

**STATE OF NORTH DAKOTA  
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION**

**OF**

**GREAT DIVIDE INSURANCE COMPANY  
SCOTTSDALE, ARIZONA**

**AS OF  
DECEMBER 31, 2013**

STATE OF NORTH DAKOTA  
INSURANCE DEPARTMENT

I, the undersigned, Commissioner of Insurance of the State of North Dakota, do hereby certify that I have compared the annexed copy of the Report of Examination of the

**Great Divide Insurance Company  
Scottsdale, Arizona**

as of December 31, 2013, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.



IN WITNESS WHEREOF, I have hereunto  
set my hand and affixed my official seal at my  
office in the City of Bismarck, this 21<sup>st</sup> day of  
May, 2015.

  
\_\_\_\_\_  
Adam Hamm  
Insurance Commissioner

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Scottsdale, Arizona  
March 1, 2015

Honorable Adam Hamm  
Commissioner  
North Dakota Insurance Department  
600 East Boulevard Avenue  
Bismarck, ND 58505

Dear Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records, and financial condition of:

**Great Divide Insurance Company  
Scottsdale, Arizona**

Great Divide Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2009, by the North Dakota Insurance Department.

**SCOPE OF EXAMINATION**

This examination was a risk focused financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2010, to and including December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Our examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, we planned and performed the examination 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 Company, and evaluating system controls and procedures used to mitigate those risks. Our examination also included assessment of the accounting principles used and significant estimates made by management as well as the evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles, annual statement instructions, and, when applicable, to domestic state regulations.

Concurrent examinations were made of the following W.R. Berkley Corporation (WRBC) affiliated property and casualty insurance companies (Group) that are direct writers:

<u>Affiliate</u>	<u>Domicile</u>
Nautilus Insurance Company (NIC)	Arizona
Preferred Employers Insurance Company (PEIC)	California
Admiral Insurance Company (ADIC)	Delaware
Admiral Indemnity Company (ADINIC)	Delaware
Berkley Insurance Company (BIC)	Delaware
Berkley Regional Insurance Company (BRIC)	Delaware
Berkley Regional Specialty Insurance Company (BRSIC)	Delaware
Fireman's Insurance Company of Washington, D.C. (FIC)	Delaware
Gemini Insurance Company (GIC)	Delaware
Midwest Employers Casualty Company (MECC)	Delaware
StarNet Insurance Company (SIC)	Delaware
American Mining Insurance Company (AMIC)	Iowa
Berkley Assurance Company (BAC)	Iowa
Berkley Life and Health Insurance Company (BLHIC)	Iowa
Berkley National Insurance Company (BNIC)	Iowa
Carolina Casualty Insurance Company (CCIC)	Iowa
Clermont Insurance Company (CCIC)	Iowa
Continental Western Insurance Company (CWIC)	Iowa
Union Insurance Company (UIC)	Iowa
Riverport Insurance Company (RIC)	Minnesota
Tri-State Insurance Company of Minnesota (TSIC)	Minnesota
Acadia Insurance Company (AIC)	New Hampshire
Key Risk Insurance Company (KRIC)	North Carolina
Union Standard Lloyds (USL)	Texas

INS Consultants, Inc. performed an independent reserve analysis on a group basis for all the direct writers shown above, including the Company. The information system review for the group was performed by INS Services, Inc.

Work papers provided by the Company's independent auditor, KPMG, LLP, were reviewed and where deemed appropriate certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

## **STATUS OF PRIOR EXAMINATION FINDINGS**

Our examination included a review to identify any exception conditions commented upon in the preceding examination that covered the period from January 1, 2008, to December 31, 2009. No exception conditions were noted for further review.

## SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

## SUBSEQUENT EVENTS

No significant subsequent events were noted during the examination.

## HISTORY

### General

The Company was originally incorporated on April 10, 1903, under the laws of the State of North Dakota by the Retail Dealers Association of North Dakota and Northern Minnesota. The Company began operations on May 15, 1903, as the Implement Dealers Mutual Fire insurance Company. In 1949 the Company changed its name to the Implement Dealers Mutual Insurance Company. Effective June 1, 1986, the Company was converted from a mutual to a stock company, which was incorporated on April 29, 1986, and the name changed to American West Insurance Company. On May 20, 1988, Tri-State Insurance Company of Minnesota, a wholly owned subsidiary of WRBC, acquired American West Insurance Company. On June 13, 1991, the Company's name was changed to Great Divide Insurance Company.

Effective July 1, 1991, NIC acquired ownership of the Company. NIC is a wholly owned subsidiary of ADIC, a Delaware corporation, which is a wholly owned subsidiary of WRBC.

Effective January 1, 2013, ADIC acquired direct ownership of the Company. This ownership change was associated with an intercompany pooling reorganization.

Effective September 30, 2013, BIC acquired ownership of the Company.

During the period under examination, Scottsdale, Arizona, served as the administrative office of the Company.

The Company's primary purpose is to engage in the business of property and casualty insurance.

### Capital Stock

The Company's Amended and Restated Articles of Incorporation authorize the Company to issue 6,000,000 shares of common capital stock with a par value of \$1.00 per share for a total capital paid up of \$6,000,000.

Effective January 1, 2013, ownership of the Company was transferred via an ordinary and an extraordinary dividend distribution of the Company's stock from NIC to ADIC. The dividend distributions totaled \$70.1 million. This amount was equal to the Company's surplus as of September 30, 2012.

Effective September 30, 2013, ownership of the Company was transferred via an ordinary and an extraordinary dividend distribution of the Company's stock from ADIC to BIC. The dividend distributions totaled \$66.6 million. This amount was equal to the Company's surplus as of June 30, 2013.

At December 31, 2013, the Company reported all 6,000,000 shares as issued to BIC.

**Dividends to Stockholders**

The Company paid the following ordinary dividends during the examination period:

<u>Date</u>	<u>Dividend Amount</u>	<u>Stockholder</u>
October 10, 2012	\$6,000,000	NIC
September 28, 2011	\$6,854,568	NIC
September 27, 2010	\$6,973,203	NIC

**Board of Directors**

The Bylaws provide that the number of directors shall be established by the Board of Directors or by action of the stockholders but shall not be less than seven. Directors shall be elected at the annual meeting of the stockholders and each director shall serve until his successor is elected and qualified.

Directors serving at December 31, 2013, were as follows:

<u>Name and Address</u>	<u>Business Affiliations</u>
William R. Berkley, Jr. Greenwich, CT	President and Chief Operating Officer WRBC
Eugene G. Ballard Katonah, NY	Senior Vice President and Chief Financial Officer WRBC
Robert C. Hewitt Ardsley, NY	Senior Vice President, Excess and Surplus Lines WRBC
Ira Seth Lederman Bedford, NY	Senior Vice President, General Counsel, and Secretary WRBC
James S. Carey Medford, NJ	President and Chief Executive Officer ADIC
Thomas M. Kuzma Scottsdale, AZ	President and Chief Executive Officer NIC and the Company
Michael J. Kilgas Scottsdale, AZ	Senior Vice President of Claims NIC and the Company

## **Officers**

The Bylaws provide that the elected officers of the Company shall be a President, a Vice President, a Treasurer, and a Secretary. Officers serving at December 31, 2013, were as follows:

<b><u>Name</u></b>	<b><u>Title</u></b>
Thomas M. Kuzma	President and Chief Executive Officer
Miklos F. Kallo	Senior Vice President, Treasurer and Chief Financial Officer
Janet L. Shemanske	Vice President and Secretary

## **Conflict of Interest**

The Company has adopted a Code of Business Conduct and Ethics. This policy states that every employee, officer and director read and understand the Code and its application to the performance of his or her business responsibilities. All employees must sign an acknowledgement that they have received and read a copy of the Code as a condition of employment and may be asked to reaffirm their receipt of the document at the discretion of the Company.

An examination of the compliance certificates noted the Company to be in substantial compliance with its code of conduct and conflict of interest policies.

## **Corporate Records**

There were no amendments to the Bylaws or Articles of Incorporation during the period under examination.

## **CORPORATE GOVERNANCE**

The minutes of the stockholder and Board of Directors actions for the period under examination were reviewed. The Board meets three times a year and all actions are voted upon.

As part of the Group, the Company is ultimately governed and overseen by the WRBC Board of Directors and its management team. The nine WRBC directors included seven members with outside affiliations and two senior WRBC officers.

The WRBC Board of Directors approves the strategic direction of the Company's business and financial objectives, monitors the effectiveness of management's implementation of policies and plans and provides oversight and support in achieving corporate objectives.

The WRBC Board of Directors has five standing committees. These committees include executive, audit, investment, compensation, and governance and nominating. Each committee consists of three or more members, and all report to the WRBC Board of Directors.

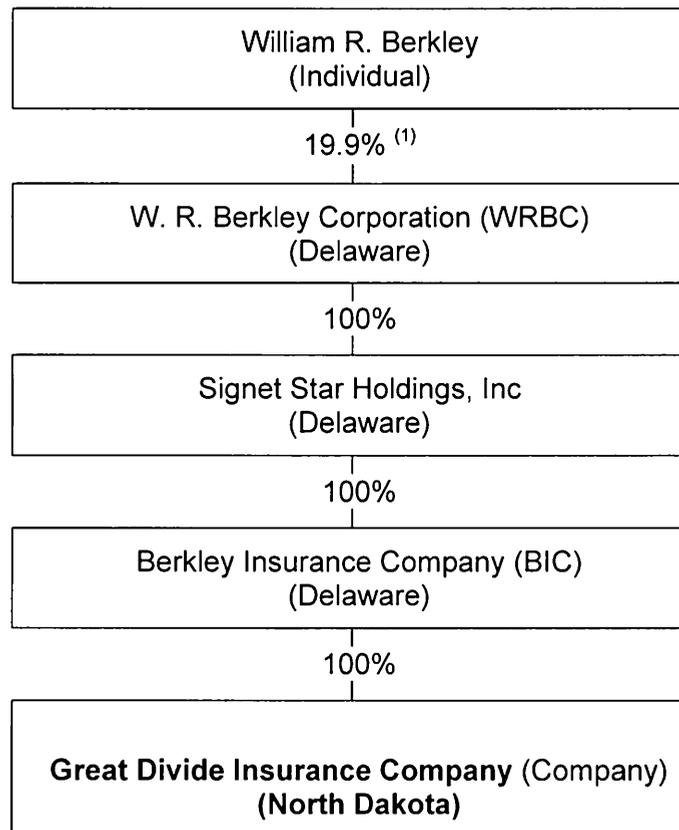
## AFFILIATED COMPANIES

### General

The Company is wholly owned by BIC, a Delaware domiciled insurer, which is wholly owned by WRBC.

### Organizational Chart

An abridged organizational chart listing the Holding Company System in which the Company is a member as of December 31, 2013, is as follows:



(1) As of March 25, 2014, pursuant to W. R. Berkley Corporation Proxy Statement dated April 7, 2014.

## INTERCOMPANY AGREEMENTS

The Company does not have any direct employees. All services used by the Company are provided by BIC through an intercompany pooling agreement. See the description of the intercompany pooling agreement in the reinsurance section of this report. The Company had the following significant related party agreements in force:

### **Investment Advisory Agreement**

Effective April 5, 1996, the Company entered into an Investment Advisory Agreement with Berkley Dean & Company (Berkley Dean), an affiliate, whereby Berkley Dean is appointed the Company's investment advisor and manager with authority to supervise and direct the investment and reinvestment of its securities in accordance with the Company's investment objectives. The securities under management by Berkley Dean are held in a custodial account maintained by JP Morgan Chase pursuant to a Custodial Agreement with the Company. Advisory fees are paid quarterly at an annual rate of not less than 0.15 of one percent based on a sliding scale of assets under management. The agreement can be terminated by either party with at least 90 days written notice prior to each anniversary

### **Consolidated Federal Income Tax Allocation Agreement**

On May 19, 1988, the Company entered into a Tax Allocation Agreement with W. R. Berkley Corporation providing for the allocation of the tax liability reported on the consolidated federal income tax return of WRBC. The Company's tax liability is calculated on a stand-alone basis. Payments due under the agreement are made quarterly on or before the 45<sup>th</sup> day following each calendar quarter. If at any quarterly payment date, the Company has a credit balance outstanding which has been outstanding for more than one year, WRBC shall pay any credit amount to the Company. The payment may be deferred for a period not to exceed three years provided WRBC issues a note evidencing the obligation with interest.

### **Underwriting Management Agreements**

The Company has various agreements with affiliated regional underwriting offices across the country. Generally these agreements appoint the regional underwriting offices as the Company's legal representative and lawful attorney for the purpose of producing, underwriting, and servicing specific commercial property and casualty business in the region. Under the terms of these agreements settlement occurs within 30 days after each calendar quarter. The agreements may be canceled by either party with 90 days prior written notice.

One such agreement with Berkley Specialty Underwriting Management LLP (BSUM) produces the majority of the Company's direct written premium.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is insured under a blanket fidelity bond issued to W. R. Berkley Corporation and its subsidiaries. The bond provides coverage in the amount of \$15 million for individual claims and \$15 million for all claims. The coverage exceeds the National Association of Insurance Commissioners' recommended minimum amount of fidelity bond coverage for the Company.

The company does not maintain any other insurance coverage since it has no employees nor does it own any assets other than investments. All operations are performed by affiliates for which the company reimburses them in the form of management fees.

## STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2013:

State	Type of Asset	Statement Value	Fair Market Value
Alabama	Bonds	\$ 221,061	\$ 232,356
Arkansas	Bonds	373,726	478,476
California	Bonds	8,746,937	9,139,778
Delaware	Bonds	101,007	134,867
Georgia	Bonds	85,856	114,637
Idaho	Bonds	280,275	303,686
Massachusetts	Bonds	172,087	195,229
Mississippi	Bonds	55,265	58,089
Montana	Bonds	28,027	30,369
Nevada	Bonds	322,829	338,306
New Mexico	Bonds	331,591	348,534
North Carolina	Bonds	305,304	317,850
North Dakota	Bonds*	2,631,172	2,804,307
Oklahoma	Bonds	305,304	317,850
Oregon	Bonds	948,202	994,483
Virginia	Bonds	<u>213,713</u>	<u>222,495</u>
Total Deposits		<u>\$15,122,356</u>	<u>\$16,031,312</u>

\* Held for benefit of all policyholders

## INSURANCE PRODUCTS

As of December 31, 2013, the Company was licensed as a direct carrier in the District of Columbia and all states except Arizona where it is licensed as a surplus lines carrier.

## GROWTH OF COMPANY

The following represents the Company's direct written premium activity as it relates to surplus since 2009:

	2013	2012	2011	2010	2009
Direct	\$ 248,947,073	\$238,370,669	\$187,685,010	\$141,336,668	\$99,289,590
Affiliate Assumed	(19,502,743)	52,267,622	42,037,486	32,743,093	22,645,573
Assumed	5,313,806	3,639,593	2,327,659	1,007,424	1,325,374
Affiliate Ceded	256,644,546	238,708,003	189,080,116	142,864,196	99,827,664
Ceded	(1,263,305)	2,478,791	1,386,565	1,054,995	1,056,232
Net	\$ (20,623,105)	\$ 53,091,090	\$ 41,583,474	\$ 31,167,993	\$22,376,641
Surplus	\$ 65,730,523	\$ 65,277,726	\$ 65,486,166	\$ 68,545,683	\$69,732,034
Premiums to Surplus	(31.4%)	81.3%	63.5%	45.5%	32.1%

## LOSS EXPERIENCE

The following represents the five-year history of the Company's loss reserves:

	2013	2012	2011	2010	2009
Loss Reserves	\$ 0	\$ 46,427,964	\$ 35,943,647	\$ 29,224,282	\$ 26,312,693
LAE Reserves	0	14,721,601	12,206,465	11,030,584	9,857,141
Total Reserves	\$ 0	\$ 61,149,565	\$ 48,150,112	\$ 40,254,866	\$ 36,169,834
Loss Incurred	\$ 0	\$ 27,000,774	\$ 18,597,475	\$ 11,396,796	\$ 8,768,830
LAE Incurred	0	7,667,960	4,896,466	3,804,493	3,222,627
Total Loss Incurred	\$ 0	\$ 34,668,734	\$ 23,493,941	\$ 15,201,289	\$ 11,991,457

## CEDED REINSURANCE

### Intercompany Reinsurance Pooling Agreement

Effective January 1, 2013, BIC entered into an intercompany reinsurance pooling agreement (Pooling Agreement) with 19 of its U.S. property casualty insurance company subsidiaries listed below. Under the Pooling Agreement, the participants ceded and transferred to BIC, and BIC assumed and accepted as its own obligation, 100% of the Pool affiliates' respective liabilities on all insurance policies and all assumed reinsurance contracts that were in force as of January 1, 2013, or that had expired or had been terminated or nonrenewed as of January 1, 2013; and 100% of the Pool affiliates' respective liabilities on all insurance policies and all assumed reinsurance contracts issued subsequent to January 1, 2013.

The participants in the Pooling Agreement are as follows:

Acadia Insurance Company (AIC, Company) (NH)  
Admiral Insurance Company (ADIC)(DE)  
American Mining Insurance Company (AMIC) (IA)  
Berkley Assurance Company (BAC) (IA)  
Berkley National Insurance Company (BNIC) (IA)  
Berkley Regional Insurance Company (BRIC) (DE)  
Berkley Regional Specialty Insurance Company (BRSIC) (DE)  
Carolina Casualty Insurance Company (CCIC) (IA)  
Continental Western Insurance Company (CWIC) (IA)  
Fireman's Insurance Company of Washington, D.C. (FIC) (DE)  
Gemini Insurance Company (GIC) (DE)  
Great Divide Insurance Company (GDIC) (ND)  
Key Risk Insurance Company (KRIC) (NC)  
Midwest Employers Casualty Company (MECC) (DE)  
Nautilus Insurance Company (NIC) (AZ)  
Riverport Insurance Company (RIC) (MN)  
StarNet Insurance Company (SIC) (DE)  
Tri-State Insurance Company of Minnesota (TSIC) (MN)  
Union Insurance Company (UIC) (IA)

The Companies listed below are not participants in the intercompany reinsurance pooling agreement; they do have a 100% quota share agreements with BIC.

Admiral Indemnity Company (ADINIC) (DE)  
Berkley Life and Health Insurance Company (BLHIC) (IA) DELETE  
Clermont Insurance Company (CCIC) (IA)  
Preferred Employers Insurance Company (PEIC) (CA)  
Union Standard Lloyds (USL) (TX)

Commercial property and casualty lines of business subject to the pooling include general liability, excess, umbrella, automobile, property, products liability, workers' compensation and professional liability lines. These are written on both a surplus lines and/or admitted basis.

All cessions to nonaffiliated reinsurers of business subject to the Pooling Agreement are made subsequent to the cession of pooled business from the participants. Nonaffiliate reinsurance includes excess of loss, quota share and facultative reinsurance contracts.

For nonaffiliated reinsurance agreements entered into prior to January 1, 2013, the participants have a contractual right of direct recovery from nonaffiliated reinsurers. Nonaffiliated reinsurance agreements entered into after December 31, 2012, are between BIC and the nonaffiliated reinsurers. All previous intercompany reinsurance arrangements were replaced by the pooling agreement described above.

## **ACCOUNTS AND RECORDS**

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2013, was extracted

from the general ledger and traced to the appropriate schedules of the Company's 2013 annual statement. The Company's ledgers are maintained electronically. Revenues and expenses were tested to the extent deemed necessary.

## **FINANCIAL STATEMENTS**

The following pages present the Company's financial statements as of December 31, 2013, and an analysis of examination changes in the following order:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2013

Underwriting and Investment Exhibit, Year Ended December 31, 2013

Reconciliation of Capital and Surplus, January 1, 2010 through December 31, 2013

**Great Divide Insurance Company**  
**Statement of Assets, Liabilities, Surplus, and Other Funds**  
**as of December 31, 2013**

	<b>Ledger Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 69,939,777		\$ 69,939,777
Cash and cash equivalents	75,155		75,155
Short-term investments	427,115		427,115
Receivable for securities	5,000		5,000
Investment income due and accrued	735,235		735,235
Uncollected premium and agents balances in the course of collection	33,761,212	\$2,932,863	30,828,349
Deferred premiums, agents balances, and installments booked but not yet due	15,663,038		15,663,038
Accrued retrospective premiums	71,202,146	4,161,982	67,040,163
Net deferred tax asset	2,602,414	103,203	2,499,212
Guaranty Funds receivable or on deposit	2,915		2,915
Receivables from parent, subsidiaries and affiliates	1,410,915		1,410,915
Aggregate write-ins:			
Miscellaneous receivable	1,193,892	346,741	847,151
<b>Total Assets</b>	<b>\$197,018,814</b>	<b>\$7,544,789</b>	<b>\$189,474,025</b>

**Great Divide Insurance Company**  
**Statement of Assets, Liabilities, Surplus, and Other Funds**  
**as of December 31, 2013**

Losses		\$ 0
Reinsurance payable on paid losses and LAE		383,768
Loss adjustment expenses		0
Commissions payable, contingent commissions and other similar charges		3,856,413
Other expenses		30,759
Taxes, licenses, and fees		4,139,959
Current federal and foreign income taxes		438,512
Ceded reinsurance premiums payable		113,223,556
Amounts withheld or retained by company		9,454
Remittances and items not allocated		(4,743)
Payable to parent, subsidiaries, and affiliates		1,496,972
Aggregate write-ins:		
Deferred revenue on investments		168,852
Total Liabilities		<u>\$123,743,502</u>
Common capital stock	\$ 6,000,000	
Gross paid-in and contributed surplus	24,895,749	
Unassigned funds (surplus)	<u>34,834,774</u>	
Surplus as regards policyholders		<u>65,730,523</u>
Total		<u>\$189,474,025</u>

**Great Divide Insurance Company  
Underwriting and Investment Exhibit  
for the Year Ended December 31, 2013**

**Underwriting Income**

Premiums earned		\$ 0
<b>Deductions</b>		
Losses incurred	\$ 0	
Loss expenses incurred	0	
Other underwriting expenses incurred	0	
Total Underwriting Deductions		0
Net Underwriting Gain or (Loss)		\$ 0

**Investment Income**

Net investment income earned	\$ 2,490,822	
Net realized capital, gains or (losses)	505,982	
Net Investment Gain or (Loss)		\$ 2,996,804

**Other Income**

Net gain from premium balances recovered	\$ 202,454	
Write-in for other income	(202,454)	
Total other income		\$ 0

Net income before federal income taxes		\$ 2,996,804
Federal income taxes incurred		(3,725,881)
Net Income		\$ 6,722,685

**Great Divide Insurance Company**  
**Reconciliation of Capital and Surplus Account**  
**January 1, 2010 through December 31, 2013**

	For years ending			
	2013	2012	2011	2010
Capital and surplus, December 31, prior year	<u>\$65,277,726</u>	<u>\$65,486,166</u>	<u>\$68,545,683</u>	<u>\$69,732,034</u>
Net income	6,722,685	4,595,148	4,136,305	5,321,922
Change in net unrealized capital gain (loss) less capital gains tax	101,297	116,183	19,719	(302,593)
Change in net deferred income tax	(3,003,269)	1,329,731	939,490	17,032
Change in non-admitted assets	(3,201,159)	(249,874)	(1,314,759)	765,938
Change in provision for reinsurance	2,091	372	14,296	(15,448)
Dividends to Stockholders	0	(6,000,000)	(6,854,568)	(6,973,202)
Write-in for deferred revenue on investment	<u>(168,848)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>452,797</u>	<u>(208,440)</u>	<u>(3,059,517)</u>	<u>(1,186,351)</u>
Capital and surplus, December 31, current year	<u>\$65,730,523</u>	<u>\$65,277,726</u>	<u>\$65,486,166</u>	<u>\$68,545,683</u>

## CONCLUSION

The financial condition of the Company, as of December 31, 2013, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$189,474,025</u>
Total Liabilities	\$123,743,503	
Surplus as Regards Policyholders	<u>65,730,523</u>	
Liabilities, Surplus, and Other Funds		<u>\$189,474,025</u>

No change was made in the amounts reported by the Company in its 2013 annual statement.

Since the last examination conducted as of December 31, 2009, the Company's admitted assets have increased \$27,503,702, its total liabilities have increased \$31,505,213, and its surplus as regards policyholders has decreased \$4,001,511.

Respectfully submitted,



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Peter Bliss, CFE  
Examiner-In-Charge  
INS Regulatory Insurance Services, Inc.