

EXAMINATION REPORT OF
FARMLAND MUTUAL INSURANCE COMPANY
DES MOINES, IOWA
AS OF DECEMBER 31, 2016

Des Moines, Iowa
June 6, 2018

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

Commissioner:

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

FARMLAND MUTUAL INSURANCE COMPANY

DES MOINES, IOWA

AS OF DECEMBER 31, 2016

at its Home Office, 1100 Locust Street, Des Moines, Iowa.

INTRODUCTION

Farmland Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2011. The examination reported herein was part of a coordinated examination of the Nationwide Group of property and casualty insurance companies. The state insurance departments of Arizona, California, Iowa, Michigan, New Jersey, Ohio, Pennsylvania, Texas, and Vermont participated in this coordinated examination, with Ohio as the lead state.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2012 to the close of business on December 31, 2016, 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 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, 2016.

HISTORY

The Company was incorporated in the State of Iowa on March 22, 1909, under the name of the Farmers Cooperative Elevator Mutual Insurance Association with its Home Office located in Fort Dodge, Iowa. Originally, risks were limited to fire and wind insurance on cooperative elevators with policies on the mutual assessment plan.

In 1916, by amendment to its Articles of Incorporation, the name of the Company was changed to Farmers National Cooperative Elevator Mutual Insurance Association of Iowa. The name was changed in 1934 to Farmers Elevator Mutual Insurance Association.

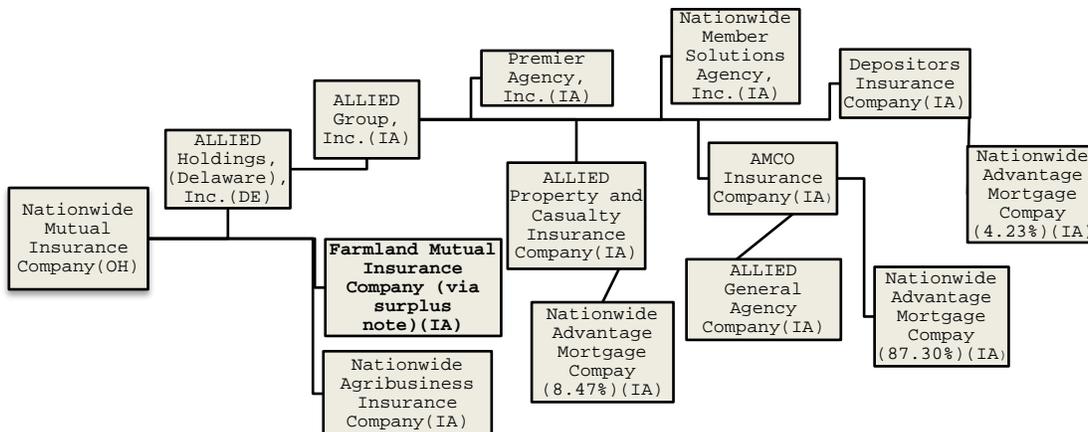
In 1945, the Company was authorized to reorganize and do business under the mutual plan of insurance and change its name to Farmers Elevator Mutual Insurance Company. The Home Office was moved to Des Moines, Iowa in 1946. Amended and substituted Articles of Incorporation were adopted on January 24, 1948 whereby the corporate existence was made perpetual and the writing of multiple lines of insurance, as enumerated in Chapter 515, Code of Iowa, was authorized.

On December 31, 1956, an affiliated company, the Farmers Elevator Mutual Casualty Company, was merged into the Company. In 1976, the name of the Company was changed to Farmland Mutual Insurance Company.

On August 31, 1982, the Company became associated with Nationwide Mutual Insurance Company, Columbus, Ohio, by virtue of \$500,000 of funds advanced to the Company pursuant to provisions of Sections 515.19-20, Code of Iowa.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a part of the Nationwide Mutual Insurance Company ("NMIC") and Nationwide Mutual Fire Insurance Company ("NMFIC") holding company system as defined by Chapter 521A, Code of Iowa. NMIC purchased, from a third party, a Guaranty Fund Certificate and Surplus Advance Certificate, issued by the Company on February 28, 1966 and August 13, 1968, respectively. NMIC, as the Guaranty shareholder, shall be a member of the Company and is entitled to representation on the Board of Directors, not to exceed one-third of the membership of the Board. An organizational chart identifying the Farmland Mutual Insurance Company and affiliated Iowa domestic companies, as they relate to the Holding Company System, follows:



MANAGEMENT AND CONTROL

MEMBERSHIP

The Amended Articles of Incorporation state that "Every individual, co-partnership, public or private corporation, board or association, trustee, administrator, executor, or other legal entity, to whom or to which a policy of insurance has been issued, or may hereafter be issued by the corporation, shall be a member of the corporation, and be entitled to the rights and privileges of such membership as defined in these Articles, the By-Laws and contract of insurance, so long only as said contract of insurance is in force and effect."

The regular annual meeting of the members is held at the Home Office of the Company at 9:00 a.m. on the Thursday preceding the fourth Friday in May unless a different time or place is fixed by resolution of the Board, if not a legal holiday, but if a legal holiday then on the day following at the same time. Notice of the annual meeting is not required. If the directors elect to change the time and place of the regular meeting, written notice shall be given to each member by mail at least twenty days prior to the meeting date.

Special meetings of the members may be called by the Chairman of the Board, and shall be called by the Chairman of the Board upon written request of a majority of the directors or upon the written request of ten percent of its members. Such request must specify the purpose for which the meeting is to be called. Not less than 20 days written notice of all special meetings is to be given to each member at such address shown in the Company's records.

Each member is entitled to one vote at any regular or special meeting of the members upon all matters of business. The vote may be exercised in person or by written proxy filed with the Secretary of the Company at least 30 days prior to the date of the annual meeting at which it is to be exercised and at least ten days prior to the date of any special meeting at which it is to be exercised.

Ten members present or represented by proxy, at any annual or special meeting of the members, constitute a quorum for the transaction of business.

BOARD OF DIRECTORS

The Amended 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 21 directors, who shall be members of the Company. At the June 5, 2008 Board of Directors meeting, it was resolved that the Board of Directors shall consist of nine members. Any vacancy on the Board may be filled by a majority of the remaining directors until a successor has been elected at the next annual meeting of the members.

Directors are elected by the members of the Company at their regular annual meeting. The Board of Directors is divided into three classes, each class as nearly as possible to consist of one-third of the membership, and the Board is so constructed that the terms of office for directors of each class shall expire three years from the date of their election.

Nominations for membership on the Board of Directors must be presented in writing signed by the proposing member or members and filed with the Chairman of the Board at least 60 days prior to the date of the members meeting at which they are to be voted upon.

Regular meetings of the Board of Directors are held quarterly during the year at such time and in places as may be determined by resolution of the Board, with the annual meeting of the directors occurring immediately after the annual meeting of members. Special meetings of the Board of Directors may be called by the Chairman of the Board, Chief Executive Officer, President or the Executive Committee, and shall be called by the Chairman of the Board upon the written request of a majority of the directors, specifying the purpose for which the meeting is to be called. Notice of the time and place of special meetings shall be given to each director at least 48 hours before the meeting.

A majority of the directors present in person at any meeting shall constitute a quorum for the transaction of business. The act of a majority of the directors present and voting at a meeting at which a quorum is present shall be the act of the Board of Directors unless the act of a greater number is required, by law, by the Articles of Incorporation, or by the Bylaws.

Unless otherwise restricted by the Articles of Incorporation or the Bylaws, any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all members of the Board shall individually or collectively consent in writing to such action by manual, facsimile, conformed or electronic signature thereon.

The directors duly elected and serving as of December 31, 2016 were as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>
Mark A. Berven Dublin, Ohio	President and Chief Operating Officer - P&C Various Nationwide Companies
Kenneth D. Davis Leesburg, Ohio	Farmer Owner/Operator Director - Various Nationwide Companies
Gary A. Douglas Urbandale, Iowa	Senior Vice President Nationwide National Partners Various Nationwide Companies
Stephen F. Hirsch Chillicothe, Ohio	Farmer Owner/Operator Director - Various Nationwide Companies
Brad R. Liggett Roseville, California	Senior Vice President Nationwide Agribusiness Various Nationwide Companies
Brent R. Porteus Coshocton, Ohio	Partner - Blair Porteus & Sons Director - Various Nationwide Companies
Stephen S. Rasmussen Columbus, Ohio	Chief Executive Officer Various Nationwide Companies
Michael J. Toelle Browns Valley, Minnesota	Self Employed - Owner/Operator Director - Various Nationwide Companies
Sparky R. Weilnau Milan, Ohio	Self Employed - Owner/Operator Farmer Director - Various Nationwide Companies

The members of the Board of Directors, other than salaried officers, shall receive such compensation as shall be fixed by the Board of Directors from time to time for the performance of services for the Company.

COMMITTEES

The Company has designated the Audit Committee of NMIC to act on its behalf. The Audit Committee's primary function is to assist the Boards of Directors of the Nationwide Group of insurance companies ("Boards") in fulfilling their oversight responsibilities by reviewing the systems of internal controls which management and the Boards have established, as well as the audited financial statements.

OFFICERS

The Amended and Restated Bylaws provide that the officers shall be a President, one or more Vice Presidents, a Secretary, a Treasurer and such other vice presidents, assistant secretaries, assistant treasurers and other officers as the Board of Directors or any committee of the Board of Directors, to the extent such committee has been delegated authority to appoint or elect officers by the Board of Directors, may appoint or elect or provide to be elected or appointed by resolution from time to time.

Any two or more of the offices may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity, if such instrument is required by law or by the Articles of Incorporation or Bylaws to be executed, acknowledged or verified by two or more officers.

The officers shall hold office until the date of the next regular annual meeting of the Board of Directors and until their respective successors are elected and qualified; provided, however, that any officer may be removed from office with or without cause at any time by a vote of at least a majority of the entire Board of Directors.

The officers duly elected and serving as of December 31, 2016 were as follows:

<u>Name</u>	<u>Title</u>
Brad R. Liggett	President
Gale V. King	Executive Vice President - Chief Administrative Officer
Mark R. Thresher	Executive Vice President - Chief Financial Officer
Pamela A. Biesecker	Senior Vice President-Head of Taxation
Michael A. Boyd	Senior Vice President-Enterprise Brand Marketing
Harry H. Hallowell	Senior Vice President-Chief Investment Officer
Timothy J. Dwyer	Vice President and Assistant Treasurer
Robert W. Horner, III	Vice President and Secretary
Eric W. Johnson	Vice President
Thomas W. Jurgens	Vice President-Agribusiness Underwriting
John P. Lebens	Vice President-Enterprise Risk Management
Kenneth A. Levine	Vice President and Treasurer
Nicholas P. Muntean	Vice President-Associate Solutions
Dirk Pollitt	Vice President-Sales-Agribusiness
Martha L. Frye	Senior Regional Vice President-Southeast

The total compensation of the above-named officers is shown in Exhibit A.

CONFLICT OF INTEREST STATEMENTS

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation of its officers or directors, which is in conflict with their official duties. The disclosures were found to be signed annually with any possible conflicts disclosed to the designated Audit Committee.

CORPORATE RECORDS

Neither the Articles of Incorporation nor the Bylaws were amended or restated during the exam period under review.

All shareholder and Board of Director minutes recorded during the exam period were executed as Action in Writing Without a Meeting.

PRIOR EXAMINATION REPORT

The Action in Writing Without a Meeting, dated October 9, 2013, acknowledged that the Board accepts the Financial Examination Report prepared by the Iowa Insurance Division, as of December 31, 2011.

AFFILIATED AGREEMENTS

MASTER REPURCHASE AGREEMENT

The Company and other named affiliates, including the ultimate Parent, have entered into a master repurchase agreement which permits each company to purchase securities from or sell securities to the other at a cost equal to the market value of the securities, plus an interest rate that will be based on short-term interest rates in effect on the date of the sale. The agreement also provides for the resale and repurchase of the securities on demand. The market value of the securities that are the subject of the repurchase agreement will not exceed, in the aggregate, the lesser of three percent of the buyer's or seller's admitted assets as of December 31 of the immediately preceding calendar year.

INVESTMENT AGENCY COST ALLOCATION AGREEMENT

Effective November 14, 2002, Nationwide Cash Management Company, a corporation formed for the purpose of making, holding and administering short-term investments maturing in one year or less, agreed to hold and administer certain investments on behalf of the Company and other named affiliates.

The agreement was amended and restated on January 23, 2015 to incorporate certain provisions of Section 5 of the NAIC Insurance Holding Company System Regulatory Act and Section 19 of the NAIC Insurance Holding Company System Model Regulation including an arbitration clause and language specifying the prior approval of the Commissioner of Insurance of the State of Iowa, if required by law or regulation, is necessary for assignment of the agreement.

COST SHARING AGREEMENT - THIRD AMENDED AND RESTATED

Effective January 1, 2011, the Company, along with multiple named affiliates including the ultimate Parent, participates in a Second Amended and Restated Cost Sharing Agreement whereby each party desires to have each other perform certain operational and administrative services on behalf of one another. The allocation of expenses is based on standard allocation techniques and procedures acceptable under general cost accounting techniques and procedures that are to be in conformity with NAIC statutory accounting principles.

Expenses are to be maintained for such operation and administrative services in sufficient detail so as to facilitate proper allocation to the receiving party. The agreement may be terminated upon mutual agreement or upon 90 days written notice.

The agreement was amended and restated on January 1, 2014 (Third Amended and Restated Cost Sharing Agreement) to incorporate certain provisions of Section 5 of the NAIC Insurance Holding Company System Regulatory Act and Section 19 of the NAIC

Insurance Holding Company System Model Regulation, remove companies no longer in existence, add several newly formed companies, and add certain language recommended by another insurance department.

SERVICES AGREEMENT

Effective May 1, 2014, the Company entered into a services agreement with Nationwide Casualty Company, an affiliate, whereby the Company agreed to provide workers compensation services on policies offered by National Casualty Company.

FIDELITY BONDS AND OTHER INSURANCE

The Company, and named affiliates, is protected by an aggregate \$30,000,000 fidelity bond cover which meets the NAIC's suggested minimum amount of coverage.

EMPLOYEES' WELFARE

All employees' services are provided by NMIC per the cost sharing agreement. Eligible employees are provided a qualified defined benefit pension plan. Eligible agents are provided a non-qualified, unfunded defined benefit deferred compensation plan. The Nationwide Group also participates in a defined contribution retirement savings plan (401k or the Nationwide Savings Plan) for employees of substantially all Nationwide companies. Nationwide also sponsors life and health care defined benefit plans for qualifying retirees.

REINSURANCE

NATIONWIDE INTERCOMPANY POOLING AGREEMENT

NMIC is the lead company in the Nationwide Pool ("Pool"). Participating affiliated insurance companies cede 100% of direct written business to the Pool. Companies assuming business from the Pool and their respective pool participation, as of December 31, 2016, are:

	<u>Pool</u>
Nationwide Mutual Insurance Company	83.0%
Nationwide Mutual Fire Insurance Company	12.0
Scottsdale Insurance Company	4.0
Farmland Mutual Insurance Company	1.0

The other Companies in the Pool are 0% participants.

POOL CEDED

The Nationwide Pool is protected by a National Tower/Property Catastrophe cover with limits and retention equal to 70% of \$500.0 million each and every loss occurrence in excess of \$1.022 billion and 90% of \$1.800 billion each and every loss occurrence in excess of \$2.252 billion.

The Pool is also protected by a Southeast Tower/Property Catastrophe (NC, SC, VA, MD, DC, DE, WV, GA) cover with limits and retention equal to 70% of \$500.0 million each and every loss occurrence in excess of \$500.0 million and a Northeast Tower/Property Catastrophe (NJ, NY, CT, RI, MA, VT, NH, ME, PA) cover with limits and retention equal to 70% of \$500.0 million each and every loss occurrence in excess of \$500.0 million. The business covered includes all property lines including automobile physical damage with covered perils of wind, fire, earthquake and domestic terrorism.

QUOTA SHARE REINSURANCE AGREEMENT - AFFILIATED

Effective June 1, 2016, Nationwide Indemnity Company, an affiliate, agreed to provide 100% reinsurance coverage to NMIC, NMFIC, and their respective subsidiaries and affiliates for their claims for civil actions arising out of sexual assault of a child made against policies with accident dates prior to January 1, 2007.

STATUTORY DEPOSIT

The statement value of securities held in custodial accounts for the exclusive protection of various states' policyholders totaled \$6,301,664.

The statement value of securities held in a custodial account and vested in the Commissioner of Insurance of the State of Iowa, for the benefit of all policyholders, totaled \$2,214,916.

TERRITORY AND PLAN OF OPERATION

The Company operates under the Nationwide Agribusiness brand with the business focus on the needs of the American agriculture sector, including refined fuels and food processing. The Company is licensed to conduct business in 39 states with premium concentration in the central and western regions. The top five states in which the Company writes direct business are California, Iowa, Kansas, Texas and Nebraska. The Company's major lines of business are commercial multiple peril, workers' compensation, general liability and commercial auto coverage - generally related to agricultural operations.

Commercial business is produced through 239 independent producer/agencies nationally. Farm and ranch business is produced through 1,789 exclusive producers and 10,423 independent producers.

GROWTH OF COMPANY

The following information was obtained from the annual statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Investment Income Earned</u>
2012	\$439,283,862	\$160,409,858	\$147,081,467	\$ 89,493,977	\$ 7,922,616
2013	485,219,229	166,025,117	166,833,184	93,135,128	8,821,265
2014	521,114,166	167,550,822	176,400,977	107,857,715	9,769,460
2015	544,213,154	170,593,814	183,625,260	112,953,422	10,149,034
2016	566,652,983	171,377,467	191,937,680	125,284,739	11,669,662

ACCOUNTS AND RECORDS

The Company's general ledgers are maintained on an electronic accrual basis. Trial balances were reviewed. 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.

During the course of the coordinated 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, 2016.

SUBSEQUENT EVENTS

AMENDMENT TO NATIONWIDE POOLING AGREEMENT

Effective January 1, 2017, the Intercompany Reinsurance Pooling Agreement was amended to change NMIC's assumed pool percentage to 72%, NMFIC's pool percentage to 23%, and add six additional affiliated companies to the Pool as 0% participants.

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, 2016, and the assets and liabilities as of that date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS

December 31, 2016

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 352,005,591	\$ -	\$ 352,005,591
Cash and short-term investments	(4,419,753)		(4,419,753)
Investment income due and accrued	3,311,258		3,311,258
Uncollected premiums and agents' balances in the course of collection	37,903,385	1,372,201	36,531,184
Deferred premiums, agents' balances and installments booked but deferred and not yet due	91,159,868	69,982	91,089,886
Amounts recoverable from reinsurers	12,492,356		12,492,356
Funds held by or deposited with reinsured companies	83,285		83,285
Current federal and foreign income tax recoverable	655,932		655,932
Net deferred tax asset	15,387,946	790,932	14,597,014
Guaranty funds receivable or on deposit	(4,626)		(4,626)
Receivable from parent, subsidiaries and affiliates	57,949,116	2,550	57,946,566
Deposits and prepaid assets	242,319	242,319	
Equities and deposits in pools and associations	1,379,910		1,379,910
Miscellaneous assets	529,168		529,168
Other assets nonadmitted	40	40	
Recoupment receivable	349,135		349,135
Third-party administrator receivable	61,659		61,659
Deductible receivable	50,217	5,799	44,418
	<u>\$ 569,136,806</u>	<u>\$ 2,483,823</u>	<u>\$ 566,652,983</u>
Total Assets			

STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS

December 31, 2016

Losses	\$ 121,036,122
Reinsurance payable on paid losses and loss adjustment expenses	9,679,681
Loss adjustment expenses	22,543,592
Commissions payable, contingent commissions and other similar charges	3,891,880
Other expenses (excluding taxes, licenses and fees)	1,204,708
Taxes, licenses and fees (excluding federal and foreign income taxes)	901,846
Unearned premiums	78,808,178
Advance premium	1,386,913
Policyholders dividends declared and unpaid	144,500
Ceded reinsurance premiums payable (net of ceding commissions)	86,227,282
Funds held by company under reinsurance treaties	168,820
Amounts withheld or retained by company for account of others	3,211,008
Remittances and items not allocated	1,173,603
Provision for reinsurance	4,483,356
Payable to parent, subsidiaries and affiliates	56,415,378
Agent's security fund reserve	5,927
Contingent suit liability	102,336
Escrow liability	16,900
Miscellaneous liabilities	184,278
Pooling expense payable	2,251,110
Reserve for state escheat payment	1,249,738
State surcharge/recoupment payable	<u>188,360</u>
 Total Liabilities	 <u>\$ 395,275,516</u>
 Surplus notes	 \$ 500,000
Unassigned funds (surplus)	<u>170,877,467</u>
 Surplus as regards policyholders	 <u>\$ 171,377,467</u>
 Total Liabilities, Surplus and Other Funds	 <u><u>\$ 566,652,983</u></u>

STATEMENT OF INCOME
ONE-YEAR PERIOD ENDING DECEMBER 31, 2016

<u>Underwriting Income</u>	
Premiums earned	\$ 191,937,680
 <u>Deductions</u>	
Losses Incurred	\$ 125,284,739
Loss adjustment expenses incurred	18,078,114
Other underwriting expenses incurred	61,998,437
Total underwriting deductions	\$ 205,361,290
Net underwriting gain (loss)	\$ (13,423,610)
 <u>Investment Income</u>	
Net investment income earned	\$ 11,669,662
Net realized capital gains (losses)	56,814
Net investment gain (loss)	\$ 11,726,476
 <u>Other Income</u>	
Net gain (loss) from agents' balances charged off	\$ (811,061)
Finance and service charges not included in premiums	1,455,348
Change in contingent suit liability	(1,287)
Miscellaneous income	716,680
Total other income	\$ 1,359,680
Net income before dividends to policyholders	\$ (337,454)
Dividends to policyholders	131,553
Net income before Federal income tax	\$ (469,007)
Federal and foreign income taxes incurred	(168,591)
Net income	\$ (300,416)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	\$ 170,593,814
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ (300,416)
Change in net unrealized capital gains or (losses)	77,624
Change in net deferred income tax	(248,322)
Change in nonadmitted assets	2,989,306
Change in provision for reinsurance	466,916
Change in surplus - miscellaneous	(2,201,455)
Change in surplus as regards policyholders for the year	\$ 783,653
Surplus as regards policyholders, December 31, 2016	\$ 171,377,467

CASH FLOW STATEMENT
ONE-YEAR PERIOD ENDING DECEMBER 31, 2016
CASH FROM OPERATIONS

Premiums collected net of reinsurance	\$ 190,108,765	
Net investment income	13,534,402	
Miscellaneous income	<u>3,866,677</u>	
Total		\$ 207,509,844
Benefit and loss related payments	\$ 114,930,864	
Commissions, expenses paid and aggregate write-ins for deductions	80,315,212	
Dividends paid to policyholders	138,768	
Federal income taxes paid (recovered)	<u>(308)</u>	
Total		<u>\$ 195,384,536</u>
Net cash from operations		\$ 12,125,308

CASH FROM INVESTMENTS

Proceeds from investments sold, matured or repaid:		
Bonds	<u>\$ 40,607,211</u>	
Total investment proceeds		\$ 40,607,211
Cost of investments acquired (long-term only):		
Bonds	<u>\$ 56,801,989</u>	
Total investments acquired		<u>\$ 56,801,989</u>
Net cash from investments		<u>\$ (16,194,778)</u>

CASH FROM FINANCING AND MISCELLANEOUS SOURCES

Cash provided:		
Other cash provided (applied)	<u>\$ 9,713,932</u>	
Net cash from financing and miscellaneous sources		<u>\$ 9,713,932</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments		\$ 5,644,463
Cash and short-term investments:		
Beginning of year		<u>\$ (10,064,216)</u>
End of year		<u>\$ (4,419,753)</u>

STATEMENT OF INCOME
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2016

<u>Underwriting Income</u>	
Premiums earned	\$ 865,878,568
<u>Deductions</u>	
Losses Incurred	\$ 528,724,981
Loss expenses incurred	86,727,656
Other underwriting expenses incurred	294,997,561
Loss-based assessment payable	9,062
Total underwriting deductions	<u>\$ 910,459,260</u>
Net underwriting gain (loss)	\$ (44,580,692)
<u>Investment Income</u>	
Net investment income earned	\$ 48,332,037
Net realized capital gains (losses)	<u>(1,356,140)</u>
Net investment income	\$ 46,975,897
<u>Other Income</u>	
Net gain or (loss) from agents' balances charged off	\$ (3,708,418)
Finance and service charges not included in premiums	7,911,057
Change in contingent suit liability	3,814
Miscellaneous income	1,841,802
Federal fines and penalties	<u>(1,853)</u>
Total other income	<u>\$ 6,046,402</u>
Net income before dividends to policyholders	\$ 8,441,607
Dividends to policyholders	<u>654,146</u>
Net income before Federal income tax	\$ 7,787,461
Federal and foreign income taxes incurred	<u>2,838,942</u>
Net income	<u><u>\$ 4,948,519</u></u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2011	<u>\$ 150,195,071</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 4,948,519
Change in net unrealized capital gains or (losses)	(306,208)
Change in net deferred income tax	4,197,948
Change in nonadmitted assets	10,042,414
Change in provision for reinsurance	5,492,000
Cumulative effect of changes in accounting principles	138,439
Change in surplus - miscellaneous	<u>(3,330,716)</u>
Change in surplus as regard policyholders for the exam period	<u>\$ 21,182,396</u>
Surplus as regards policyholders, December 31, 2016	<u><u>\$ 171,377,467</u></u>

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company is hereby acknowledged.

In addition to the undersigned, Bouavan Kha, Jan Jones, and Kathi Madsen, Examiners for the Iowa Insurance Division, participated in the examination and preparation of this report.

Respectfully submitted,

/s/ Thomas Allen
Thomas Allen, CFE
Examiner-in-Charge
Assurity Resources, Inc. on behalf of the
Iowa Insurance Division

/s/ Daniel Mathis
Daniel Mathis, CFE
Assistant Chief Examiner
Iowa Insurance Division