808	646,416	6,033,392
Investment income due and accrued	3,388,638		3,388,638
Uncollected premiums and agents' balance in the course of collection	13,036,437		13,036,437
Premiums booked and not yet due	554,672	55,468	499,204
Amounts recoverable from reinsurers	252,155		252,155
Current federal and foreign income tax recoverable and interest thereon	702,629		702,629
Net deferred tax asset	4,379,642		4,379,642
Guaranty funds receivable or on deposit	363,827		363,827
Qualified pension plan prepaid expenses	5,699,578	5,699,578	
Postretirement benefit plan	2,289,482	2,289,482	
Other prepaid expenses	1,509,179	1,509,179	-
 Total Assets	 <u>\$518,261,354</u>	 <u>\$10,200,123</u>	 <u>\$508,061,231</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$185,479,959
Reinsurance payable on paid losses and loss adjustment expenses		9,490,657
Loss adjustment expenses		41,217,117
Commissions payable, contingent commissions and other similar charges		5,171,461
Other expenses (excluding taxes, licenses and fees)		6,597,723
Taxes, licenses and fees (excluding federal and foreign income taxes)		2,010,478
Unearned premiums		108,304,692
Payable to parent, subsidiaries and affiliates		3,951,449
Postretirement benefit plans liability not recognized in income		(904,184)
Nonqualified pension plan liability not recognized in income		662,060
 Total Liabilities		 <u>\$361,981,412</u>
 Common capital stock		 \$ 3,300,000
Surplus notes		10,000,000
Gross paid in and contributed surplus		24,082,794
Unassigned funds (surplus)		<u>108,697,025</u>
 Surplus as regards policyholders		 <u>\$146,079,819</u>
 Total Liabilities and Surplus		 <u>\$407,758,646</u>

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

<u>Underwriting Income</u>		
Premiums earned		\$222,950,890
<u>Deductions</u>		
Losses incurred	\$126,753,606	
Loss adjustment expenses incurred	22,941,738	
Other underwriting expenses incurred	<u>75,398,320</u>	
Total underwriting deductions		<u>225,093,664</u>
Net underwriting gain (loss)		\$ (2,142,774)
<u>Investment Income</u>		
Net investment income earned	\$ 15,101,729	
Net realized capital gains(losses)	<u>(2,975,679)</u>	
Net investment gain(loss)		12,126,050
<u>Other Income</u>		
Net (loss) from agents' balance charged off	\$ (254,908)	
Finance and service charges not included in premiums	83,989	
Aggregate write-ins for miscellaneous income	<u>148,032</u>	
Total other income		<u>(22,887)</u>
Net income before dividends to policyholders		\$ 9,960,389
Dividends to policyholders		<u>4,686,909</u>
Net income before federal income taxes		\$ 5,273,480
Federal and foreign income taxes incurred		<u>1,716,366</u>
Net income		<u>\$ 3,557,114</u>

CAPTIAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017	<u>\$156,525,542</u>
<u>Gains and (Losses) in Surplus</u>	
Net Income	\$ 3,557,114
Change in net unrealized capital gains (losses)	(6,126,037)
Change in net deferred income tax	913,135
Change in non-admitted assets	1,277,706
Dividends to stockholders	(7,260,000)
Aggregate write-ins for gains and losses in surplus	<u>(2,807,641)</u>
Change in surplus as regards policyholders for the year	<u>\$(10,445,723)</u>
Surplus as regards policyholders, December 31, 2018	<u>\$146,079,819</u>

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

Cash from Operations

Premiums collected net of reinsurance	\$229,163,824	
Net investment income	17,995,046	
Miscellaneous income	<u>232,103</u>	
Total		\$247,390,973
Benefit and loss related payments	247,390,973	
Commissions, expenses paid and aggregate write-ins for deductions	101,749,063	
Dividends paid to policyholders	4,596,773	
Federal income taxes paid (recovered)	<u>4,120,273</u>	
Total		<u>222,133,197</u>
Net cash from operations		<u>\$ 25,257,776</u>

Cash from Investments

Proceeds from investment sold, matured or repaid:		
Bonds	\$154,395,294	
Stocks	22,124,555	
Other invested assets	<u>1,095,071</u>	
Total investment proceeds		\$177,614,920
Cost of investments acquired (long-term only):		
Bonds	\$171,365,950	
Stocks	22,849,630	
Other invested assets	4,505,742	
Miscellaneous applications	<u>2,311,503</u>	
Total investments acquired		<u>201,032,825</u>
Net cash from investments		<u>\$(23,417,905)</u>

Cash from Financing and Miscellaneous Sources

Dividends to stockholders	\$ 7,260,000	
Other cash provided (applied)	<u>(1,968,844)</u>	
Net cash from financing and misc. sources		<u>\$ (9,228,844)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments		\$ (7,388,973)
Cash and short-term investments:		
Beginning of year		<u>12,811,037</u>
End of year		<u>\$ 5,422,064</u>

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

<u>Underwriting Income</u>		
Premiums earned		\$1,032,136,532
<u>Deductions</u>		
Loss incurred	\$565,446,360	
Loss expenses incurred	119,296,748	
Other underwriting expenses incurred	<u>334,960,084</u>	
Total underwriting deductions		<u>1,019,703,192</u>
Net underwriting gain(loss)		\$ 12,433,340
<u>Investment Income</u>		
Net investment income earned	\$ 74,438,996	
Net realized capital gains(losses)	<u>1,140,188</u>	
Net investment gain(loss)		75,579,184
<u>Other Income</u>		
Net(loss) from agents' balances charged off	\$ (1,005,078)	
Finance and charges not included in premiums	483,977	
Miscellaneous income	<u>480,651</u>	
Total other income		<u>\$ (40,450)</u>
Net income before dividends to policyholders		\$ 87,972,074
Dividends to policyholders		<u>21,380,694</u>
Net income before federal income tax		\$ 66,591,380
Federal and foreign income taxes incurred		<u>15,312,735</u>
Net income		<u>\$ 51,278,645</u>

CAPTIAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		<u>\$ 114,790,959</u>
<u>Gain and (Losses) in Surplus</u>		
Net Income		\$ 51,278,645
Change in net unrealized capital gains (losses)		2,268,400
Change in net deferred income tax		(4,552,188)
Change in non-admitted assets		2,449,688
Capital changes: paid in		800,000
Dividends to stockholders		(12,960,000)
Aggregate write-ins for gains and losses in surplus		<u>(8,095,684)</u>
Change in surplus as regards policyholders for the exam period		<u>\$ 31,188,861</u>
Surplus as regards policyholders, December 31, 2018		<u>\$ 146,079,819</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, the following Iowa Insurance Division examiners participated in the examination and preparation of this report:

Russ Bunger
Mick Jepsen
Alex Matovu
Josh Pietan

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

A review of the information technology systems was performed under the direction of Darlene Lenhart-Schaeffer and Jan Moenck of Risk & Regulatory Consulting.

Respectfully submitted,

/s/ Amanda Theisen
Amanda Theisen, CFE
Examiner-in-Charge
Insurance Division
State of Iowa