

EXAMINATION REPORT OF  
THE PHARMACISTS LIFE INSURANCE COMPANY  
ALGONA, IOWA  
AS OF DECEMBER 31, 2012

Algona, Iowa  
January 22, 2014

HONORABLE NICK GERHART  
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

THE PHARMACISTS LIFE INSURANCE COMPANY

ALGONA, IOWA

AS OF DECEMBER 31, 2012

at its Home Office, Highway 18 West, Algona, Iowa.

INTRODUCTION

The Pharmacists Life Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2007, under the Association Plan, by the Insurance Division of Iowa. The examination reported herein was conducted solely by the Insurance Division of Iowa, representing the Midwestern Zone.

Concurrently with this examination, the Company's Parent, Pharmacists Mutual Insurance Company, was examined.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2008 to the close of business on December 31, 2012, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires the examination to be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the organization, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the organization were considered in accordance with the risk-focused examination process. The Company's assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2012.

## HISTORY

The Company was incorporated under the provisions of Chapters 491, 506 and 508, Code of Iowa, 1979, in the name of The Pharmacists Life Insurance Company, as a capital stock life insurance company. The original Articles of Incorporation were filed with the Secretary of State of Iowa on May 21, 1979 and the Company commenced business as of July 17, 1979. Pursuant to the provisions of Chapter 491.24, Code of Iowa, 1979, as amended, the Company shall have perpetual existence hereafter.

## CAPITAL STOCK AND DIVIDENDS

Issued and outstanding capital stock consists of 500,000 shares of common stock, par value \$5.00 per share. Capital paid up and gross paid in and contributed surplus totaled \$2,500,000 and \$5,210,002, respectively. There were no cash dividends paid to stockholders during the period under review.

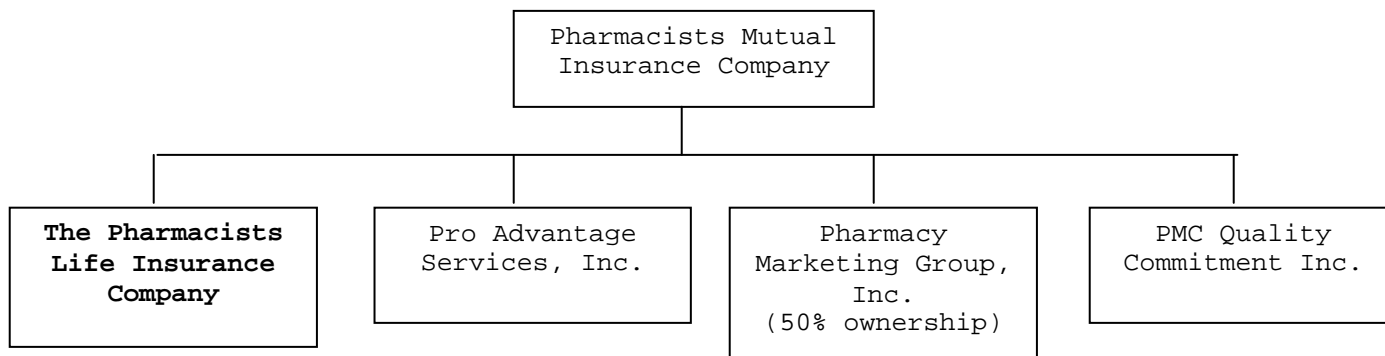
In December of 2008, Pharmacists Mutual Insurance Company contributed additional paid in capital of \$300,000 and committed to contribute another \$720,000 of additional paid in capital, which was completed in February of 2009.

In March of 2009, Pharmacists Mutual Insurance Company contributed additional paid in capital of \$550,000.

## INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined by Chapter 521A, Code of Iowa. An Insurance Holding Company System Registration Statement was filed annually with the Iowa Insurance Division for each year of the examination period.

An organizational chart identifying the Insurance Holding Company System as of December 31, 2012 follows:



Pharmacists Mutual Insurance Company (PMIC) is an Iowa domiciled property casualty company licensed to write in 50 jurisdictions. PMIC primarily writes commercial package policies including commercial multiple peril, workers' compensation, and professional liability coverage. Personal lines are also offered including homeowner, personal umbrella, and automobile. Products are marketed through employee agents primarily to pharmacists and pharmacy related activities, including home medical equipment and home health care businesses. PMIC also started marketing to the dental professional market.

## MANAGEMENT AND CONTROL

### STOCKHOLDERS

The Restated Articles of Incorporation were approved by the Board of Directors and the Shareholders on December 28, 2012 and approved by the Iowa Insurance Division on March 1, 2013.

The Restated Bylaws provide that the annual meeting of shareholders shall be held on the third Friday in May each year. The annual meeting shall commence at 8:00 A.M. and shall be held at the Company's principal place of business, in Algona, Iowa, unless some other location is stated in the notice of the annual meeting. At each annual meeting, the shareholders shall elect individuals to serve on the Board of Directors for the next succeeding year by a majority vote of those members present in person or by proxy.

Special meetings of the shareholders may be called by the President or Secretary or by resolution of the Board of Directors. Additionally, the holders of at least 10% of all the outstanding shares of the corporation may call a special meeting by delivering to the corporation's Secretary a written demand for a meeting describing the purpose or purposes for the meeting. Notice of the annual meeting and of any special meeting shall be sent to all shareholders, specifying the date, time, and place of the meeting, not fewer than ten (10) days nor more than sixty (60) days before the scheduled meeting date.

The holders of a majority of the stock issued and outstanding, entitled to vote, who are present in person or represented by proxy, shall constitute a quorum at any meeting of shareholders. Each outstanding share of stock shall be entitled to one vote upon each matter submitted to vote at a meeting of the shareholders.

### BOARD OF DIRECTORS

The Restated Articles of Incorporation and Restated Bylaws provide that the affairs of the company shall be managed by a Board of Directors consisting of not less than five nor more than twenty-one (21) directors. The Board of Directors shall determine the number of Directors to be seated within this range. If the director is elected to fill a vacancy created by an increase in the number of directors, his term shall expire at the next election of directors by the shareholders; however, a decrease in the number of directors shall not shorten the term of office of any incumbent director.

Directors shall be elected at the annual meeting of shareholders for three (3) year terms, and shall hold their office until their successors are elected and qualified. Directors shall be divided into and be elected by class so as to provide for staggered three (3) year terms of office with the election of one class occurring at each annual meeting. No Director may serve more than four (4) full three (3) year terms on the Board, plus any portion of an unexpired term to which the Director was elected. However, this term limitation shall not apply to Directors who are employees of the Company. Directors serving on the Board as of January 1, 2013 are eligible to serve under this new four term limitation. If a Director ceases to be an employee of the Company, but is otherwise eligible to serve on the Board of Directors, the computation of this term limit as to that Director begins upon the Director's separation from the Company. Directors need not be residents of Iowa. A Director who attains the age of seventy (70) may serve out the balance of their term of office, but shall not stand for re-election. However, a Director attaining the age of seventy (70), who was at one time previously the Chief Executive Officer of the Company, is eligible to be elected to multiple one (1) year terms upon and after attaining the age of seventy (70) with no term limitation.

A regular meeting of the Board of Directors shall be held without other notice than from the Bylaws, immediately after, and at the same place as, the annual meeting of shareholders. The Board of Directors may decide the time and place, either within or without the State of Iowa, for the holding of additional regular meetings without other notice than the minutes detailing such decision. Special meetings of the Board of Directors may be called by or at the request of the CEO, or any three (3) directors.

Directors may be paid their expenses of attendance at meetings of the Board of Directors or any special or standing committee meetings and may receive a fee for such attendance as set by the Board. No such payment shall preclude any Director from serving the corporation in any other capacity and receiving compensation therefore.

The members of the Board of Directors serving as of December 31, 2012 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Jonathan C. Grether Algona, IA	Chief Operating Officer Pharmacists Mutual Insurance Company	2013
Kirk M. Hayes Algona, IA	Board Chairman Pharmacists Mutual Insurance Company Retired President and CEO	2013
Randall S. Myers Carey, OH	Registered Pharmacist Harry's Pharmacy	2013
Steven T. Simenson Ramsey, MN	Registered Pharmacist Goodrich Pharmacy	2013
Donny R. Calhoun Anniston, AL	Registered Pharmacist Golden Springs Pharmacy	2014
Matthew C. Osterhaus Maquoketa, IA	Registered Pharmacist Osterhaus Pharmacy	2014
William A. Stuart Long Beach, CA	Registered Pharmacist Hartley Medical Center Pharmacy	2014
Susan L. Sutter Burnett, WI	Registered Pharmacist Marshland Pharmacies, Inc.	2014
Edward J. Yorty Algona, IA	President and CEO Pharmacists Mutual Insurance Company	2014
Holly Whitcomb Henry Seattle, WA	Registered Pharmacist Rxtra Care, Inc.	2015
F. Michael James Raleigh, NC	Registered Pharmacist Person Street Pharmacy	2015
Richard B. Moon Frewsburg, NY	Registered Pharmacist Pharmacy Innovations	2015
Kelly S. Selby Denton, TX	Registered Pharmacist Community Pharmacy	2015

COMMITTEES

The Board of Directors at each annual meeting shall appoint an Executive Committee, Investment Committee, Audit Committee or such other committees as the Board of Directors deems appropriate. Membership in the Executive and Investment Committee shall consist of the CEO and two or more other members of the Board of Directors. The Audit Committee shall consist of three directors who are not also employees of the Company. Membership in other committees shall consist of three or more members of the Board of Directors. Appointed committees were as follows:

Executive	Investment
Audit	Compensation
Nominating	Corporate Planning
Enterprise Risk Management	

OFFICERS

The Restated Bylaws provide that the officers of the Company shall be elected by the Board of Directors and shall be: Chief Executive Officer, President, Secretary, and a Treasurer who shall perform such duties as the Board of Directors may require. The Board of Directors shall also have the authority to elect a Chief Operating Officer, one or more Vice Presidents, to include Executive and Senior Vice President(s), a General Counsel and any other officers as may be needed for the effective operation of the Company, as determined by the Board of Directors.

Officers of the Company shall be elected by the Board of Directors at the Board's regular meeting following the annual meeting of the shareholders, and said elected officers shall hold office for a term of one (1) year at the pleasure of the Board of Directors or until the next annual meeting of the shareholders or until their successors are elected and qualified. Any individual may simultaneously hold more than one office except that the offices of CEO and/or President shall not be held by the same person holding the office of Secretary.

The principal officers serving at December 31, 2012 were as follows:

<u>Name</u>	<u>Title</u>
Edward J. Yorty	President and Chief Executive Officer
Steven M. Hoskins	Senior Vice President and Chief Operation Officer
Don R. McGuire, Jr.	Secretary, General Counsel and Senior Vice President - Compliance & Risk Management
Kevin C. Banwart	Treasurer, Chief Financial Officer and Senior Vice President - Administration
Thomas P. Goodrich	Senior Vice President - Marketing/Corporate Sales
William H. Wiebelhaus	Senior Vice President - Information Technology

The compensation of the officers is reflected in "Exhibit A" following this report.

CONFLICT OF INTEREST

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors or key employees which is in, or likely to, conflict with the official duties of such person. No disclosures were made during the exam period.

## CORPORATE RECORD

The Articles of Incorporation were re-stated and adopted by the Board of Directors and the Shareholders on December 28, 2012, approved by the Iowa Insurance Division on March 1, 2013 and filed with the Iowa Secretary of State on March 4, 2013. The Articles of Incorporation were re-stated to avoid conflicts with the Re-stated Bylaws which were also adopted on December 28, 2012.

The Bylaws were re-stated with Board approval December 28, 2012 and include the following key amendments:

Article II Section 3. "The annual meeting of members shall be held on the third Friday in May each year."

Article III Section 3. "No Director may serve more than four (4) full three (3) year terms on the Board, plus any portion of an unexpired term to which the Director was elected. However, this term limitation shall not apply to Directors who are employees of the Company. Directors serving on the Board as of January 1, 2013 are eligible to serve under this new four term limitation." This section changed the term limits of Directors from three (3) 3-year terms to four (4) 3-year terms.

The recorded minutes of the meetings of the Shareholders, Board of Directors, Executive, Investment and Audit Committees held during the period covered by this examination were reviewed. The Iowa Insurance Division's Financial and Market Conduct Examination Reports, as of December 31, 2007, were read and approved at the Board of Directors' meetings held on April 23-24, 2009 and August 7, 2009, respectively.

## RELATED PARTY AGREEMENTS

The Company has entered into the following related party agreements with its Parent, Pharmacists Mutual Insurance Company (PMIC).

### Management and Service Cost Sharing Agreement

PMIC shall provide office space, equipment, support staff, administration and marketing. PMIC shall also be reimbursed for cost allocation on a quarterly basis.

### Tax Sharing Agreement

Allocation of the income tax on the consolidated return shall be based upon separate tax return calculations with current credit for net losses. The inter-company tax balances shall be settled within 45 days of filing the consolidated return.

## FIDELITY BONDS AND OTHER INSURANCE

The Company, along with its affiliates, is protected by a blanket bond which covers the fidelity of each officer and employee up to \$1,000,000 for any one occurrence. The bond is written by an authorized insurer with a closed expiration date and the indemnity there-under is non-cumulative.

Other insurable interests appeared to be adequately protected by insurance policies currently in force and those policies were written by companies authorized to transact business in the state of Iowa.

EMPLOYEE WELFARE

The Company is a participant in Pharmacists Mutual Insurance Company's employee welfare program that provides a 401(k)savings plan (match plus discretionary), workers' compensation insurance, life insurance, health insurance, dental insurance, long-term disability insurance, short term disability insurance, a vision discount plan, an employee assistance program, and flexible spending accounts for all employees who qualify. The cost of the benefits is borne by the Company except for short term disability, vision and a portion of the medical and dental insurance.

REINSURANCE

Reinsurance Ceded - Life

New business is ceded to Generali USA Life Reassurance Company under the terms of two Coinsurance agreements and two Yearly Renewable Term agreements, up to a maximum of 6.25 times the Company's retention limit of \$75,000 on an automatic binding basis on any one life based on age and mortality class. Amounts in excess of the binding limit are submitted on a facultative basis. The Company also has the option of submitting any of its risks, regardless of age or amount, on a facultative basis to any of its three reinsurers, Generali USA Life Reassurance Company, Optimum Re Insurance Company and Munich American Reassurance Company.

Retention Limits

<u>Issue Age</u>	<u>Standard</u>	<u>Substandard Table A-D</u>	<u>Substandard Table E-H</u>	<u>Substandard Table over H</u>
0-65	\$75,000	\$75,000	\$40,000	NONE
66 & up	\$40,000	\$40,000	NONE	NONE

The maximum amount of insurance issued and applied for in all companies on any one risk shall not exceed the Jumbo limits of \$35,000,000 on YRT and \$10,000,000 on Coinsurance.

Disability

The Company will retain up to \$3,000 of the annual waiver of premium.

Accidental Death Benefits

The Company reinsures, on a bulk basis, up to \$150,000 per life.

STATUTORY DEPOSIT

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

Arkansas	\$210,623	New Mexico	\$202,299
Georgia	100,000	North Carolina	454,730
Massachusetts	133,062	South Carolina	220,000
Nevada	200,000	Virginia	274,760

The book/adjusted carrying value of special deposits held in trust for the protection of all policyholders is \$72,382,570 as of December 31, 2012.



TERRITORY AND PLAN OF OPERATION

The Company is authorized to transact business in the following jurisdictions:

Alabama	Kentucky	Oklahoma
Arizona	Louisiana	Oregon
Arkansas	Maryland	Pennsylvania
California	Michigan	Rhode Island
Colorado	Minnesota	South Carolina
Connecticut	Mississippi	South Dakota
Delaware	Missouri	Tennessee
District of Columbia	Montana	Texas
Georgia	Nebraska	Utah
Idaho	Nevada	Virginia
Illinois	New Mexico	Washington
Indiana	North Carolina	West Virginia
Iowa	North Dakota	Wisconsin
Kansas	Ohio	Wyoming

The Company offers life and annuity products, mostly through licensed employee producers, to primarily pharmacies, pharmacy-related businesses such as home medical equipment and home health care businesses, as well as to the employees of those businesses and their families. The company also started marketing to the dental professional market.

GROWTH OF COMPANY

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

<u>Year</u>	<u>Admitted Assets</u>	<u>Total Capital and Surplus</u>	<u>Premium and Annuity Income</u>	<u>Death and Annuity Benefits</u>	<u>Net Investment Income</u>
2007	\$37,174,626	\$6,811,910	\$ 2,745,320	\$1,571,292	\$1,844,187
2008	38,902,457	5,500,342	3,420,175	811,547	1,920,235
2009	46,291,974	5,906,200	6,672,861	1,336,188	2,181,390
2010	52,043,130	6,058,537	5,374,509	1,222,733	2,444,478
2011	66,823,483	6,250,500	15,571,497	1,299,199	2,870,988
2012	83,297,142	5,928,416	17,311,028	2,582,181	3,475,605

ACCOUNTS AND RECORDS

The figures contained in the Company's annual statements for the years under review were found to be in agreement or reconciled to those recorded in the general ledger for assets, liabilities, income and disbursement accounts. The accounting records are generally maintained using electronically processed data, however various subsidiary records are maintained using manually prepared excel worksheets. The records in the Company's policy data files and claim data files were sampled and tested by comparing pertinent information to supporting documentation.

During the course of the examination, no material aggregate surplus difference was identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2012.

No compliance issues were noted during the course of the examination.

F I N A N C I A L S T A T E M E N T S  
A N D C O M M E N T S T H E R E O N

NOTE: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2012 and the assets and liabilities as of this date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Non Admitted</u>	<u>Admitted</u>
Bonds	\$73,704,033	\$ -	\$73,704,033
Preferred stocks	113,873		113,873
Common stocks	3,720,925		3,720,925
Cash and short-term investments	987,637		987,637
Contract loans	1,252,768		1,252,768
Other invested assets	28,237		28,237
Receivable for securities	100,000		100,000
Investment income due and accrued	1,021,511		1,021,511
Premiums and agents' balances in course of collection	(159,256)		(159,256)
Deferred premiums and agent's balances booked and not yet due	2,310,801		2,310,801
Funds held by or deposited with reinsured companies	20,613		20,613
Current federal and foreign income tax recoverable and interest	26,000		26,000
Net deferred tax asset	1,160,000	990,000	170,000
Electronic data processing equipment	20,455	20,455	0
Furniture and equipment	119	119	0
			0
Total Assets	<u>\$84,307,716</u>	<u>\$1,010,574</u>	<u>\$83,297,142</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Aggregate reserve for life contracts	\$74,500,881
Liability for deposit-type contracts	1,072,780
Contract claims: Life	185,000
Dividends apportioned for payment	9,228
Premiums and annuity considerations received in advance	22,214
Interest maintenance reserve	746,599
General expenses due or accrued - life and annuity contracts	158,540
Taxes, licenses and fees due or accrued	17,045
Remittances and items not allocated	1,924
Asset valuation reserve	652,298
Payable to parent, subsidiaries and affiliates	2,217
	0
Total Liabilities	<u>\$77,368,726</u>
Common capital stock	\$ 2,500,000
Gross paid in and contributed surplus	5,210,002
Unassigned funds (surplus)	(1,781,586)
	0
Total Capital and Surplus	<u>\$ 5,928,416</u>
Total Liabilities, Surplus and Other Funds	<u>\$83,297,142</u>

SUMMARY OF OPERATIONS

ONE-YEAR PERIOD ENDING DECEMBER 31, 2012

Premiums and annuity considerations for life contracts	\$17,311,028	
Supplemental contracts with life contingencies	107,165	
Net investment income	3,475,605	
Amortization of Interest Maintenance Reserve (IMR)	122,832	
Commissions and expense allowances on reinsurance ceded	253,703	
Totals		<u>\$21,270,333</u>
Death benefits	\$ 734,673	
Annuity benefits	1,847,508	
Disability benefits	525	
Surrender benefits and withdrawals for life contracts	491,164	
Interest/adjustments on contracts or deposit-type funds	41,021	
Payments on supplemental contracts with contingencies	27,460	
Increase in aggregate reserves for life contracts	16,357,047	
Totals		\$19,499,398
Commissions on premiums, annuity considerations and deposit-type contract funds		795,605
General insurance expenses		961,708
Insurance taxes, licenses and fees		207,251
Increase in loading on deferred and uncollected premiums		(21,635)
Totals		<u>\$21,442,327</u>
Net gain from operations before dividends to policyholders		\$ (171,994)
Dividends to policyholders		<u>9,312</u>
Net gain from operations before federal income taxes		\$ (181,306)
Federal income taxes incurred		<u>140,853</u>
Net gain from operations before realized capital (losses)		\$ (322,159)
Net realized capital gains or (losses)		<u>(398,104)</u>
Net income		<u>\$ (720,263)</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 2011		\$ 6,250,500
Net income		\$ (720,263)
Change in net unrealized capital gains (losses)		576,971
Change in net deferred income tax		191,243
Change in nonadmitted assets and related items		(176,847)
Change in asset valuation reserve		(237,188)
Cumulative effect of changes in accounting principles		<u>44,000</u>
Net change in capital and surplus for the year		<u>\$ (322,084)</u>
Capital and surplus, December 31, 2012		<u>\$ 5,928,416</u>

CASH FLOW STATEMENT

Cash from Operations

Premiums collected net of reinsurance	\$17,466,730	
Net investment income	3,613,270	
Miscellaneous income	258,842	
Total	<u>21,338,842</u>	\$ 21,338,842
Benefit and loss related payments	\$ 3,099,570	
Commissions, expenses paid and aggregate write-ins for deductions	1,903,384	
Dividends to policyholders	9,018	
Federal income taxes paid (recovered)	50,526	
Total	<u>5,062,498</u>	<u>5,062,498</u>
Net cash from operations		<u>\$ 16,276,344</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 9,441,062	
Stocks	1,931,303	
Total investment proceeds	<u>11,372,365</u>	\$ 11,372,365
Cost of investments acquired (long-term only):		
Bonds	\$26,165,638	
Stocks	1,847,723	
Miscellaneous applications	100,000	
Total investments acquired	<u>28,113,361</u>	28,113,361
Net increase in contract loans and premium notes		<u>333,575</u>
Net cash from investments		<u>\$ (17,074,571)</u>

Cash from Financing and Miscellaneous Sources

Cash provided:		
Net deposits on deposit-type contracts and other insurance liabilities	\$ (8,534)	
Other cash provided (applied)	<u>(2,941)</u>	
Net cash from financing and miscellaneous sources		<u>\$ (11,475)</u>

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ (809,702)
Cash and short-term investments:	
Beginning of year	1,797,339
End of year	<u>\$ 987,637</u>

SUMMARY OF OPERATIONS

FIVE-YEAR PERIOD ENDING DECEMBER 31, 2012

Premiums and annuity considerations for life contracts	\$48,350,070	
Supplemental contracts with life contingencies	251,362	
Net investment income	12,892,696	
Amortization of Interest Maintenance Reserve (IMR)	439,099	
Commissions and expense allowances on reinsurance ceded	1,465,435	
Charges and fees for deposit-type contracts	2,890	
Totals		<u>\$63,401,552</u>
Death benefits	\$ 2,979,728	
Annuity benefits	4,272,120	
Disability benefits	2,625	
Surrender benefits and withdrawals for life contracts	1,597,306	
Interest/adjustments on contracts or deposit-type funds	226,405	
Payments on supplemental contracts with contingencies	116,303	
Increase in aggregate reserves for life contracts	46,180,598	
Totals		\$55,375,085
Commissions on premiums, annuity considerations and deposit-type contract funds		2,756,900
General insurance expenses		4,457,135
Insurance taxes, licenses and fees		901,842
Increase in loading on deferred and uncollected premiums		(261,880)
Totals		<u>\$63,229,082</u>
Net gain from operations before dividends to policyholders		\$ 172,470
Dividends to policyholders		44,068
Net gain from operations before federal income taxes		\$ 128,402
Federal income taxes incurred		266,127
Net gain from operations before realized capital (losses)		\$ (137,725)
Net realized capital gains or (losses)		(2,360,324)
Net income		<u>\$(2,498,049)</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 2007		<u>\$ 6,811,911</u>
Net income		\$(2,498,049)
Change in net unrealized capital gains (losses)		42,781
Change in net deferred income tax		259,695
Change in nonadmitted assets and related items		(173,510)
Change in asset valuation reserve		(228,676)
Cumulative effect of changes in accounting principles		44,000
Surplus adjustment: Paid in		1,570,000
Aggregate write-ins for gains and losses in surplus		100,264
Net change in capital and surplus for the exam period		<u>\$ (883,495)</u>
Capital and surplus, December 31, 2012		<u>\$ 5,928,416</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, Bob P. Wong, CFE, Randy A. Guzman, Alex B. Matovu, and Lindsay J. Bates, examiners for the Insurance Division of Iowa, participated in the examination and preparation of this report.

Respectfully submitted,

---

VIRGINIA R. WEST, CFE  
Examiner-in-Charge  
Insurance Division  
State of Iowa