

EXAMINATION REPORT OF
UFG SPECIALTY INSURANCE COMPANY
CEDAR RAPIDS, IOWA
AS OF DECEMBER 31, 2018

Cedar Rapids, Iowa
March 16, 2019

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

UFG SPECIALTY INSURANCE COMPANY

CEDAR RAPIDS, IOWA

AS OF DECEMBER 31, 2018

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

INTRODUCTION

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

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

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

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2014 to the close of business on December 31, 2018, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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

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

HISTORY

The Company was incorporated on March 29, 1948 as Texas General Indemnity Company under the laws of Colorado and was initially licensed to transact business as a casualty insurance company on that date. On May 10, 1979, a new certificate of authority was issued by the Colorado Division of Insurance granting the Company the authority to write multiple lines.

Prior to August 10, 1999, the Company was part of the American Indemnity Financial Corporation (AIFC) insurance holding company system, with its immediate parent being American Indemnity Company (AIC), a Texas domiciled insurer having its executive offices located in Galveston, Texas.

On August 10, 1999, the holding company system was acquired by United Fire & Casualty Company (UFC) in Cedar Rapids, Iowa. As part of the acquisition, AI Acquisition Corporation, an Iowa Corporation, was formed in February 1999 for the purpose of facilitating the change of control. On the date of acquisition, AI Acquisition Corporation, a wholly owned subsidiary of UFC merged with and into AIFC, with AIFC becoming the surviving entity. As a result of this transaction, UFC acquired ultimate control of the Company.

On May 24, 2006, the immediate parent of the Company, AIC, was sold and AIFC became the immediate parent. As part of the acquisition, permission was granted by the Colorado Insurance Division to allow the Company to move its accounting books and records from Galveston, Texas to its current administrative office located in Cedar Rapids, Iowa.

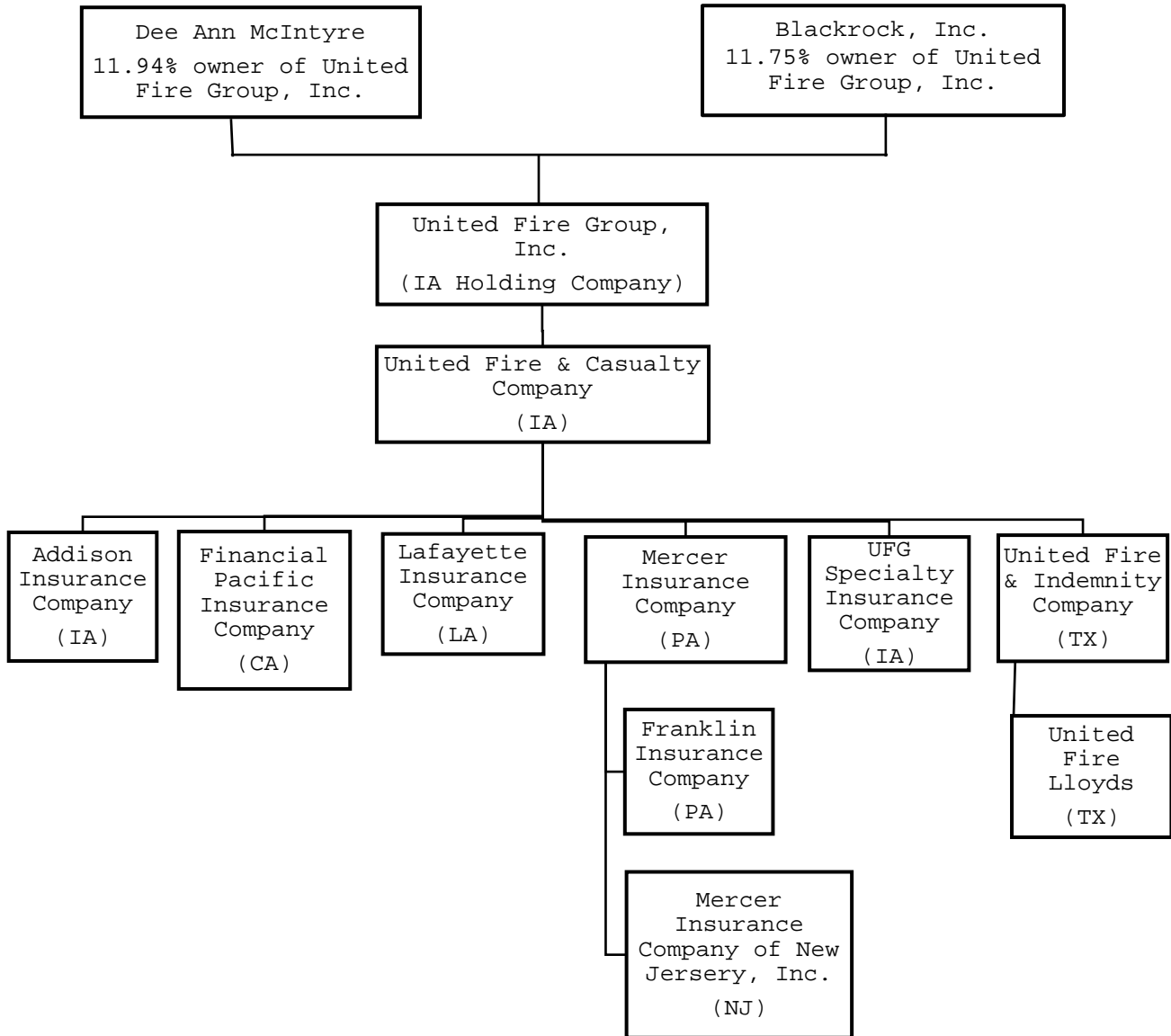
On April 1, 2015, Texas General Indemnity Company re-domesticated from Westminster, Colorado to Cedar Rapids, Iowa and the company was renamed UFG Specialty Insurance Company.

INSURANCE HOLDING COMPANY SYSTEM

United Fire Group, Inc. (UFG) is the Ultimate Parent member of a holding company system as defined by Chapter 521A, Code of Iowa. The authorized capital stock of UFG is 75,000,000 shares of common stock having a par value of \$.001, and 10,000,000

shares of serial preferred stock having no par value per share. At December 31, 2018, 25,097,408 common shares were outstanding and stockholders' equity totaled \$888,375,000.

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



CAPITAL STOCK AND DIVIDENDS THEREON

The authorized capital stock of the Company consisted of 150,000 shares of common stock with a par value of \$33.33 1/3 per share. Issued and outstanding capital, as of December 31, 2018, consists of 90,001 shares of common stock. Capital paid up and gross paid in and contributed surplus totaled \$3,000,033 and \$5,000,000, respectively. Cash dividends paid to stockholder during the examination period under review are as follows:

2015 - \$1,500,000
2017 - 1,700,000
2018 - 1,900,000

MANAGEMENT AND CONTROL

SHAREHOLDERS

The annual meeting of shareholders shall be held on the third Wednesday in the month of May in each year unless such day shall be a legal holiday, in which case said meeting shall be held on the following business day. If the election of directors shall not be held on the day designated herein for any annual meeting, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a meeting of the shareholders as soon thereafter as convenient.

BOARD OF DIRECTORS

The Bylaws provide that the business and affairs of the Company are managed by a Board of Directors consisting of not less than three (3) or more than twelve (12) members. Each director shall hold office until the next annual meeting of shareholders and until the director's successor has been elected and qualified.

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

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

<u>Name</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Jack B. Evans Cedar Rapids, IA	President Hall-Perrine Foundation	2019
Dawn M. Jaffray Cedar Rapids, IA	Vice President and CFO United Fire Group	2019
Joseph B. Johnson Friendswood, TX	Vice President, Branch Manager United Fire & Casualty Company	2019
Randy A. Ramlo Cedar Rapids, IA	President and Chief Executive Officer United Fire Group	2019
Neal R. Scharmer Cedar Rapids, IA	Vice President, General Counsel & Secretary United Fire & Casualty Company	2019
Allen R. Sorensen Cedar Rapids, IA	Vice President, Corporate Underwriting United Fire & Casualty Company	2019
Michael T. Wilkins Cedar Rapids, IA	Executive Vice President, COO United Fire Group	2019

OFFICERS

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

Officers serving as of December 31, 2018 were:

<u>Name</u>	<u>Title</u>
Dawn M. Jaffray	Senior Vice President, CFO
Joseph B. Johnson	Vice President, Branch Manager
Janice A. Martin	Treasurer
Randy A. Ramlo	President and Chief Executive Officer
Kristin R. Stauffer	Secretary
Michael T. Wilkins	Executive Vice President, COO

The salaries of the above officers are shown in Exhibit A, found immediately following the signature page of this report.

CONFLICT OF INTEREST

The Company has a documented conflict of interest policy and an established procedure for the annual disclosure to its Board of Directors and the UFG Audit Committee of any material interest or affiliation on the part of its directors, officers or key employees which is in, or likely to, conflict with the official duties of such person. While conflicts were disclosed, none were found to have a material impact on the Company and all were addressed by the Audit Committee.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were amended April 1, 2015, for the redomestication of the Company from Colorado to Iowa. The recorded minutes of the shareholders and Board of Directors meetings were read and noted.

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

AFFILIATED COMPANY AGREEMENTS

Agents' Balances Payment and Reimbursement Agreement

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

Intercompany Credit Agreements

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

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

Intercompany Investment Apportionment Agreement

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

Federal Income Tax Allocation Agreement

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

FIDELITY BOND AND OTHER INSURANCE

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

EMPLOYEES' WELFARE

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

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

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

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

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

REINSURANCE

INTER-COMPANY POOLING

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

Pooling participation at December 31, 2018 is as follows:

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

ASSUMED REINSURANCE

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

CEDED REINSURANCE

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

Multiple Line Excess of Loss

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

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

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

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

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

Property Second Per Risk Excess of Loss

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

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

Property Third Per Risk Excess of Loss

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

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

Casualty Second Excess of Loss

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

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

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

Casualty Third-Fifth Excess of Loss

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

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

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

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

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

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

All Lines Aggregate Excess of Loss

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

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

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

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

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

Property Catastrophe Excess

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

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

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

Surety Excess of Loss

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

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

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

STATUTORY DEPOSIT

As of December 31, 2018, the book/adjusted carrying value of special deposits held in trust for the benefit of all policyholders totaled \$2,255,474. The book/adjusted carrying values of special deposits held in trust, which are not held for the protection of all policyholders of the Company, are as follows:

California	\$ 150,904
New Mexico	<u>628,542</u>
 Total	 \$ <u>779,446</u>

TERRITORY AND PLAN OF OPERATION

In addition to Iowa, the Company holds certificates of authority and is authorized to transact business in the following jurisdictions:

Alabama	Arizona	Arkansas
California	Colorado	Indiana
Kansas	Kentucky	Louisiana
Mississippi	Missouri	Montana
New Mexico	Ohio	Oklahoma
Tennessee	Texas	Utah
Washington		

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

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

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

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

GROWTH OF COMPANY

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

Year	Admitted Assets	Surplus to Policyholders	Net Premiums Earned	Net Losses Incurred	Investment Income Earned
2014	\$ 26,178,298	\$ 15,339,464	\$ -	\$ (404,363)	\$ 436,121
2015	41,745,422	16,740,325	8,516,951	4,019,620	445,444
2016	39,372,417	17,414,637	9,361,306	5,343,479	794,162
2017	43,126,101	19,556,822	9,974,917	6,014,658	894,314
2018	42,779,425	18,232,375	10,374,510	6,026,741	1,008,698

ACCOUNTS AND RECORDS

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

SUBSEQUENT EVENTS

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

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

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

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

ASSETS

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$35,496,269		\$35,496,269
Preferred stocks			
Common stocks	31,357		31,357
Cash and short-term investments	960,850		960,850
Other invested assets (Schedule BA)			
Investment income due and accrued	247,105		247,105
Uncollected premiums and agents' balances in the course of collection	655,111		655,111
Amounts recoverable from reinsurers	22,036		22,036
Current federal and foreign income tax recoverable and interest thereon	19,003		19,003
Net deferred tax asset	463,881	27,497	436,384
Receivables from parent; subsidiaries and affiliates	67,680		67,680
Aggregate write-in for other than invested assets	<u>5,469,857</u>	<u>626,226</u>	<u>4,843,631</u>
Total assets	<u>\$43,433,148</u>	<u>\$653,723</u>	<u>\$42,779,425</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$ 9,505,095
Reinsurance payable on paid losses and loss adjustment expenses		679,597
Loss adjustment expenses		3,026,321
Commissions payable, contingent commissions and other similar charges		308,724
Other expenses (excluding taxes, licenses and fees)		548,258
Taxes, licenses, and fees (excluding federal and foreign income taxes)		44,814
Unearned premiums		4,858,549
Amounts withheld or retained by company for account of others		4,178,824
Aggregate write-in for liabilities		<u>1,396,868</u>
Total liabilities		<u>\$24,547,050</u>
Common capital stock		3,000,033
Gross paid in and contributed surplus		5,000,000
Unassigned funds (surplus)		10,232,342
Surplus as regards policyholders		<u>18,232,375</u>
Total liabilities and surplus		<u>\$42,779,425</u>

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

<u>Underwriting Income</u>		
Premiums earned		\$ 10,374,510
<u>Deductions</u>		
Losses incurred	\$6,026,741	
Loss adjustment expenses incurred	1,296,272	
Other underwriting expenses incurred	<u>3,535,597</u>	
Total underwriting deductions		<u>10,858,610</u>
Net underwriting gain or loss		(484,100)
<u>Investment Income</u>		
Net investment income earned	\$1,008,698	
Net realized capital gains (losses) less capital gain tax	<u>1,019</u>	
Net investment income		1,009,717
<u>Other Income</u>		
Net income after dividend to policyholder after capital gains tax and before all other federal and foreign income taxes		<u>\$ 525,617</u>
Federal and foreign income taxes incurred		(58,354)
Net income		<u>\$ 583,971</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, prior year		\$ 19,556,822
<u>Gain and (Losses) in Surplus</u>		
Net Income		\$ 583,971
Change in net unrealized capital gains or losses		(6,772)
Change in net deferred income tax		(38,129)
Change in non-admitted assets		22,939
<u>Surplus adjustments</u>		
Dividend to stockholders		<u>(1,900,000)</u>
Change in surplus as regards policyholders for the year		(1,324,447)
Surplus as regards policyholders, December 31, 2018		<u>\$ 18,232,375</u>

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

Cash from Operations

Premiums collected net of reinsurance	\$ 10,479,930	
Net investment income	<u>1,132,448</u>	
Total		\$11,612,378
Benefit and loss related payments	5,168,784	
Commission, expenses paid and aggregate		
Write-ins for deductions	4,613,217	
Federal income taxes paid (recovered)	<u>(210,519)</u>	
Total		<u>9,571,482</u>
Net cash from operations		<u>2,040,896</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	<u>513,162</u>	
Total investment proceeds		513,162
Cost of investments acquired (long-term only):		
Bonds	<u>5,451,676</u>	
Total investments acquired		<u>5,451,676</u>
Net cash from investments		<u>(4,938,514)</u>

Cash from Financing and Miscellaneous Sources

Dividends to stockholders	\$ 1,900,000	
Other cash provided (applied)	<u>614,992</u>	
Net cash from financing and misc. sources		<u>\$(1,285,008)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net gain in cash and short-term investments		\$(4,182,626)
Cash and short-term investments:		
Beginning of year		5,143,476
End of year		<u>\$ 960,850</u>

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

Underwriting Income

Premiums earned		\$38,227,684
<u>Deductions</u>		
Losses incurred	\$21,000,135	
Loss expenses incurred	5,289,995	
Other underwriting expenses incurred	<u>12,471,631</u>	
Total underwriting deductions		<u>38,761,761</u>
Net underwriting gain (loss)		(534,077)
<u>Investment Income</u>		
Net investment income earned	\$ 3,578,739	
Net realized capital gains (losses)	<u>4,422</u>	
Net investment income		3,583,161
<u>Other Income</u>		
Net (loss) from agents' balances charge off	\$ 650,180	
Aggregate write-ins for miscellaneous income	<u>23,974</u>	
Total other income		674,154
Net income before Federal income tax		3,723,238
Federal and foreign income taxes incurred		<u>1,203,868</u>
Net Income		<u>\$ 2,519,370</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		\$14,425,022
<u>Gain and (Losses) in Surplus</u>		
Net income		\$ 2,519,370
Change in net unrealized capital gains or (losses)		6,300
Change in net deferred income tax		349,769
Change in non-admitted assets		(69,912)
Change in provision for reinsurance		1,793
Capital changes: paid in		1,100,033
Surplus adjustments: paid in		5,000,000
Dividend to stockholders		<u>(5,100,000)</u>
Change in surplus as regard policyholders for the exam period		<u>\$ 3,807,353</u>
Surplus as regards policyholders, December 31, 2018		<u>\$18,232,375</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:

Andrya Carter
Tessa Lemons
Kathleen Madsen
Alex Matovu
Josh Pietan

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

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

Respectfully submitted,

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