

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

**REPORT OF EXAMINATION  
OF  
SURETY LIFE AND CASUALTY  
INSURANCE COMPANY  
FARGO, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 2011**

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

**Surety Life and Casualty Insurance Company**

**Fargo, North Dakota**

as of December 31, 2011, 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 11<sup>th</sup> day of April, 2013.

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

## TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
STATUS OF PRIOR EXAM FINDINGS .....	2
SUMMARY OF SIGNIFICANT FINDINGS .....	2
HISTORY.....	2
General.....	2
CAPITALIZATION.....	3
MANAGEMENT AND CONTROL .....	3
Ultimate Control.....	3
Annual Shareholders Meetings .....	3
Board of Directors .....	4
Officers .....	4
Committees.....	5
CORPORATE RECORDS .....	7
Minutes of Meetings.....	7
Conflict of Interest.....	7
FIDELITY BOND AND OTHER INSURANCE .....	7
TERRITORY AND PLAN OF OPERATION.....	7
TREATMENT OF POLICYHOLDERS AND CLAIMANTS .....	8
REINSURANCE.....	8
Assumed Reinsurance.....	8
Ceded Reinsurance .....	9
RELATED PARTY TRANSACTIONS.....	9
Professional Insurance Services Inc. ....	9
GROWTH OF COMPANY .....	9
ACCOUNTS AND RECORDS, .....	10
FINANCIAL STATEMENTS .....	10
COMMENTS TO THE FINANCIAL STATEMENTS.....	16
Aggregate Reserve for Life Policies and Contracts .....	16
Aggregate Reserve for A&H Policies.....	16
Policy and Contract Claims: Life .....	16
Policy and Contract Claims: A&H.....	16
CONCLUSION.....	17
RECOMMENDATIONS.....	18

February 28, 2013  
Fargo, North Dakota

Honorable Adam Hamm  
Commissioner of Insurance  
State of North Dakota  
600 East Boulevard Avenue, Dept. 401  
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, an examination was made of the books, records and financial condition of

**Surety Life and Casualty Insurance Company  
Fargo, North Dakota**

Surety Life and Casualty Insurance Company (hereinafter referred to as "the Company") was last examined as of December 31, 2006, by representatives of 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, to assure its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the five-year period beginning January 1, 2007, and ending December 31, 2011, 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. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles, annual statement instructions, and when applicable, domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the A.M. Best rating report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to significant adverse findings, material changes in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

## STATUS OF PRIOR EXAM FINDINGS

The last report of examination as of December 31, 2006, had four recommendations for the Company. All recommendations made in the prior report of statutory examination have been adequately addressed by the Company with the following exception:

<b>Recommendation</b>	<b>Action Taken by Company</b>
It is recommended the Company immediately initiate procedures to obtain adequate insurance coverages to comply with the NAIC suggested minimum fidelity bond coverage and provide for adequate coverage for employee Errors and Omissions.	The Company purchased a Fidelity bond which meets the NAIC suggested minimum but did obtain Errors and Omissions coverage.

## SUMMARY OF SIGNIFICANT FINDINGS

There were no findings noted in this examination that were considered significant. Findings considered material are summarized in the Recommendations section of this report.

## HISTORY

### General

The Company originally organized as Surety Mutual Health and Accident Insurance Association under Chapter 19, North Dakota Compiled Laws of 1913 (and amendments thereto on October 30, 1935) and commenced business on June 10, 1936. It began by writing accident and health insurance coverage on the assessment plan.

In 1950, the Company reorganized as a legal reserve mutual life insurance company under Chapter 26-08, of the amended North Dakota Revised Code of 1943, and the name of the Company was changed to Surety Mutual Life and Casualty Insurance Company. As such, it additionally was allowed to carry insurance upon the lives of persons, including every kind of insurance pertaining thereto.

On March 31, 2004, the Company demutualized and became a stock life insurer, and the name of the Company was changed to Surety Life and Casualty Insurance Company.

## CAPITALIZATION

After demutualization, the Company amended its Articles of Incorporation to become a stock life insurance company and authorized the issuance of up to 2,000,000 shares of \$1.00 par value capital common stock. Currently 1,082,000 shares have been issued and are outstanding, all currently owned by Duane Steffes and other members of his family. The following table reflects the Company's capitalization activity since the date of demutualization on March 31, 2004:

Item Reference	Year	Amount Contributed	Capital Stock	Gross Paid-In & Contributed Surplus
(1)	2004	\$ 105,421	\$ -	\$ 105,421
(2)	2004	1,396,800	582,000	814,800
(3)	2008	1,200,000	500,000	700,000
Totals as of December 31, 2011			\$1,082,000	\$1,620,221

- (1) Contribution carry-over resulting from demutualization
- (2) Initial capitalization 582,000 shares issued
- (3) Duane Steffes' additional purchase of 500,000 shares in 2008

## MANAGEMENT AND CONTROL

### Ultimate Control

The ultimate controlling person is Duane Steffes, a general agent living in Bismarck, North Dakota, who owns 1,000,000 of the issued and outstanding shares of the Company's capital stock. The other individuals who own capital stock are:

John or Cindy Steffes	41,000 shares
Clarence or Mar-Jo Steffes	41,000 shares

### Annual Shareholders Meetings

The corporate Bylaws indicate the annual meeting of the shareholders be held on the fourth Friday of March in each year at the hour of 2:00 p.m. for the purpose of electing a Board of Directors and for the transaction of such other business as may come. Special meetings of the shareholders may be called by the Chief Executive Officer, the Board of Directors, or by shareholders holding 25 percent or more of the voting power of the Company. A majority of the votes entitled to be cast on a matter at the meeting constitutes a quorum. If a quorum is present when a vote is taken, action on a matter is approved if the votes cast in favor of the action

exceed the votes cast in opposition to the action, unless a greater number is required by law, the Articles of Incorporation or the Bylaws.

### **Board of Directors**

The Bylaws specify that the business and affairs of the Company be managed by a Board of Directors consisting of no less than 6 or more than 18 members. The number of serving Directors may be adjusted by the Board from time to time. Eligible individuals cannot be retired or have reached their 70<sup>th</sup> birthday by the election date. Directors are elected at the annual meeting of the shareholders for one-year terms.

The Bylaws indicate the annual meeting of the Board of Directors is to be held as soon as practical after the annual meeting of the shareholders. Meetings of the Board of Directors, other than the annual meeting, may be held regularly once each year, in accordance with a duly adopted resolution or motion of the Board of Directors. Special meetings may be called by the Chief Executive Officer of the Corporation, the Chairman of the Board, or any Director upon five days notice. The presence of at least those Directors representing at least 51% of the Director positions then authorized shall be necessary to constitute a quorum for the transaction of any business, except the filing of vacancies.

Individuals elected and serving on the Company's Board of Directors at December 31, 2011, together with their addresses and business affiliations are as follows:

<u>Name and Address</u>	<u>Business Affiliations</u>
Duane Steffes Bismarck, ND	President and Chief Executive Officer of the Company President, Professional Insurance Services, Inc.
Sharon Berg Fargo, ND	Secretary, Treasurer & Office Manager Surety Life & Casualty Insurance Company
Lance Boyer Bismarck, ND	Vice President of the Company Insurance Agent & Sales Manager Professional Insurance Services, Inc.
Lewis Schock Bismarck, ND	Insurance Agent Professional Insurance Services, Inc.
John Steffes Lisbon, ND	Factory Worker Bobcat Company
Ryan Subart Bismarck, ND	Insurance Agent Professional Insurance Services, Inc.

### **Officers**

The Bylaws indicate the officers of the Company are to be elected at the annual meeting of the Board of Directors to serve for one year. The officers of the Company are to consist of a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, and a Treasurer.

Individuals elected as officers and serving their respective duties as of December 31, 2011, are as follows:

<u>Name</u>	<u>Title</u>
Duane Steffes	Chairman of the Board, President and Chief Executive Officer
Lance Boyer	Vice President
Sharon Berg	Secretary and Treasurer

### **Committees**

The current corporate Bylaws require the Board of Directors to appoint individuals to four standing committees during its annual Board meeting, and also allows the Board of Directors to form other special committees that may be deemed necessary from time to time. The Company's Chief Executive Officer is an ex-officio member of each standing committee.

No special committees were formed during the examination period currently under review. A synopsis of each standing committee and those individuals appointed to each committee and serving at December 31, 2011, are as follows:

Executive Committee – During the intervals between meetings of the Board of Directors and subject to any limitations imposed by law, the Articles of Incorporation, or the Bylaws, the Executive Committee has and may exercise all the authority of the Board of Directors in the management of the Company. However, no action can be taken that will conflict with the expressed policies of the Board of Directors. Membership is to consist of the Chairman of the Board and not less than two or more than seven other members of the Board of Directors. No member of the committee may continue as such after he or she ceases to be a member of the Board of Directors. The Chairman of the Board is to be the Chairman of the Committee. A Vice Chairman may be designated by the committee. The committee is to select a Secretary from among its members to keep accurate minutes of all meetings. The minutes are to be presented for approval at the next regular meeting of the Board of Directors. Those members serving on this Committee as of December 31, 2011, were as follows:

Duane Steffes  
Sharon Berg  
Lance Boyer

Finance Committee – Except as otherwise provided in the Bylaws, and subject to law and to the general control of the Board of Directors, this committee:

- Supervises, passes upon and authorizes the investment of all funds of the Corporation.
- Has the power to purchase and sell or otherwise acquire or dispose of real estate bonds, mortgages, securities or other investments.
- Authorizes and directs conveyances of real estate and interests therein and thereunder, including the execution of deeds, leases, releases, discharges, and other related documents.

- Directs all other things necessary or incidental to the authorization, acquisition, supervision, control and disposition of all the investments of the corporation.
- Performs such other duties as these Bylaws or the Board of Directors may prescribe.

This committee is to consist of the Chief Executive Officer, not less than two other members of the Board of Directors and not more than two officers of the Company who are not members of the Board of Directors. The committee is to select a Secretary, who need not be a member of the committee, but who will keep accurate minutes of all meetings. The minutes are to be presented for approval to the next regular meeting of the Board of Directors. Those members serving on this committee as of December 31, 2011, were as follows:

Duane Steffes  
Sharon Berg  
Lance Boyer

Audit Committee – This committee recommends the selection of independent certified public accountants for the fiscal year to the Board of Directors, and:

- Engages the independent auditors selected by the voting members.
- Is responsible for establishing the independent audit, and review the results of the independent audit prior to presentation to the Board of Directors.
- Is responsible for establishing the scope of the internal audit function, reviewing internal controls and following up on deficiencies noted.
- Confers with internal auditing, independent auditors, and other consultants as deemed necessary on significant audit findings and shall report and make recommendations to the Board of Directors as necessary.

This committee is to consist of three Board members. Those members serving on this committee as of December 31, 2011, were as follows:

Duane Steffes  
Sharon Berg  
Lance Boyer

Compensation and Nominating Committee – This committee reviews all senior executive management personnel of the Company who earn \$50,000 or more in salary, bonuses, and other forms of compensation. It also reviews salary and performance compensation levels, employee benefit plans, stock option plans (if any), and other compensation related programs of the Company and shall make recommendations to the Board of Directors as to modifications or additions to existing plans and programs as well as specific compensation levels of senior executive management personnel. Committee participation must consist of no fewer than three or more than seven members. Those members serving on the Compensation and Nominating Committee as of December 31, 2011, were as follows:

Duane Steffes  
Sharon Berg  
Lance Boyer

## CORPORATE RECORDS

### Minutes of Meetings

The minutes of the meetings held by all of the Company's governing bodies were reviewed for the entire period currently under examination.

### Conflict of Interest

In 2004 the Company implemented a procedure for disclosure to the appropriate governing bodies of the Company actions or transactions involving the Company's management that would constitute a conflict of interest. The statements were reviewed for the examination period and no conflicts were disclosed in the statements.

## FIDELITY BOND AND OTHER INSURANCE

The Company's per person employee dishonesty coverage at December 31, 2011, was \$100,000. This amount currently meets the \$100,000 minimum amount recommended by the NAIC.

Other insurance coverages carried by the Company were reviewed and appeared to be adequate except that the Company does not carry either Directors and Officers liability nor employee Errors and Omissions coverage. This condition was noted in the previous examination as well.

**It is again recommended that the Company consider the need to obtain insurance coverages for Directors and Officers liability and for employee Errors and Omissions liability.**

## TERRITORY AND PLAN OF OPERATION

The Company currently is licensed in the States of Arizona, Montana, Nebraska, Nevada, North Dakota and South Dakota. It is considering obtaining licenses to operate in other neighboring states.

The Company marketed accident and health insurance products throughout the entire period under examination. The principal accident and health insurance products currently marketed are:

1. An Accident Protection Plan which provides a primary benefit for accidental death and dismemberment due to injury. Supplemental benefits include:
  - A death benefit (in lieu of the accidental death and dismemberment benefit) if death results from injuries suffered riding while in a common carrier.

- Numerous benefits for loss of income, hospital and outpatient medical expenses.
2. A Cancer Protection Plan which provides benefits for hospital confinement due to cancer and supplemental coverages for loss of income and outpatient hospital benefits due to cancer over a 25-year period. In 2002 the Company ceased marketing the old cancer policy and began issuing a new one with upgraded first occurrence benefits and per day payout increases. The policy comes in a cash value and non-cash value product. The cash value product reimburses the policyholder the policy cash value if there are no cancer claims within the 25-year in-force period.

In 2004, the Company again began to market whole life insurance to individuals between 45 years old and 85 years old. The death benefit ranges from \$10,000 to \$50,000 depending upon the age group. The products currently marketed are:

1. A Whole Life Plan that pays a full death benefit from the initial coverage effective date.
2. A Graded Whole Life Plan that pays a graduated increasing death benefit over the first three years of the policy and full death benefits beginning at the policy's fourth anniversary date.

The Company currently has 47 agents (30 subagents, 15 general agents and 2 salaried agents) at its disposal to market its products. The Company contracts directly with the general agents and the salaried agents, paying commissions to them at rates which vary by contract and also by the product sold. Sub-agents contract with and are paid by the general agents.

One of the general agents is Professional Insurance Services, Inc., which is owned and operated by Duane Steffes, the Company's majority shareholder and also the Company's Board Chairman, President, and Chief Executive Officer. Professional Insurance Services, Inc., also has three other individuals on the Company's Board of Directors and has subcontracted with 28 of the 30 subagents the Company has at its disposal. Further information pertaining to this relationship is discussed in this report under the subtitle "Related Party Transactions".

## **TREATMENT OF POLICYHOLDERS AND CLAIMANTS**

During the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. Additional procedures were performed to determine compliance with appropriate searches of death records before placing a policy on automatic premium loan status.

## **REINSURANCE**

### **Assumed Reinsurance**

The Company did not assume any insurance risk during the five-year period currently under review.

## Ceded Reinsurance

The Company no longer cedes any insurance risks. The last reinsurance agreements were terminated at the request of the reinsurer on December 31, 2003, due to the lack of sufficient volume of business being produced by the Company.

## RELATED PARTY TRANSACTIONS

### Professional Insurance Services, Inc.

As mentioned previously, Professional Insurance Services, Inc., is a general agency owned by Duane Steffes, the Company's majority shareholder and also the Company's Board Chairman, President and Chief Executive Officer. The Company and Professional Insurance Services, Inc., have had a relationship with each other since November 2001. In 2011, Professional Insurance Services, Inc., produced about 58.7% of the Company's business. Amounts paid during the examination period to Professional Insurance Services, Inc., by the Company are as follows:

<b>Year</b>	<b>Commissions Paid</b>	<b>Total Commissions Paid *</b>
2007	\$207,751	\$303,710
2008	232,287	325,163
2009	236,852	317,695
2010	218,954	302,101
2011	129,159	219,992

\* Per respective year's annual statement

## GROWTH OF COMPANY

The Company's growth and activities during the period under examination are depicted in the following chart:

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net Admitted Assets	\$8,757,847	\$8,271,712	\$7,676,167	\$6,496,590	\$5,016,404
Capital and Surplus	3,331,056	3,234,559	3,150,444	2,731,993	1,765,676
Direct Premiums Written	1,401,803	1,520,474	1,446,008	1,334,617	1,084,975
Assumed Premiums	-	-	-	-	-
Net Income	370,133	324,711	313,032	136,453	160,447

\* Net admitted assets and surplus increased in 2004 as a result of a capital infusion made after demutualization. Gross premiums written increased in 2006 mainly from increased sales of the new whole life insurance products.

## ACCOUNTS AND RECORDS

The Company uses various electronic accounting and data storage software products generally available to the public to prepare its financial reports and maintain supporting financial documentation and other records necessary to conduct business. It also uses the services of an outside actuarial firm to assist in the maintenance of actuarial data and prepare its annual actuarial opinion on the adequacy of its policy and claim reserves.

The Company writes products covered by the federal anti-money laundering statute (Code of Federal Regulations, Title 31, paragraph 103.137) and is, therefore, required to develop a written anti-money laundering plan which is approved by senior management. The plan must contain the following elements:

1. An assessment of money-laundering and terrorist financing risks associated with its covered products;
2. The appointment of an anti-money laundering compliance officer;
3. An anti-money laundering training program; and
4. Independent testing on a periodic basis.

At December 31, 2011 the Company did not have a written plan.

**It is again recommended that the Company develop a written anti-money laundering plan and that it be approved by senior management.**

## FINANCIAL STATEMENTS

The following statements and exhibits reflect the financial condition of the Company at December 31, 2011:

- Statement of Assets
- Liabilities Surplus and Other Funds
- Underwriting and Investment Exhibit – Statement of Income
- Underwriting and Investment Exhibit – Capital and Surplus Account
- Reconciliation of the Capital and Surplus account for the period under examination
- Analysis of Examination Changes

**Surety Life and Casualty Insurance Company**  
**Statement of Assets**  
**as of December 31, 2011**

	<b>Ledger Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$5,257,005	\$ -	\$5,257,005
Preferred stocks	394,578		394,578
Common stocks	1,201,995		1,201,995
First liens – mortgage loans on real estate	125,918		125,918
Real estate properties occupied by the Company (less \$0 encumbrances)	112,953		112,953
Cash	1,119,353		1,119,353
Contract loans (including \$0 premium notes)	175,032		175,032
Receivables for securities	-		-
<b>Subtotals – cash and invested assets</b>	<b>\$8,386,834</b>		<b>\$8,386,834</b>
Investment income due and accrued	100,799		100,799
Uncollected premiums and agents' balances in the court of collection (premiums and considerations)	1,529		1,529
Deferred premiums, agents' balances, and installments booked but deferred and not yet due (including \$0 earned but unbilled premiums) (premiums and considerations)	256,020		256,020
Current federal income tax recoverable	-		-
Net deferred tax asset	12,665		12,665
<b>Totals</b>	<b>\$8,757,847</b>		<b>\$8,757,847</b>

**Surety Life and Casualty Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**as of December 31, 2011**

**Liabilities**

Aggregate reserve for life contracts \$1,460,654 less \$0 including in coupons and similar benefits (including \$0 Modco reserve)	\$1,460,654
Aggregate reserve for accident and health contracts (including \$0 Modco reserve)	3,414,290
Life claims	2,500
Accident and health claims	72,504
Premiums and annuity considerations for life and accident and health contracts received in advance less \$0 discount; including \$12,109 accident and health premium	12,398
Interest maintenance reserve	106,616
General expenses due or accrued	16,155
Taxes, licenses and fees due or accrued, excluding federal income taxes	24,030
Current federal and foreign income taxes including \$0 on realized capital gains (losses)	826
Unearned investment income	6,774
Amounts withheld or retained by company as agent or trustee	10,385
Remittances and items not allocated	-
Asset valuation reserve	<u>299,659</u>
Total liabilities	\$5,426,791

**Capital and Surplus**

Common capital stock	1,082,000
Gross paid in and contributed surplus	1,620,221
Unassigned funds (surplus)	<u>628,835</u>
Surplus (including \$0 in Separate Accounts statement)	\$2,249,056
Totals of common and preferred stock and surplus	<u>3,331,056</u>
Total Liabilities and Surplus	<u>\$8,757,847</u>

**Surety Life and Casualty Insurance Company**  
**Summary of Operations**  
**For the Year Ended December 31, 2011**

**Statement of Income**

**Income:**

Premiums and annuity considerations for life and accident and health contracts	\$1,401,803
Net investment income	447,492
Amortization of Interest Maintenance Reserve (IMR)	6,636

Total Income \$1,855,931

**Benefits Incurred:**

Death benefits	165,500
Disability benefits and benefits under accident and health contracts	285,611
Surrender benefits and withdrawals for life contracts	32,704
Interest and adjustments on contract or deposit-type contract funds	412
Increase in aggregate reserves for life and accident and health contracts	406,471

Totals \$ 890,698

**Other Incurred Expenses:**

Commissions on premiums; annuity considerations and deposit-type contract funds (direct business only)	219,992
General insurance expenses	367,652
Insurance taxes; licenses and feeds; excluding federal income taxes	54,913
Increase in loading on deferred and uncollected premiums	(10,187)

Total Expenses \$1,523,068

Net gain from operations before federal income taxes 332,863

Federal and foreign income taxes incurred (excluding tax on capital gains) 48,259

Net gain from operations after federal income tax and before realized capital gains or (losses) \$ 284,604

Net realized capital gains or (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax of \$13,463 (excluding taxes of \$(58) transferred to the IMR) 85,529

Net income (net gain from operations after net realized capital gains or (losses)) \$ 370,133

**Surety Life and Casualty Insurance Company**  
**Reconciliation of Capital and Surplus Account**  
**January 1, 2007, through December 31, 2011**

	2011	2010	2009	2008	2007
Capital and surplus, December 31 prior year	\$3,234,559	\$3,150,444	\$2,731,993	\$1,765,676	\$1,625,770
Net income	370,133	324,711	313,032	136,453	160,447
Change in net unrealized capital gains or (losses)	(51,562)	88,681	300,299	(272,149)	(15,762)
Change in net deferred income tax	(6,888)	(780)	4,523	10,208	1,830
Change in asset valuation reserve	1,214	(57,997)	(199,403)	21,645	(6,609)
Paid in (capital changes)				500,000	
Paid in (surplus)				700,000	
Dividends to stockholders	(216,400)	(270,500)		(129,840)	
Net change in capital and surplus for the year	\$ 96,497	\$ 84,115	\$ 418,451	\$ 966,317	\$ 139,906
Capital and surplus, December 31 current year	<u>\$3,331,056</u>	<u>\$3,234,559</u>	<u>\$3,150,444</u>	<u>\$2,731,993</u>	<u>\$1,765,676</u>

**Surety Life and Casualty Insurance Company  
Analysis of Examination Changes  
For the Year Ended December 31, 2011**

This Report of Examination proposes no examination adjustments.

## COMMENTS TO THE FINANCIAL STATEMENTS

Required comments pertaining to the Company's policy and claim reserves as of December 31, 2011, are included in this section of the examination report. Other areas are commented upon only if financial changes or other special explanations were considered necessary.

### **Aggregate Reserve for Life Policies and Contracts**

The Company reflects \$1,460,654 as its estimate for policy reserves on life policies and contracts in-force as of year-end 2011 net of any existing applicable reinsurance. The amount is estimated by the Company's outside consulting actuary. Testing performed by an actuary contracted for the exam indicates this estimate was reasonable and computed in accordance with accepted actuarial practices and applicable statutory accounting guidelines.

### **Aggregate Reserve for A&H Policies**

The Company reflects \$3,414,290 as its estimate for policy reserves on accident and health contracts in-force as of year-end 2011 net of any existing applicable reinsurance. The amount includes \$58,033 of unearned premium reserves and does not include any provision for claim reserves. The amount is estimated by the Company's outside consulting actuary. Testing performed indicates this estimate was reasonable and computed in accordance with accepted actuarial practices and applicable statutory accounting guidelines.

### **Policy and Contract Claims: Life**

The Company reflects a liability of \$2,500 for unpaid life claims as of year-end 2011. Testing performed indicates this estimate was reasonable.

### **Policy and Contract Claims: A&H**

The Company reflects \$72,504 as its estimate for its unpaid accident and health claims reserve net of any applicable reinsurance. The amount is estimated by the Company's outside consulting actuary. Testing performed indicates this estimate was reasonable and computed in accordance with accepted actuarial practices and applicable statutory accounting guidelines.

## CONCLUSION

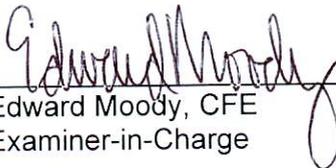
The financial condition of the Company as of December 31, 2011, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$8,757,847</u>
Liabilities	\$5,426,791	
Surplus as Regards Policyholders	<u>3,331,056</u>	
Liabilities, Surplus and Other Funds		<u>\$8,757,847</u>

Since the last examination conducted as of December 31, 2006, the Company's admitted assets have increased \$4,287,842, its total liabilities have increased \$2,582,556, and its surplus as regards policyholders has increased \$1,705,286.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Nathan Wangler of the North Dakota Insurance Department and IT Specialist Joseph Detrick, CPA, CISA, AES, CFE of Jennan Enterprises, LLC, and Scott Garduno, FSA, MAA of Taylor-Walker and Associates participated in this examination.

  
Edward Moody, CFE  
Examiner-in-Charge

## RECOMMENDATIONS

- Page 7 It is again recommended the Company consider the need to obtain insurance coverages for Directors and Officer liability and employee Errors and Omissions liability.
- Page 10 It is again recommended that the Company develop a written anti-money laundering plan and that it be approved by senior management.