

EXAMINATION REPORT OF  
DEVELOPERS SURETY AND INDEMNITY COMPANY  
JOHNSTON, IOWA  
AS OF DECEMBER 31, 2014

Johnston, Iowa  
May 4, 2016

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

DEVELOPERS SURETY AND INDEMNITY COMPANY

JOHNSTON, IOWA

AS OF DECEMBER 31, 2014

at its Home Office 5435 N.W. 100<sup>th</sup> Street Suite 201, Johnston, Iowa. The principal executive office of the Company is maintained at 17771 Cowan, Suite 100, Irvine, California.

INTRODUCTION

Developers Surety and Indemnity Company, hereinafter referred to as the "Company", was last examined as of December 31, 2009 under the Association Plan. The examination reported herein was conducted as a coordinated examination of AmTrust Financial Services, Inc. insurance holding company group with the State of Delaware, Department of Insurance, acting as the Lead State. In conjunction with this examination, the California Insurance Department conducted an examination of the Company's wholly owned subsidiary, Indemnity Company of California.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2010 to the close of business on December 31, 2014, 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, evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, as well as applicable 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, 2014.

#### HISTORY

The Company was incorporated October 10, 1936 as the Mutual Surety Company of Iowa. Amended and Substituted Articles of Incorporation adopted October 10, 1956 changed the corporate title to State Surety Company and the structure was changed from a mutual to a stock company.

February 1, 1995, Indemnity Company of California and affiliate Developers Insurance Company purchased all the outstanding stock of the State Surety Company. The Company was purchased as an empty shell. This transaction was approved by the Insurance Division of Iowa on January 13, 1995.

The Articles of Incorporation were amended March 10, 1995 changing the name to Developers Surety and Indemnity Company. In addition, the authorized common stock was increased to 5,000 shares with a par value of \$1,000 per share and an aggregate value of \$5,000,000.

Through restructuring of the ultimate parent, all outstanding shares of the Company were transferred to Indemnity Company of California (ICC) and all outstanding shares of ICC were transferred to Developers Insurance Company (DICO). This reorganization was effective August 29, 1997.

Indemnity Company of California made a capital contribution of \$3,865,724 to the Company on December 29, 2000. In addition, ICC paid a dividend of 100% of the Company's outstanding stock shares to Developers Insurance Company (DICO). At the same time the Company and DICO merged with the Company being the surviving entity.

On January 2, 2014, the Insko Insurance Services, Inc. group of companies (including Developers Surety and Indemnity Company and subsidiary Indemnity Company of California) was acquired by AmTrust Financial Services, Inc. (the holding company Parent).

#### CAPITAL STOCK AND DIVIDENDS THEREON

The authorized capital stock of the Company is \$5,000,000 represented by 5,000 shares of common stock with a par value of \$1,000. Issued and outstanding capital, as of December 31, 2014, consists of 3,000 shares of common stock, all of which is held by Insko Insurance Services, Inc., a California corporation. Common capital stock and gross paid in and contributed surplus totaled \$3,000,000 and \$22,235,885, respectively. The Company paid a cash dividend of \$3,000,000 in each year of 2011, 2012 and 2013.

#### SURPLUS NOTE

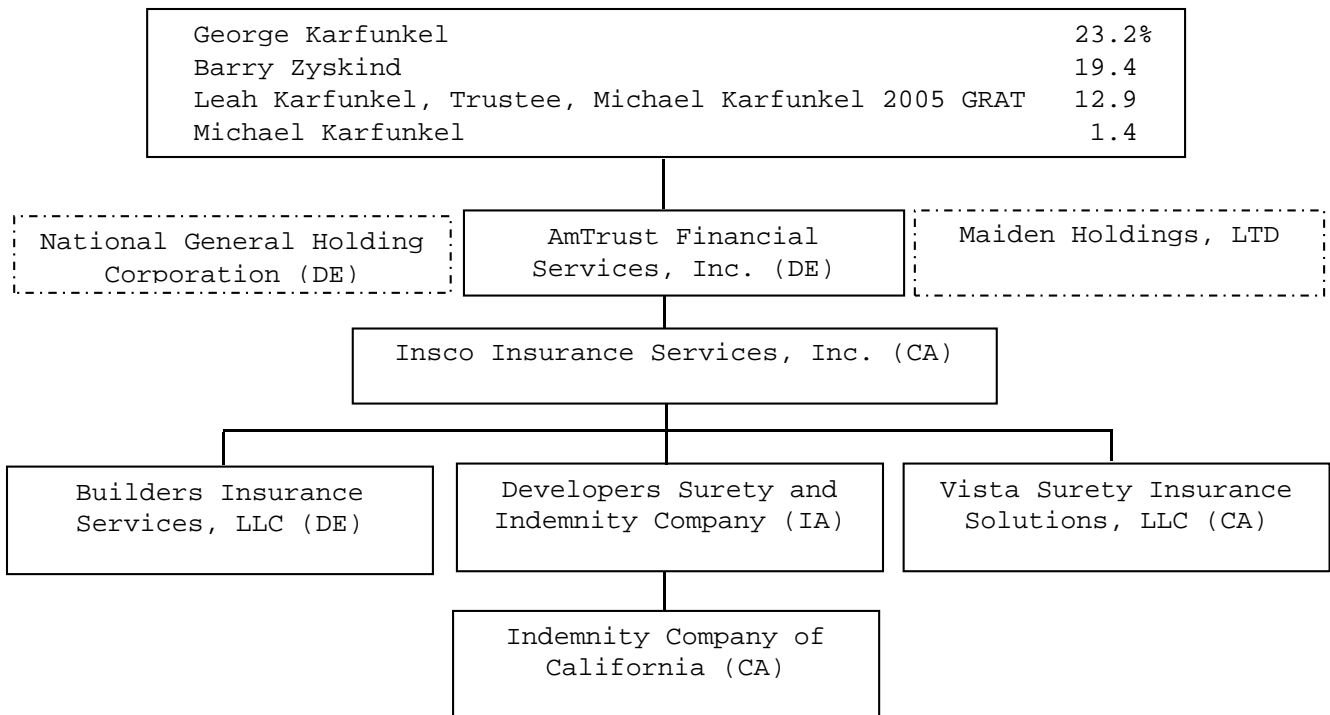
At a special meeting of the Board of Directors held February 7, 2003, the Company authorized the issuance of surplus debentures in the amount of \$10,000,000. The surplus note is dated May 22, 2003 with a maturity date of May 22, 2033 and a fixed interest rate, payable quarterly, of 9.65%. This debenture was approved by the Iowa Insurance Division on April 16, 2003. On February 21, 2014, AmTrust Financial Services, Inc. paid off the Company's \$10,000,000 surplus note plus accrued interest

of \$241,250 for a total of \$10,241,250. The Company recorded the transaction as an increase to Paid-in Surplus.

HOLDING COMPANY

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 Insurance Division of Iowa for each year of the examination period. The Company became a part of the AmTrust Financial Services, Inc. holding company on January 2, 2014, pursuant to a Stock Purchase Agreement of the immediate Parent, Inco Insurance Services, Inc. AmTrust Financial Services, Inc. is a publicly-traded company listed on the NASDAQ global exchange under the ticker symbol 'AFSI'. A combined annual statement is filed under N.A.I.C. group code #2538 with Technology Insurance Company, Inc. being the combined named insurer.

The identity of holding company members is shown, as of December 31, 2014, in the following *partial* organizational chart:



SURPLUS GUARANTEE

On December 15, 2014, the Company's Board of Directors passed a resolution that provides a surplus guarantee to the Company's subsidiary, Indemnity Company of California. Pursuant to the resolution, the Company shall take all actions necessary to insure that the subsidiary is in compliance with Iowa's statutory minimum levels, at no less than the minimum required, from time to time, by the applicable provisions of the Insurance Code of the State of Iowa. This resolution shall remain in force until the Company obtains a written release from the Iowa Insurance Division which release shall not be unreasonably withheld.

## MANAGEMENT AND CONTROL

### STOCKHOLDERS

The Bylaws provide that the annual meeting of the shareholders shall be held at the home or principal executive office of the company or at any other location within or without the State of California which may be designated by written consent of all persons entitled to vote. The annual meeting shall be held on the third Tuesday of June of each year. Written notice of meetings shall be given not less than ten or more than sixty days before the date of the meeting to each shareholder entitled to vote thereat.

Special meetings may be called by the Board, the Chairman of the Board, the President or by shareholders entitled to cast not less than ten percent of the votes at such meeting. Written notice of meetings shall be given not less than thirty-five nor more than sixty days before the date of the meeting to each shareholder entitled to vote thereat.

A majority of the shares entitled to vote, represented in person or by a proxy, shall constitute a quorum at any meeting of the shareholders.

### BOARD OF DIRECTORS

The Bylaws provide that the business and affairs of the Company shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors which shall consist of not less than five nor more than eight directors. The directors shall be elected at each annual meeting of the shareholders. Each director, including a director elected to fill a vacancy, shall hold office until the next annual meeting and until a successor has been elected and qualified.

Immediately following each annual meeting of shareholders the Board shall hold a regular meeting for the purpose of organization, selection of a Chairman of the Board, election of officers, and the transaction of other business. Special meetings may be called at any time by the Chairman of the Board, the President, the Secretary or by any two directors. A majority of the authorized number of directors present at any meeting constitutes a quorum for the transaction of business.

Elected directors serving as of December 31, 2014 are as follows:

<u>Name and Address</u>	<u>Principal Business Affiliation</u>
Harry C. Crowell Irvine, California	Chairman of the Board Developers Surety and Indemnity Company
Stuart D. Hollander Monsey, New York	Senior Vice President AmTrust Financial Services, Inc.
Adam Z. Karkowsky Great Neck, New York	Vice President, Strategic Development AmTrust Financial Services, Inc.
Harry Schlachter Brooklyn, New York	Treasurer AmTrust Financial Services, Inc.
Stephen B. Ungar Great Neck, New York	General Counsel and Secretary AmTrust Financial Services, Inc.

OFFICERS

The officers of the Company shall be a chairman of the board, a president, a secretary and a treasurer. The Company may also have, at the discretion of the Board, a vice chairman, an executive vice president and one or more senior vice presidents, vice presidents, assistant vice presidents, assistant secretaries, assistant treasurers and such other officers as may be elected or appointed.

The primary officers elected and serving at December 31, 2014 are as follows:

<u>Name</u>	<u>Office</u>
Harry C. Crowell	Chairman of the Board
Sam Zaza	President
Stephen B. Ungar	Secretary
Harry Schlachter	Treasurer
Susan M. Moore	Senior Vice President, Claims
Blaine Williamson	Senior Vice President, Field Operations
Daniel Young	Senior Vice President, Chief Underwriting Officer
Barry Moses	Vice President, Regulatory Compliance
Steven A. Gaines	Vice President, Property/Casualty
Jeffrey A. Johnson	Vice President and Assistant Treasurer

All remunerations of the officers are paid by AmTrust Financial Service, Inc. with allocations to the Company through service agreements.

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. While conflicts were disclosed, none were identified that would materially impact the Company.

CORPORATE RECORD

The Articles of Incorporation nor Bylaws were amended during the examination period.

The recorded minutes of the meetings of the Shareholders and Directors were read and noted. They appeared to be complete and were found to be properly attested. The minutes were silent as to the acknowledgement of the Examination Report prepared by the Iowa Insurance Division as of December 31, 2014.

RELATED PARTY SERVICE AGREEMENTS

Underwriting Management Agreements

The Company has an Underwriting Management Agreement in place with its Parent, Insko Insurance Services, Inc. (Insko), to manage the surety insurance operations and an Underwriting Management Agreement with affiliate, Builders Insurance Services, LLC (BIS), to manage the property and casualty operations of the Company. The agreements provide for the appointment and termination of producing agents and brokers and to enter into contracts with such agents and brokers on the Company's behalf. In addition, Insko and BIS will underwrite the policies, collect premiums, issue bonds and or policies, take indemnification agreements from principals, keep all accounting and

bookkeeping records, administer and adjust claims, provide office space, administer all Insurance Division matters, draft and print applications for bonds, policies and other forms and all other matters necessary for the Company to engage in business. Settlements shall be made monthly.

Tax Allocation Agreement and Intercompany Management Agreement

In January of 2014, the Company entered into a Tax Allocation Agreement and an Intercompany Management Agreement with AmTrust Financial Services, Inc. These agreements provide for such services as tax allocation and reporting, investment fund management, statutory accounting and reporting, loss reserving and reinsurance placement, employee management and human resource services, corporate governance and maintenance of Fiduciary accounts.

Insurance Services, Management and Agency Agreement

The Company entered into an Insurance Services, Management and Agency agreement with affiliate, AmTrust North America, Inc, a Delaware licensed insurance agency, to market and administer covered commercial property and casualty risks and policies, including workers compensation, employers' liability or other similar policies. Services also include underwriting, billing and collections, reporting and record maintenance, claims management and reserving support.

FIDELITY BONDS AND OTHER INSURANCE

The Company, along with its affiliates as named insureds, is protected by a blanket bond issued to AmTrust Financial Services, Inc. (parent) which covers the fidelity of each officer and employee up to \$5,000,000 for any one occurrence. The bond is written by an authorized insurer with a closed expiration date. Coverage meets the N.A.I.C.'s suggested minimum amount of fidelity insurance.

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 does not have direct employees. Primary personnel services are provided by AmTrust Financial Services, Inc. in accordance with the Intercompany Management Agreement.

REINSURANCE

ASSUMED

The Company assumes an immaterial amount of commercial liability and surety business with 2014 assumed premiums of \$1,463,121 and \$400,407, respectively. Gross assumed reserves totaled \$1,284,186 at December 31, 2014.

CEDED

The Company is a named insured with affiliate, Indemnity Company of California, in Excess of Loss and Quota Share reinsurance treaties covering surety business and written with authorized reinsurers. The Company also has reinsurance cover for the commercial liability business. All treaties contained the proper requirements in accordance with SSAP No. 62.

Premiums ceded under the surety treaties for 2014 totaled \$2,993,748.

#### Surety Excess of Loss

As of the prior examination, the Company's principal reinsurers were Munich Reinsurance America Inc., and broker Aon Benfield (Endurance and Transatlantic). The reinsurance agreements placed by Aon Benfield were terminated effective January 2, 2012. As of the examination date, the only outstanding reinsurance contract the Company has is with Munich Reinsurance America Inc. This treaty has 70% placement with the Company retaining 30% participation in addition to the excess retentions.

#### Business Reinsured

The First Surety Excess of Loss layer shall cover Contract, Commercial and Subdivision surety bonds. The Second and Third Surety Excess of Loss layers shall cover only Contract and Subdivision surety bonds.

#### First Excess of Loss

The Company retention is \$500,000 Ultimate Net Loss each Principal. The Reinsurer is then liable for 100% of Ultimate Net Loss in excess of the retention, up to but not exceeding \$4,500,000 each Principal. The reinsurer's limit of liability shall be subject to a maximum limit of \$13,500,000 Ultimate Net Loss, any one Agreement Year, irrespective of number of Bonds or Principals involved.

In addition to its initial retention each Principal, the Company shall have a 30% co-reinsurance participation. The premium rate on this layer is based on a sliding scale dependent on the "Balance" as defined in Exhibit A of the treaty.

#### Second Excess of Loss

The Company retention is \$5,000,000 Ultimate Net Loss each Principal. The Reinsurer is then liable for 100% of Ultimate Net Loss in excess of the retention, up to but not exceeding \$5,000,000 each Principal. The reinsurer's limit of liability shall be subject to a maximum limit of \$10,000,000 Ultimate Net Loss, any one Agreement Year, irrespective of number of Bonds or Principals involved.

In addition to its initial retention each Principal, the Company shall have a 30% co-reinsurance participation. The premium rate on this layer is based on a sliding scale dependent on the "Balance" as defined in Exhibit B of the treaty.

#### Third Excess of Loss

The Company retention is \$10,000,000 Ultimate Net Loss each Principal. The Reinsurer is then liable for 100% of Ultimate Net Loss in excess of the retention, up to but not exceeding \$10,000,000 each Principal. The reinsurer's limit of liability shall be subject to a maximum limit of \$10,000,000 Ultimate Net Loss, any one Agreement Year, irrespective of number of Bonds or Principals involved.

In addition to its initial retention each Principal, the Company shall have a 30% co-reinsurance participation. As premium rate for the reinsurance provided hereunder, the Company shall pay the Reinsurer 0.96% of its Gross Net Written Premium for the Agreement Year subject to a minimum premium of \$247,430.



Surety Quota Share (Subdivision Bonds)

The Company shall cede to the Reinsurer and the Reinsurer agrees to accept a 70% quota share of the Company's Net Loss; however, the liability of the Reinsurer shall not exceed 70% of \$6,000,000 (\$4,200,000) each bond, unless the Reinsurer specifically accepts higher limits, subject to a total aggregate amount of Outstanding Bond Liability of \$75,000,000 (100%) by the Company as respects any one Principal.

The Company shall retain, subject to the Company's Excess of Loss Reinsurance Program, a 30% part of 100% share of its Net Loss hereunder, which retention shall not exceed 30% of \$6,000,000 (\$1,800,000) each bond, subject to an aggregate amount of Outstanding Bond Liability of \$75,000,000 (100%) by the Company as respects any one Principal.

For special acceptance of bonds by the Reinsurer exceeding \$6,000,000, the Company's retention and the Reinsurers limit of liability for each bond shall be as set forth in the special acceptance.

The Reinsurers pay a commission allowance of 42.5% on the renewal of 2008 and prior bonds ceded premiums to the companies. On new bonds written in 2009 and forward, they pay a commission allowance of 37.5%.

Property and Casualty Reinsurance Program (Builders Insurance Services)

Builders Insurance Service (BIS) is the underwriting administrator for the Company's commercial liability business. Effective January 1, 2014, all property and casualty reinsurance agreements on direct business were terminated on a cut-off basis. Concurrently, the BIS policies were brought under the AmTrust property and casualty reinsurance program.

Premiums ceded for 2014 totaled \$408,390.

Casualty Excess of Loss -	\$2,500,000	excess \$2,500,000
Property Catastrophe -	First:	\$50,000,000 excess of \$20,000,000
	Second:	\$130,000,000 excess of \$70,000,000
	Third:	\$160,000,000 excess of \$200,000,000
Global Property Bond -	87.5% of \$40,000,000	excess of \$360,000,000

STATUTORY DEPOSIT

As of December 31, 2014, the book/adjusted carrying value of special deposits held in trust, by the Iowa Insurance Commissioner, for the benefit of all policyholders totaled \$2,782,910. A schedule of the book/adjusted carrying value of all other special deposits, totaling 3,121,501, is as follows:

Arkansas	\$154,806	Nevada	\$250,593	Oregon	\$446,466
Florida	155,040	New Hampshire	500,000	South Carolina	314,848
Georgia	35,786	New Mexico	213,446	Tennessee	256,345
Massachusetts	125,856	North Carolina	241,944	Virginia	426,371

TERRITORY AND PLAN OF OPERATION

The Company continues to expand into a national writer specializing in providing bonding coverages to developers and contractors that require subdivision, performance, contract, license and permit, and miscellaneous bonds. While a material portion of

written premium is produced in California, 33%; the Company has expanded its geographical mix and has reduced its concentration in California.

The Company has a distribution network of approximately 4,700 independent producers. As of December 31, 2014, there are 15 branch offices that work with the agency force and perform marketing and underwriting functions. The regional branches are located in the following areas:

Boise, ID	Houston TX	San Diego, CA
Brea, CA	Phoenix, AZ	Sacramento, CA
Dallas, TX	Philadelphia, PA	Seattle, WA
Denver, CO	Pittsburgh, PA	St. Pete/Tampa, FL
Des Moines, IA	Portland, OR	Walnut Creek, CA

Certificates of Authority evidenced that the Company was authorized to transact business in all 50 state jurisdiction and the District of Columbia.

GROWTH OF COMPANY

The following historical data, as taken from filed copies of the annual statements, reflects the financial position of the Company.

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Investment Income Earned</u>
2010	\$ 130,666,333	\$ 82,464,622	\$ 45,067,865	\$ 13,280,493	\$ 2,414,868
2011	120,069,448	76,127,131	36,974,744	15,082,777	1,883,402
2012	116,129,713	74,531,254	36,372,138	5,762,896	1,339,049
2013	123,509,966	75,814,689	38,129,543	4,892,414	1,113,012
2014	134,652,912	82,243,190	42,981,582	4,396,045	2,409,223

ACCOUNTS AND RECORDS

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

During the course of the examination, no material aggregate surplus difference were identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2014.

Failure to Properly Disclose Notes to Financial Statements - Note #10

The Company failed to properly disclose the Insurance Services, Management and Agency Agreement with affiliate AmTrust North America, Inc. In addition, the Company improperly identified the participant on the Intercompany Management Agreement to be AmTrust North America, Inc. in lieu of the signing participant - AmTrust Financial Services, Inc.

IOWA STATUTORY COMPLIANCE

As of the examination date, the Company is in non-compliance with Iowa Administrative Rule 191-5.32: Investments in medium grade and lower grade obligations. This statutory provision allows the Company to hold no more than an aggregate of 1%

of its admitted assets in medium or lower grade obligations issued, guaranteed or insured by any one institution. The statutory limit is \$1,235,100 with the reported value of one security at \$1,620,000, resulting in an excess limitation of \$384,900.

The Company is in non-compliance with Iowa Code 521A.5 Standards: Transactions within a holding company system affecting domestic insurers. The Company made three separate purchases of securities from members of the AmTrust Financial Services, Inc. holding company system and failed to provide prior notification of a material affiliated transaction, as defined in the Code, to the Iowa Insurance Commissioner.

#### SUBSEQUENT EVENTS

Effective January, 2015, the Company entered into an inter-company reinsurance agreement whereby the Company shall cede 60% of net direct risks and net assumed risks from the Company's membership in or reinsurance of any assigned risk or similar plans to AmTrust International Insurance Company, Ltd. The cession is reduced to 50% effective January 1, 2016.

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, 2014 and the assets and liabilities as of this date. Schedules may not add or tie precisely due to rounding.

## STATEMENT OF ASSETS AND LIABILITIES

<u>ASSETS</u>			
	<u>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 68,742,323	\$ -	\$ 68,742,323
Preferred stocks	1,665,580		1,665,580
Common stocks	40,802,415		40,802,415
Cash and short-term investments	10,114,343		10,114,343
Investment income due and accrued	650,771		650,771
Premiums and agents' balances in course of collection	9,624,132	2,404,119	7,220,013
Amounts recoverable from reinsurers	661,266		661,266
Current federal income tax recoverable	1,722,124		1,722,124
Net deferred tax asset	2,166,737		2,166,737
Guaranty funds receivable or on deposit	2,652		2,652
Electronic data processing equipment	508,027		508,027
Receivable from parent and affiliates	395,803		395,803
Contingent commission receivable	858		858
	<hr/>	<hr/>	<hr/>
Total assets	\$137,057,031	\$2,404,119	\$134,652,912
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES, SURPLUS AND OTHER FUNDS</u>			
Losses			\$ 11,238,146
Loss adjustment expenses			11,830,532
Other expenses			26,648
Taxes, licenses and fees			388
Unearned premiums			23,972,119
Ceded reinsurance premiums payable			759,108
Amounts withheld or retained for others			4,437,309
Payable to parent and affiliates			145,472
			<hr/>
Total liabilities			\$ 52,409,722
			<hr/>
Common capital stock			\$ 3,000,000
Gross paid in and contributed capital			22,235,885
Unassigned funds (surplus)			57,007,305
			<hr/>
Surplus as regards policyholders			\$ 82,243,190
			<hr/>
Total liabilities and surplus			\$134,652,912
			<hr/>

STATEMENT OF INCOME  
ONE-YEAR PERIOD ENDING DECEMBER 31, 2014

Underwriting Income

Premiums earned \$42,981,582

Deductions

Losses incurred	\$ 4,396,045	
Loss expenses incurred	8,539,711	
Other underwriting expenses incurred	26,404,059	
Total underwriting deductions		39,339,815

Net underwriting gain (loss) \$ 3,641,767

Investment Income

Net investment income earned	\$ 2,409,223	
Net realized capital gains (losses)	492,942	
Net investment income		2,902,165

Net income before Federal income tax	\$ 6,543,931	
Federal and foreign income taxes incurred	2,419,433	
		4,124,498

Net income \$ 4,124,498

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013 \$75,814,693

Gains and (Losses) in Surplus

Net income	\$ 4,124,498	
Change in net unrealized capital gains or (losses)	1,263,881	
Change in net deferred income tax	539,299	
Change in nonadmitted assets	259,569	
Change in surplus notes	(10,000,000)	
Surplus adjustments paid in	10,241,250	
		6,428,497

Change in surplus as regards policyholders for the year 6,428,497

Surplus as regards policyholders, December 31, 2014 \$82,243,190

CASH FLOW STATEMENT  
Cash from Operations

Premiums collected net of reinsurance	\$ 43,963,950	
Net investment income	2,459,410	
Total		\$ 46,423,360
Benefit and loss related payments	\$ 3,105,021	
Commissions, expenses paid and aggregate write-ins for deductions	30,787,911	
Federal income taxes (paid) recovered	4,974,871	
Total		38,867,803
Net cash from operations		\$ 7,555,557

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 19,982,495	
Stocks	37,219,173	
Total investment proceeds		\$ 57,201,668
Cost of investments acquired (long-term only):		
Bonds	\$ 34,296,833	
Stocks	33,695,120	
Miscellaneous applications (cost of investments acquired)	143,729	
Total investments acquired		68,135,682
Net cash from investments		\$ (10,934,014)

Cash from Financing and Miscellaneous Sources

Cash provided:		
Surplus notes, capital notes	\$(10,000,000)	
Capital and paid in surplus, less treasury stock	10,241,250	
Other cash provided (applied)	(1,752,635)	
Net cash from financing and miscellaneous sources		\$ (1,511,385)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$ (4,889,842)
Cash and short-term investments:	
Beginning of year	15,004,185
End of year	\$ 10,114,343

STATEMENT OF INCOME  
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2014

<u>Underwriting Income</u>		
Premiums earned		\$199,525,872
<u>Deductions</u>		
Losses incurred	\$ 43,414,625	
Loss expenses incurred	30,647,252	
Other underwriting expenses incurred	131,176,082	
Total underwriting deductions	<u>205,237,959</u>	
Net underwriting gain (loss)		\$ (5,712,087)
<u>Investment Income</u>		
Net investment income earned	\$ 9,159,554	
Net realized capital gains (losses)	4,547,116	
Net investment income		<u>13,706,670</u>
<u>Other Income</u>		
Recovery interest	\$ 21,295	
Total other income		<u>21,295</u>
Net income before Federal income tax		\$ 8,015,878
Federal and foreign income taxes incurred		<u>594,186</u>
Net income		<u>\$ 7,421,692</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2009		<u>\$ 78,912,108</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 7,421,692
Change in net unrealized capital gains or (losses)		5,658,630
Change in net deferred income tax		558,636
Change in nonadmitted assets		(1,567,956)
Change in surplus notes		(10,000,000)
Surplus adjustments: paid in		10,241,250
Dividends to stockholders		(9,000,000)
Other surplus gains or losses		<u>18,830</u>
Change in surplus as regard policyholders for the exam period		<u>3,331,082</u>
Surplus as regards policyholders, December 31, 2014		<u>\$ 82,243,190</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 examiners participated in the examination and preparation of this report: Amanda Buseman, CFE and Bouavan Kha, Iowa Senior Insurance Examiners.

A review and evaluation of actuarial processes and procedures was performed under the direction of Charles C. Emma, FCAS, MAAA, and Principal with EVP Advisors, Inc.

A review of the information technology system was performed by INS Services under the direction of the State of Delaware, Department of Insurance, acting as the Lead State.

Respectfully submitted,

/s/ Virginia R. West \_\_\_\_\_  
VIRGINIA R. WEST, CFE  
Examiner-in-Charge  
Insurance Division  
State of Iowa