EXAMINATION REPORT OF

EMPLOYERS MUTUAL CASUALTY COMPANY

DES MOINES, IOWA

AS OF DECEMBER 31, 2018

Des Moines, Iowa
June 9, 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

EMPLOYERS MUTUAL CASUALTY 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

Employers Mutual 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 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.

Company	Domicile
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

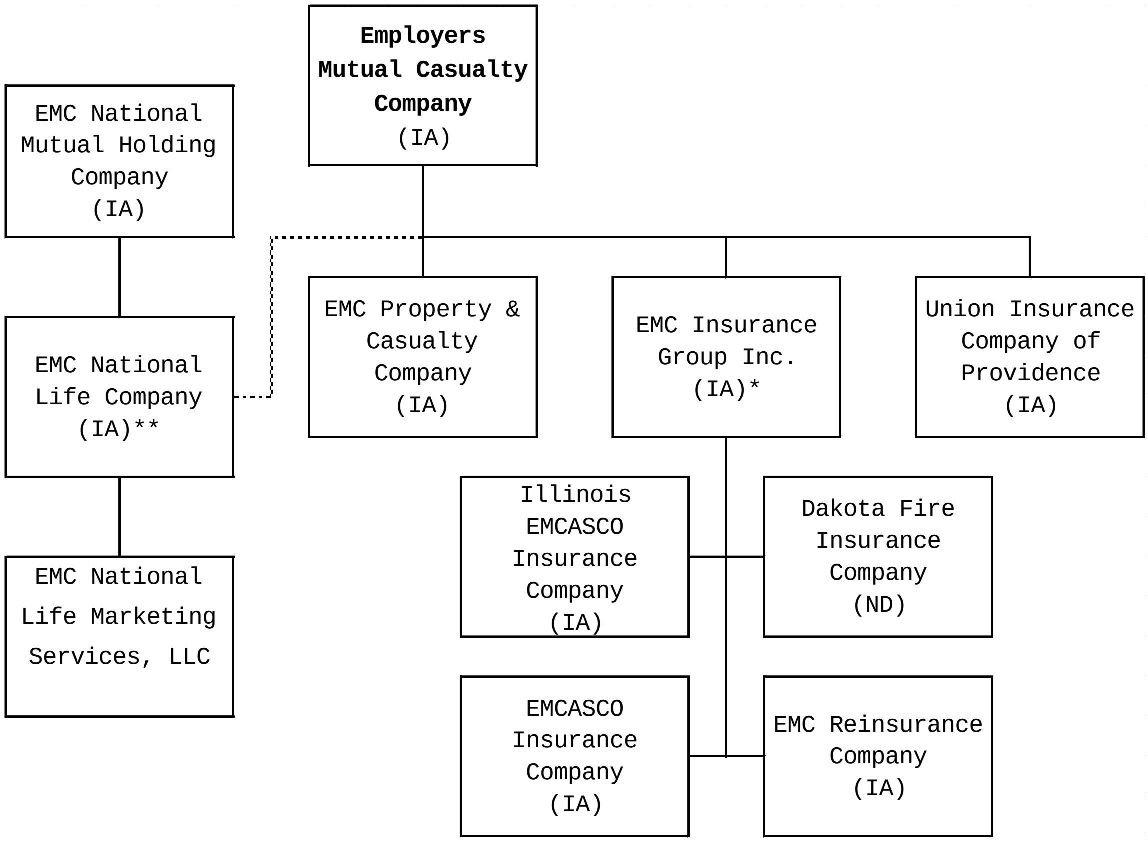
The Company was incorporated on April 25, 1911 as the Employers Mutual Casualty Association of Iowa; an association formed for the purpose of writing risks under the Workers’ Compensation and Employers’ Liability Act of the State of Iowa. Automobile and various public liability risks were later written in 1920, followed by burglary and bond risks in 1942. The Company became authorized to write multiple lines in 1950.

The present corporate title was adopted in January 1924. Effective March 10, 1950, the corporate charter was amended to afford perpetual corporate existence.

Effective January 1, 2018 Hamilton Mutual Insurance Company merged into the Company.

INSURANCE HOLDING COMPANY SYSTEM

The Company is the Ultimate Parent of a Holding Company System (known as EMC Insurance Companies) as defined by Chapter 521A, Code of Iowa. 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 the 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

MEMBERSHIP

The Articles of Incorporation provide that the holders of policies of insurance in force issued by the Company shall be members.

The regular annual meeting of the members is held at the Company's Home Office at 9:30 a.m. on the second Wednesday in March. Notice of the annual meeting is not required except as otherwise provided by law. Special meetings may be called by the Chief Executive Officer and shall be called upon written request of three-fourths of the members of the Board of Directors or upon a written request of a majority of the members.

Each member shall be entitled to one vote at the meeting of the members upon matters of business, which may be exercised in person or by proxy. At any meeting 100 members present, in person or represented by proxy, shall constitute a quorum for the transaction of business.

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 less than nine nor more than sixteen members. Directors need not be residents of the State of Iowa, but must be members of the Company. Approximately one-third of the members of the Board of Directors shall be elected at each annual meeting of the membership for a term of three years. Any vacancy on the Board may be filled by a majority of the remaining directors until a successor has been elected at the next meeting of the members.

Regular meetings of the Board are held quarterly. The first quarterly meeting in each year shall be held at the Home Office upon adjournment of the annual meeting of the membership. Such other quarterly meetings shall be held on the call of the Chief Executive Officer or the Executive Committee at such place as they shall determine. Ten days written notice shall be given each director specifying the time and place.

Special meetings may be called by the Chief Executive Officer or by the Executive Committee and shall be called upon the request of any four Directors. Five days' notice shall be given specifying the date, time, place and purpose. Such notice shall not be necessary when all the directors have executed written waivers consenting to the meeting and a quorum is present. Attendance of a director at a meeting shall constitute a waiver of notice of such meeting.

Directors serving at December 31, 2018 were as follows:

Name and Address	Principal Business Affiliation	Term Expires
Thomas W. Booth Richardson, Texas	Retired Executive Officer Lennox International, Inc.	2019
Matthew D. Griffin Brooklyn, New York	General Council Kaplan Test Prep	2019
Richard Koch, Jr. Des Moines, Iowa	President/Owner Koch Brothers	2019
Mary O'Gorman Murray Media, Pennsylvania	Retired Executive Officer Towers Perrin Reinsurance	2019
Steven G. Jacobs West Des Moines, Iowa	President/Owner BCC Advisors	2020
Bruce G. Kelley Des Moines, Iowa	President, Chief Executive Officer & Treasurer Employers Mutual Casualty Company	2020
J. Thomas Lockhart Golden Valley, Minnesota	Vice President of Finance and Administration United Theological Seminary	2020
David S. Ziegler Elgin, Illinois	President, CEO & Owner Ziegler Ace Hardware	2020
Ronald W. Jean Altoona, Iowa	Retired Executive Officer Employers Mutual Casualty Company	2021
David J. W. Proctor Des Moines, Iowa	Chairman, Attorney and Shareholder Bradshaw, Fowler, Proctor & Fairgrave, P.C	2021

Directors not otherwise salaried receive compensation of $2,500 for each Board and Committee meeting attended, plus an annual fee of $82,500, which shall be paid irrespective of attendance at meetings. The Chair of each Board Committee receives a fee of $5,000 and an additional committee meeting fee of $1,000 for each meeting at which such Director serves as Chair. The Chairman of the Board shall receive an annual fee of $64,000.

COMMITTEES

The Board of Directors at its regular annual meeting shall appoint an Executive Committee and such other committees as deemed essential. All committees shall consist of three or more directors. The Chief Executive Officer of the Company shall be a member and Chairman of the Executive Committee, and may be a member of any other committee. Members serving on the Executive Committee were as follows:

Bruce G. Kelley (Chair)
J. Thomas Lockhart
David J. W. Proctor (Vice Chair)

The Company has an established Audit Committee which functions under an Audit Committee Charter. Members serving on the Audit Committee were as follows:

David S. Ziegler (Chair)
Steven G. Jacobs
Bruce G. Kelley (ex officio)
Richard Koch, Jr.

Other committees appointed were:

Administrative
Corporate Governance and Nominating
Employee Benefits
Enterprise Risk Management
Finance
Inter-Company
Investment
Senior Executive Compensation
CEO Succession & Transition Planning*

*The CEO Succession & Transition Planning Committee was dissolved after the selection of Scott Jean as successor.

OFFICERS

The executive officers of the corporation shall be a 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, each of whom shall be elected by the Board of Directors. The Board of Directors may also elect a Vice Chairman, one or more Resident Vice Presidents, an Actuary, a Controller and any assistant officers as it may deem necessary. Any executive office, except that of President, Treasurer and Secretary may be left vacant as the Board may determine. Any two or more offices may be held by the same person except the offices of President and Secretary. Officers shall be members of the corporation.

The principal elected officers serving as of December 31, 2018 follows:

Name	Title
Bruce G. Kelley*	President, Chief Executive Officer & Treasurer
Mark E. Reese	Chief Financial Officer
Robert L. Link**	Secretary
Scott R. Jean*	Executive Vice President – Finance & Strategy
Michael A. Lovell	Executive Vice President – Chief Operating Officer
Dan D. Aksamit	Senior Vice President – Corporate Risk Management
Ian C. Asplund	Senior Vice President – Strategic Analytics
Daniel C. Crew	Senior Vice President – Chief Underwriting Officer
Bradley J. Fredericks	Senior Vice President – Chief Investment Officer
Lisa L. Hamilton	Senior Vice President – Chief Brand Officer
Meyer T. Lehman*	Senior Vice President – Chief Actuary
Elizabeth A. Nigut*	Senior Vice President – Human Resources
Larry W. Phillips	Senior Vice President – Chief Field Officer
Lisa A. Simonetta	Senior Vice President – Chief Claims Officer
Sanjeev K. Singh**	Senior Vice President – Chief Information Officer
Todd A. Strother*	Senior Vice President – General Counsel

*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, Todd Strother, and Eric Faust, President & CEO of EMC National Life Insurance Company, were promoted to Executive Vice Presidents.

**Robert Link left the Company in 2019 and was replaced by Todd Strother as Secretary. Sanjeev Singh left the Company in 2019 and was replaced by Joseph Riesberg.

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 Members, Board of Directors and Committee meetings were read and noted. The Examination Report as of December 31, 2013 prepared by the Iowa Insurance Division was accepted at the Board of Directors meeting held October 30, 2015.

The Articles of Incorporation and Bylaws of the Company were not amended during the examination period.

RELATED PARTY AGREEMENTS

Service Agreement

The Company 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

The Company 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

The Company 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

The Company, 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. The Company insures all companies within the group, including itself, for property, auto, commercial general liability, umbrella and insurance company professional liability coverages.

EMPLOYEE WELFARE

The 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.

The Company has a qualified defined benefit retirement plan covering substantially all employees. The plan is funded by employer contributions and provides benefits under two different formulas, depending on age and date of service. A nonqualified defined benefit pension plan also provides supplemental retirement benefits for a select group of management and highly-compensated employees.

The Company also has postretirement benefit plans providing certain health care and life insurance benefits to retired employees. Substantially all employees may become eligible for these benefits if they meet the age requirement and have attained the required length of service while working for Company. Effective January 1, 2015, this plan was replaced with a Health Reimbursement Arrangement.

The Company sponsors a defined contribution 401k savings plan covering substantially all employees of the Company. The Company will match 50% of the first 6% of an employee’s contribution. A nonqualified defined contribution plan provides deferred compensation benefits for highly-compensated employees who are limited by IRS regulations in their qualified defined contribution plan deferral percentage.

The Company offers participation in stock-based compensation plans including Incentive Stock Options, Employee Stock Purchase, and Non-employee Director Stock Purchase plans which utilize the common stock of EMC Insurance Group Inc. Under the terms of the Employee and Non-employee Director Stock Purchase Plans, eligible participants may purchase EMC Insurance Group Inc. stock at 85% and 75% of the fair market value of the stock on the date of purchase, respectively.

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 the Company 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.

ASSUMED

EMCC voluntarily assumes reinsurance business from nonaffiliated insurance companies. This assumed business is primarily from multiple-line companies with an emphasis on property lines. The majority of this business is ceded through a 100% retrocessional quota share agreement with EMC Reinsurance Company. EMCC also maintains two excess of loss agreements with EMC Reinsurance Company. The first is a 20% co-participation per occurrence catastrophe excess of loss treaty with a retention of $10M and limit of $10M. The second is a 20% co-participation annual aggregate catastrophe excess of loss treaty with a retention of $20M and limit of $100M. This business is not subject to the reinsurance pooling agreement.

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. This business is not subject to the reinsurance pooling agreement.

EMCC also reinsures business from mandatory pools and associations.

Total 2018 net written premiums assumed from non-affiliated entities for the EMC Insurance Companies was $180,913,941 of which $175,578,484 was assumed by EMCC and $5,335,457 by EMC Reinsurance Company.

CEDED

EMCC and named pooling affiliates are parties to the following reinsurance treaties.

Property Per Risk Excess of Loss

The reinsurers shall be liable in respect of each loss, each risk, for the ultimate net loss over and above an initial ultimate net loss of $20,000,000 each loss, each risk, subject to a limit of liability to the reinsurer of $60,000,000 each loss, each risk, and subject to a limit of liability to the reinsurer of $60,000,000 each loss occurrence.

Property Catastrophe Excess of Loss

The reinsurers shall be liable in respect of each loss occurrence, for the ultimate net loss over and above the initial ultimate net loss retentions, for each loss occurrence, subject to a limit of liability to the reinsurer, for each loss occurrence in accordance with the retentions and limits in the schedule below:

Layer	Company Retention	Coverage	Contract Limit
First	$ 10,000,000	$10,000,000	$ 20,000,000
Second	20,000,000	20,000,000	40,000,000
Third	40,000,000	60,000,000	120,000,000
Fourth	100,000,000	95,000,000	170,000,000
Fifth	195,000,000	35,000,000	70,000,000

*In addition to the retentions above, as respects the first layer, the Company shall deduct from, and be liable for, the total losses otherwise recoverable of $10,000,000 before any recovery is made. Placement for the first layer is 60.3%. Placement for the second layer is 91.15%.

Casualty and Umbrella and Workers' Compensation Excess of Loss

The reinsurers shall be liable for 100% each loss occurrence where the ultimate net loss is over and above an initial ultimate net loss of $20,000,000 subject to a limit of $20,000,000 each loss occurrence. Also subject to a maximum any one life for workers' compensation of $20,000,000.

Workers' Compensation Catastrophe Excess of Loss

The reinsurers shall be liable for each loss occurrence, for the ultimate net loss over and above an initial ultimate net loss of $40,000,000 each loss occurrence, subject to a limit of liability to the reinsurer of $50,000,000 each loss occurrence. Also subject to a maximum any one life for workers' compensation of $20,000,000.

Multiple Line Excess of Loss

The reinsurers shall indemnify the Company in respect of the liability that may accrue as a result of loss or losses under policies classified as property, casualty, umbrella, and workers' compensation in accordance with the retentions and limits in the schedules below and subject to a maximum any on life for work comp of $15,000,000:

Casualty, Umbrella and Workers' Compensation Retention and Limit Schedule:

Layer	Company Retention	Contract Limit
First	$ 4,000,000	$ 6,000,000
Second	10,000,000	10,000,000

Property Retention and Limit Schedule:

Layer	Company Retention	Coverage	Contract Limit
First	$ 4,000,000	$ 6,000,000	$18,000,000
Second	10,000,000	10,000,000	10,000,000

Fidelity and Surety Excess of Loss

The reinsurers shall indemnify the Company in respect to ultimate net loss under all bonds or policies written by the Company's Bond Department and classified by the Company as Fidelity, Forgery, or Surety business, including Fidelity or Forgery coverages written under Multi-Peril policies in accordance with the limits below:

First Layer – As respects Surety bonds, the reinsurer shall indemnify the Company for the amount of ultimate net loss in excess of $2,000,000 each principal. The limit of liability to the reinsurer shall not exceed $5,000,000 each principal. As respects Fidelity and/or Forgery policies or bonds, the reinsurer shall indemnify the Company for the amount of ultimate net loss in excess of $2,000,000 each insured, each loss. The limit of liability to the reinsurer shall not exceed $5,000,000 each insured, each loss. The reinsurer's aggregate limit of liability for all losses shall not exceed $15,000,000. Placement for the first layer is 95%.

Second Layer - As respects Surety bonds, the reinsurer shall indemnify the Company for the amount of ultimate net loss in excess of $7,000,000 each principal. The limit of liability to the reinsurer shall not exceed $8,000,000 each principal.

The reinsurer’s aggregate limit of liability for all losses shall not exceed $16,000,000. Placement for the second layer is 90%.

Third Layer - As respects Surety bonds, the reinsurer shall indemnify the Company for the amount of ultimate net loss in excess of $15,000,000 each principal. The limit of liability to the reinsurer shall not exceed $30,000,000 each principal. The reinsurer’s aggregate limit of liability for all losses shall not exceed $60,000,000.

Multiple Line Treaty

The reinsurer assumes 100% of the Company’s liability for losses covered under a CyberSolutions Coverage Form. The reinsurer’s liability shall not exceed $1,000,000 annual aggregate per policy for Data Compromise Response Expenses, Data Compromise Liability, Computer Attack and Cyber Extortion, Network Security Liability, and Electronic Media Liability. The reinsurer’s liability shall not exceed $25,000 annual aggregate as respects each Identity Recovery Insured.

Employment Practice Liability Coverage Quota Share

The reinsurer assumes 100% of the gross liability of the Company for loss (including defense costs) under the employment practice liability coverage form up to a maximum limit of $250,000 each wrongful employment act, subject to the annual aggregate limit in the policy not to exceed $250,000. In the event the reinsurer accepts a referral with an employment practices liability coverage limit in excess of $250,000 each wrongful employment act, such limit shall be covered up to a maximum limit of $1,000,000 each wrongful employment act, subject to the annual aggregate limit in the policy not to exceed $1,000,000.

Commercial Equipment Breakdown Excess of Loss

The reinsurer indemnifies the company in respect of the commercial equipment breakdown liability for each accident and/or electronic circuity impairment for the net loss over and above an initial net loss of $25,000 each accident and/or electronic circuitry impairment, subject to a limit of liability to the reinsurer of $100,000,000 for any one accident and/or any one electronic circuitry impairment, any one policy.

Homeowners Equipment Breakdown

The reinsurer assumes 100% of the Company’s net retained liability under equipment breakdown endorsements to homeowners’ multi-peril insurance policies and equipment breakdown coverage sections, contracts, certificates and binders issued or renewed not to exceed a limit of liability of $50,000 on any one risk without prior written agreement of the reinsurer.

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 $3,265,582. 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	$ 124,997	Nevada	$110,000
California	4,821,442	New Mexico	324,992
Delaware	123,733	North Carolina	322,848
Georgia	99,195	Oregon	610,000
Idaho	99,338	U.S. Department of Labor	149,007
Massachusetts	193,669		
Montana	25,000		

TERRITORY AND PLAN OF OPERATION

The Company is 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:

Year	Admitted Assets	Surplus to Policyholders	Net Premiums Earned	Net Losses Incurred	Investment Income Earned
2014	$2,721,407,264	$1,214,977,787	$ 878,803,755	$505,048,347	$50,152,092
2015	2,890,562,516	1,276,288,317	930,924,658	494,010,591	53,393,871
2016	3,197,977,764	1,378,562,262	1,063,843,285	597,107,279	52,788,306
2017	3,439,239,888	1,471,419,445	1,131,510,593	641,763,106	73,724,546
2018	3,456,848,590	1,433,741,719	1,185,758,164	669,165,665	83,748,509

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. that it did not previously own.

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.

Effective January 1, 2020, Employers Mutual Casualty Company terminated the per occurrence catastrophe excess of loss treaty with EMC Reinsurance Company and filed an amendment to modify the aggregate catastrophe excess of loss treaty.

Effective January 1, 2020 Employers Mutual Casualty Company ceased its participation in the Mutual Re underwriting association.

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

	Ledger	Not Admitted	Admitted
Bonds	$1,313,039,692		$1,313,039,692
Preferred stocks	54,268,501		54,268,501
Common stocks	972,786,183		972,786,183
Real estate:			
Properties occupied by the Company	112,406,819		112,406,819
Properties held for production of income	29,002,091		29,002,091
Properties held for sale	360,000		360,000
Cash and short-term investments	105,376,674		105,376,674
Other invested assets (Schedule BA)	83,094,801	5,757,167	77,337,634
Receivables for securities	1,602,493		1,602,493
Misc. other invested assets	625,621	625,593	28
Investment income due and accrued	16,393,838		16,393,838
Uncollected premiums and agents' balances in the course of collection	542,406,585	3,814,408	538,592,177
Deferred premiums and agents' balances and installments book but deferred and not yet due	62,059,073	287,610	61,771,463
Amounts recoverable from reinsurers	60,166,472		60,166,472
Funds held by or deposited with reinsured companies	6,483,270	612,741	5,870,529
Current federal and foreign income tax recoverable and interest thereon	1,922,242		1,922,242
Net deferred tax asset	21,829,705		21,829,705
Guaranty funds receivable or on deposit	1,886,509		1,886,509
EDP equipment and software	20,566,718	15,909,090	4,657,628
Furniture and equipment	4,928,319	4,928,319	
Net adjustment in assets and liabilities due to foreign exchange rates	29,882		29,882
Receivable from parent, subsidiaries and affiliates	10,838,236		10,838,236
Aggregate write-in for other than invested assets	122,360,184	55,650,390	66,709,794
Total assets	$3,544,433,908	$87,585,318	$3,456,848,590

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$1,016,584,182
Reinsurance payable on paid losses and loss adjustment expenses	22,917,965
Loss adjustment expenses	214,157,224
Commissions payable, contingent commissions and other similar charges	26,814,985
Other expenses (excluding taxes, licenses and fees)	38,775,409
Taxes, licenses, and fees (excluding federal and foreign income taxes)	10,424,700
Unearned premiums	561,579,616
Advance premium	7,575,046
Dividends declared and unpaid: Policyholders	801,224
Ceded reinsurance premiums payable (net of ceding commissions)	69,222,820
Funds held by Company under reinsurance treaties	1,254,598
Amounts withheld or retained by company for account of others	47,012,648
Provision for reinsurance	2,275,000
Payable for securities	1,931,902
Aggregate write-in for liabilities	1,779,552
Total liabilities	$2,023,106,871
Surplus as regards policyholders (unassigned funds)	$1,433,741,719
Total liabilities and surplus	$3,456,848,590

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

Underwriting Income		
Premiums earned		$1,185,758,164
Deductions		
Losses incurred	$669,165,665	
Loss adjustment expenses incurred	119,727,602	
Other underwriting expenses incurred	391,030,958	
Total underwriting deductions		1,179,924,225
Net underwriting gain (loss)		5,833,939
Investment Income		
Net investment income earned	$ 83,748,509	
Net realized capital gains(losses)	1,928,031	
Net investment gain(loss)		85,676,540
Other Income		
Net (loss) from agents' balance charged off	$ (1,321,649)	
Finance and service charges not included in premiums	435,391	
Aggregate write-ins for miscellaneous income	697,343	
Total other income		(188,915)
Net income before dividend to policyholder		$ 91,321,564
Dividend to policyholder		24,302,483
Net income before federal income taxes		$ 67,019,081
Federal and foreign income taxes incurred		1,848,995
Net income		$ 65,170,086

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, prior year	$1,471,419,445
Gain and (Losses) in Surplus	
Net Income	$ 65,170,086
Change in net unrealized capital gains or losses	(93,200,244)
Change in net unrealized foreign exchange capital	(167,208)
Change in net deferred income tax	1,443,813
Change in non-admitted assets	4,485,432
Change in provision for reinsurance	(851,466)
Aggregate write-ins for gains and losses in surplus	(14,558,139)
Change in surplus as regards policyholders for the year	$ (37,677,726)
Surplus as regards policyholders, December 31, 2018	$1,433,741,719

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

Cash from Operations

Premiums collected net of reinsurance	$1,189,048,660	
Net investment income	111,553,668	
Miscellaneous income	1,826,440	
Total		$1,302,428,768
Benefit and loss related payments	625,695,406	
Commission, expenses paid and aggregate write-ins for deductions	515,498,844	
Dividend to policyholders	24,527,767	
Federal income taxes paid (recovered)	224,097	
Total		1,165,946,114
Net cash from operations		$ 136,482,654

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	$ 493,174,684	
Stocks	420,812,814	
Other invested assets	12,332,969	
Total investment proceeds		$ 926,320,467
Cost of investments acquired (long-term only):		
Bonds	546,366,184	
Stocks	440,115,853	
Real estate	3,837,130	
Other invested assets	39,085,421	
Miscellaneous applications	15,344,017	
Total investments acquired		1,044,748,605
Net cash from investments		$ (118,428,138)

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	$ (7,207,871)	
Net cash from financing and misc. sources		$ (7,207,871)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	$ 10,846,645
Cash and short-term investments:	
Beginning of year	94,530,029
End of year	$ 105,376,674

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

Underwriting Income		
Premiums earned		$5,190,840,455
Deductions		
Losses incurred	$2,907,094,988	
Loss expenses incurred	590,229,116	
Other underwriting expenses incurred	1,661,926,797	
Total underwriting deductions		5,159,250,901
Net underwriting gain(loss)		$ 31,589,554
Investment Income		
Net investment income earned	$ 313,807,324	
Net realized capital gains(losses)	70,528,404	
Net investment gain(loss)		384,335,728
Other Income		
Net(loss) from agents' balances charge off	$ (4,961,973)	
Finance and service charges not included in premiums	2,365,990	
Aggregate write-ins for miscellaneous income	1,869,707	
Total other income		$ (726,276)
Net income before dividends to policyholder		$ 415,199,006
Dividends to policyholders		105,705,055
Net income before Federal income tax		$ 309,493,951
Federal and foreign income taxes incurred		8,347,296
Net Income		$ 301,146,655

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	$1,121,886,494
Gain and (Losses) in Surplus	
Net income	$ 301,146,655
Change in net unrealized capital gains or (losses)	38,156,993
Change in net unrealized foreign exchange capital gain (loss)	127,945
Change in net deferred income tax	(19,497,573)
Change in non-admitted assets	(2,124,518)
Change in provision for reinsurance	104,742
Change in Surplus due to merger effective January 1,2018	31,264,633
Aggregate write-ins for gains and losses in surplus	(37,323,652)
Change in surplus as regard policyholders for the exam period	$ 280,590,592
Surplus as regards policyholders, December 31, 2018	$1,433,741,719

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
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