

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

**REPORT OF EXAMINATION**

**OF**

**U.S. UNDERWRITERS INSURANCE COMPANY  
BISMARCK, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 2018**

STATE OF NORTH DAKOTA  
INSURANCE DEPARTMENT

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

**U.S. Underwriters Insurance Company**

**Bismarck, North Dakota**

as of December 31, 2018, 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 1<sup>st</sup> day of  
June, 2020.

  
\_\_\_\_\_  
Jon Godfread  
Insurance Commissioner



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Bismarck, North Dakota  
May 8, 2020

Honorable Jon Godfread  
Insurance Commissioner  
North Dakota Insurance Department  
600 East Boulevard Avenue  
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

### **U.S. Underwriters Insurance Company**

Statutory Home Office  
316 North Fifth Street, Sixth Floor  
Bismarck, ND 58501

Administrative Offices  
1190 Devon Park Drive  
Wayne, PA 19087

U.S. Underwriters Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2013, by Examiners representing the North Dakota Insurance Department, hereinafter referred to as the "Department".

The present examination was conducted as of December 31, 2018, by representatives of the Department.

### **SCOPE OF EXAMINATION**

This examination was a multi-state, risk focused financial condition examination conducted in accordance with N.D.C.C. ("N.D.C.C.") § 26.1-03-19.3 and observed guidelines and procedures contained in the 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. The last examination covered the period of January 1, 2009, to December 31, 2013. This examination covers the period of January 1, 2014 through December 31, 2018, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, the examination was planned and performed to evaluate the financial condition, assess corporate governance, identify current and

prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. The examination also included identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

The examination does not attest to the fair presentation of the financial statements included herein. Statements were prepared by management and are therefore the responsibility of management. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

The following companies were examined at the same time during the above examination:

<b>Company</b>	<b>NAIC Code</b>
Mount Vernon Fire Insurance Company (PA)	26522
Mount Vernon Specialty Insurance Company (NE)	14420
U.S. Liability Insurance Company (PA)	25895
Radnor Specialty Insurance Company (NE)	15756

## **STATUS OF PRIOR EXAMINATION FINDINGS**

There were no examination findings in the preceding Report on Examination which covered the period from January 1, 2009, to December 31, 2013.

## **SUMMARY OF SIGNIFICANT FINDINGS**

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

## **SUBSEQUENT EVENTS**

As of the date of this report, there are no reportable subsequent events.

## **HISTORY**

### **General**

The Company was originally incorporated under the laws of the State of Delaware on January 10, 1972, and commenced business on December 27, 1977. Effective December 30, 1992, the Company changed its state of domicile to North Dakota. The Company currently operates in North Dakota as a stock insurance company.

### **Capital Stock**

At December 31, 2018, 840,000 shares of common stock, with a par value of \$5 per share and an aggregate value of \$4,200,000 were issued and outstanding.

The Company's original Articles of Incorporation authorized the Company to issue 200,000 shares of common stock with a par value of \$5 per share. In 2014, the Company amended its Articles of Incorporation to authorize and issue 840,000 shares of common stock with a par value of \$5 per share.

## MANAGEMENT AND CONTROL

### Dividends to Stockholders

On June 6, 2017, the Department approved an extraordinary dividend for \$10,606,000 paid to the Company's parent, Mount Vernon Fire Insurance Company. No other dividends were paid during the examination period.

### Management

The Company's Articles of Incorporation provide that the Board of Directors shall consist of not less than 3 and no more than 21 persons.

### Board of Directors

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members at December 31, 2018:

<b>Name and Address</b>	<b>Principal Occupation</b>
Thomas P. Nerney Wayne, PA	President & Chief Executive Officer United States Liability Insurance Company
John Richard Petersen, Jr. Malvern, PA	Executive Vice President, Secretary, Chief Compliance Officer United States Liability Insurance Company
John G. Donahue, Jr. Newtown Square, PA	Executive Vice President Devon Park Specialty Insurance
Diane. S. Duda Lansdale, PA	Executive Vice President, Chief Actuarial Officer United States Liability Insurance Company
Thomas C. Snyder Exton, PA	President, Customer Distribution United States Liability Insurance Company
Lisa K. Kuesel-Traynor Malvern, PA	Executive Vice President, Chief Operating Officer United States Liability Insurance Company
Reiner Ralf Mauer King of Prussia, PA	President, Property and Casualty Division United States Liability Insurance Company
Andrew Michael Mitala Phoenixville, PA	President, Chief Underwriting Officer United States Liability Insurance Company

Jack T. Carballo  
Jenkintown, PA

Executive Vice President, Chief Administration  
Officer  
United States Liability Insurance Company

### **Officers**

The Bylaws provide that the officers of the corporation shall be a President, a Vice President, a Secretary, a Treasurer, and such other Officers and Assistant Officers as may be deemed necessary may be elected or appointed by the Directors.

Officers serving as of December 31, 2018, were as follows:

<b>Name</b>	<b>Title</b>
Thomas Patrick Nerney	Chairman, President, Chief Executive Officer
Steven John Rivituso	Treasurer, Controller & Senior Vice President
John Richard Petersen, Jr.	Corporate Secretary, Executive Vice President, Chief Compliance Officer
Lisa Kathleen Kuesel Traynor	Chief Operating Officer & Executive Vice President
Thomas Christopher Snyder	Division President
Mark Anthony Addiego	Senior Vice President
Reiner Ralf Mauer	Division President
Jack Thomas Carballo	Executive Vice President, Chief Administration Officer
James William Scalise	Senior Vice President, Chief Claims Officer
Andrew Michael Mitala	Division President
Diane Symnoski Duda	Executive Vice President, Chief Actuarial Officer

### **Committees**

The Company has an Executive Committee and an Investment Committee, both made up of the following members:

Thomas P. Nerney, Chairman  
Warren E. Buffett  
Marc D. Hamburg  
Mark D. Millard  
Daniel J. Jaksich

## **CORPORATE RECORDS**

### **Conflict of Interest**

The Company has a conflict of interest statement asserting that each director or officer has reviewed the policy, and that they are not aware of any conflict of interest or that they have disclosed the conflict of interest to the Company. These statements are submitted to and reviewed by the Company's Chief Compliance Officer.

## Board of Directors, Stockholders and Committee Minutes

The minutes of the Board of Directors and stockholder meetings for the period under examination were read and no exceptions were noted. As the meeting minutes of Executive and Investment Committees are not maintained by the Group and all of the other relevant committees are at the Berkshire Hathaway level, no committee meeting minutes were reviewed for the exam period.

## Articles of Incorporation and Bylaws

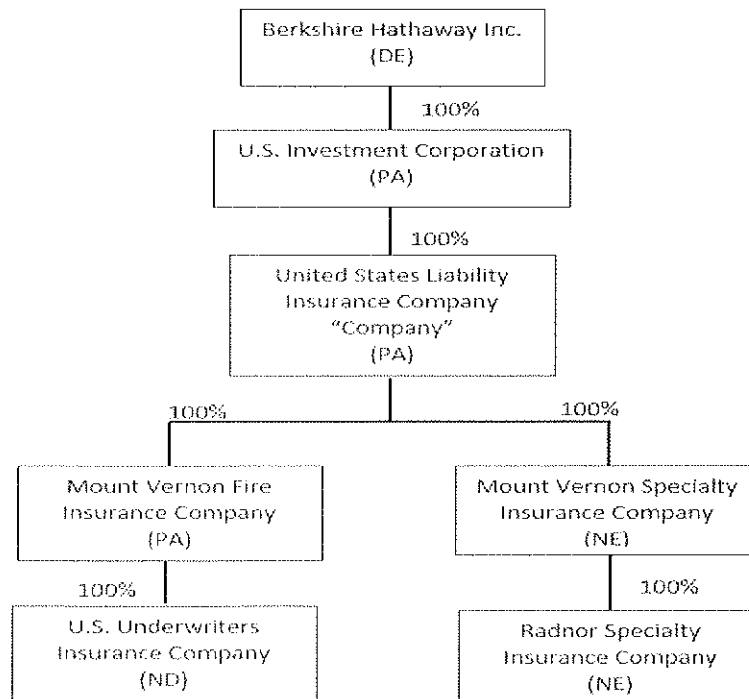
There were no amendments made to the Company's Articles of Incorporation or Bylaws during the examination period. The Articles were amended in 2014 to permit issuance of additional capital stock (see above section on capital stock.)

# AFFILIATED COMPANIES

## Holding Company System

On August 8, 2000, Berkshire Hathaway, Inc. purchased 100 percent of the stock of U.S. Investment Corporation, the holding Company for United States Liability Insurance Company, Mount Vernon Fire Insurance Company and U.S. Underwriters Insurance Company. Berkshire Hathaway, Inc. is named as the ultimate controlling entity of its holding company system. Warren E. Buffet of Omaha, Nebraska owns approximately 33.55% and 19.63% of the voting and economic interest of Berkshire Hathaway, Inc., respectively.

The following is an abbreviated organization chart showing the relationship of the Company and U.S. Investment Company within the Berkshire Hathaway, Inc. holding company system.





USLI and its subsidiaries Mount Vernon Fire and U.S. Underwriters form the United States Liability Insurance Group (the USLI Group). Mount Vernon Specialty and its subsidiary, Radnor Specialty, form Devon Park Specialty Insurance. The companies have common management, claims, marketing and support staff. The companies have separate underwriting staff. Each Group writes similar products, with USLI Group focusing on small business, and Devon Park Specialty focusing on medium sized business.

## **INTERCOMPANY AGREEMENTS**

### **Expense Sharing Agreement**

Effective November 17, 2003, the Company entered into an Expense Sharing Agreement ("Expense Agreement") with its affiliates U.S. Liability Insurance Company and Mount Vernon Fire Insurance Company. The Companies share the same offices, facilities and staff and the Expense Agreement states that general expenses will be allocated based on the net premium writings of each company in relation to the total for the group. The Agreement was amended on December 7, 2006, to state that balances under the Agreement are due 60 days after the end of each quarter. The Agreement was amended on November 9, 2012, to include Mount Vernon Specialty. The Agreement and the amendment were in writing and were approved by the Board of Directors.

Effective November 6, 2013, the Agreement was revised to add certain provisions required by the New York Department of Financial Services as an approval condition of an application submitted by Mount Vernon Specialty for a certificate of authority. The additional provisions appear to be nonsubstantive in nature and do not change the methodology for expense sharing provided in the prior agreement. The revised agreement supersedes and replaces the prior expense sharing agreement dated November 17, 2003.

### **Investment Services Agreement**

Effective January 1, 2007, U.S. Liability Insurance Company, Mount Vernon Fire Insurance Company, and the Company entered into an Investment Services Agreement ("Investment Agreement") with National Indemnity Company (NICO). Under the Investment Agreement, NICO will manage the Company's investments subject to guidelines established and approved by the Company's Board of Directors. The Company will be furnished with quarterly reports valued as of the last business day of the respective period. Transactions will be furnished to the Company within 10 days after the end of each calendar month. The Company will be charged a fee, payable quarterly, computed to equal NICO's cost of providing services under the agreement. The Agreement was amended on November 9, 2012, to include Mount Vernon Specialty. The Agreement was again amended on October 14, 2015 to add Radnor Specialty to the agreement.

### **Federal Income Tax Agreement**

The Company entered into a Joint Tax Return Agreement with U.S. Liability Insurance Company, Mount Vernon Fire Insurance Company and Berkshire Hathaway, Inc. effective November 17, 2003. The agreement authorizes the Treasurer of Berkshire Hathaway, Inc. to file a joint tax return on behalf of the three named companies based upon the taxable profit and loss of each company. The Agreement was amended on November 9, 2012, to include Mount

Vernon Specialty. The Agreement was again amended on January 31, 2015 to add Radnor Specialty Insurance Company to the agreement.

## FIDELITY BONDS AND OTHER INSURANCE

As of December 31, 2018, the Company along with the other subsidiaries of U.S. Investment Company did not carry any coverage for loss resulting from dishonest or fraudulent acts committed by employees. U.S. Investment Company elected to self-insure this risk. The suggested minimum amount for the Group per the NAIC Financial Examiner's Handbook is \$1,750,000.

The USLI Group also elected to self-insure for some of the other risk exposures affecting the Group.

## PENSION AND BENEFITS

All employees of the Company are employed by U.S. Liability Insurance, an affiliate of the Company. Employee benefits are contracted through U.S. Liability Insurance and include group medical coverage, life, accidental death and dismemberment, short-term and long-term disability, maternity and adoption benefit, a 401(k) plan and a profit sharing plan. U.S. Liability Insurance covers 91 percent of the cost for employee's group dental coverage and the rest is paid by the employees. U.S. Liability Insurance contributes up to 15 percent of each employee's annual salary to the profit sharing plan. Costs associated with the plans are allocated to the Company and other affiliates based on premiums written.

## STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2018:

State	Type of Asset	Book Value	Fair Market Value
Florida	Bond	250,375	248,650
Georgia	Bond	35,053	34,811
Massachusetts	Bond	110,165	109,406
Nevada	Certificate of Deposit	200,000	200,000
New Hampshire	Bond	500,750	497,300
New Mexico	Bond	325,488	323,245
New York	Bond	2,999,734	3,018,750
North Carolina	Bond	300,450	298,380
North Dakota*	Bond	1,502,302	1,491,960
Virginia	Bond	<u>525,788</u>	<u>522,165</u>
Total Special Deposits		<u>\$6,750,105</u>	<u>\$9,744,667</u>

\*Held for benefit of all policyholders

## TERRITORY AND PLAN OF OPERATION

At December 31, 2018, the Company was licensed to write property, casualty and accident and health lines of business in 43 states. The Company is also an eligible surplus lines insurer in the States of Delaware, New York and Pennsylvania. The Company currently writes primarily commercial liability on a surplus lines basis.

## REINSURANCE

### Ceded

At December 31, 2018, the Company had the following principal reinsurance treaties in force:

### Equipment Breakdown Coverage

Effective June 1, 2015, USLI, MVF, and USU entered into a perpetual contract with Factory Mutual Insurance Company. The Company entered an Equipment Breakdown Coverage, 100% quota share reinsurance treaty that attaches on a "risks attaching" basis. The Company's retention and the reinsurance limits are as follows:

Company's Retention	Reinsurance Limits	Business Covered
\$0	Shall not exceed \$25,000,000 for each risk location per policy without prior written agreement of the reinsurer.	Equipment breakdown enhancement endorsements and mechanical, electrical or pressure systems breakdown enhancement endorsements to commercial multi-peril, business owners, personal lines property or monoline commercial property insurance policies and mechanical breakdown coverage sections.

### Casualty Excess of Loss

Effective January 1, 2018, USLI, MVF, and USU entered into a one-year Casualty Excess of Loss & Casualty Cessions Excess of Loss Reinsurance Contract. The termination date is December 31, 2018. The Company's reinsurance limits and retention are:

Section A - \$5 Million excess of \$1 Million [Company retention of \$1M]

Section B - \$750K excess of \$250K [Company retention of \$250K]

Section C - \$5 Million excess of \$6 Million [Company retention of \$6M]

This treaty is underwritten by multiple reinsurers through JLT Re. A brief synopsis of this treaty is shown below:

Reinsurers	Share percentage	Business Covered
National Indemnity	60% of each layer	Section "A" business - new and renewal policies classified as casualty business. Section "B" business - new and renewal policies classified by the Company as Professional Liability and Commercial Liability. Section C casualty business.
Hannover Rueck SE	First layer = 25% Second layer = 25% Third layer = 25%	
Partner Reinsurance Company	First layer = 15% Second layer = 15% Third layer = 15%	

Property Per Occurrence excess of Loss Contract

Effective January 1, 2018, USLI, MVF, USU, MVS, and RSI entered into a one-year Property per occurrence excess of loss Reinsurance Contract. The termination date is January 1, 2019. The Company's reinsurance limits and retention are:

- 1<sup>st</sup> Layer - \$6 million excess of \$4 Million [Company retention of \$4M]
- 2<sup>nd</sup> Layer - \$10 million excess of \$10 million [Company retention of \$10M]
- 3<sup>rd</sup> Layer - \$20 Million excess of \$20 Million [Company retention of \$20M]

This treaty is underwritten by multiple reinsurers through JLT Re. A brief synopsis of this treaty is shown below:

Reinsurers	Share percentage	Business Covered
Axis Specialty Limited	First layer = 16% Second layer = 17% Third layer = 17%	Policies becoming effective on or after the 1/1/18 and classified by the Company as Property
DaVinci Reinsurance LTD	First layer = 1.2% Second layer = 1.2% Third layer = 1.2%	
Hannover Rueck SE	First layer = 20% Second layer = 20% Third layer = 20%	
MAPFRE RE, Compania de Reaseguros, S.A.	First layer = 5% Second layer = 5% Third layer = 5%	
Markel Bermuda Limited	First layer = 10% Second layer = 10% Third layer = 10%	
Partner Re LTD	First layer = 7% Second layer = 7% Third layer = 7%	
Renaissance Reinsurance LTD	First layer = 1.8% Second layer = 1.8% Third layer = 1.8%	
The Underwriters at Lloyd's	First layer = 39% Second layer = 38% Third layer = 38%	

Property Per Risk excess of Loss Contract

Effective January 1, 2018, USLI, MVF, and USU entered into a one-year Property per risk excess of loss Reinsurance Contract. The termination date is January 1, 2019 and the Company retention is \$1 Million.

This treaty is underwritten by multiple reinsurers through JLT Re. A brief synopsis of this treaty is shown below:

<b>Reinsurers</b>	<b>Share percentage</b>	<b>Business Covered</b>
The TOA Reinsurance Company of America	15% of \$4 Million excess of \$1 Million	Policies becoming effective on or after the 1/1/18 and classified by the Company as Property
Hannover Rueck SE	25% of \$4 Million excess of \$1 Million	
Partner Reinsurance Company	10% of \$4 Million excess of \$1 Million	
National Indemnity	50% of \$4 Million excess of \$1 Million	

Cyber Liability Quota Share Program

Effective January 1, 2018, USLI, MVF, and USU entered into a one-year Cyber Liability Quota Share Reinsurance Contract. The termination date is December 31, 2018 and the Company retention is 10%.

This treaty is underwritten by multiple reinsurers through JLT Re. A brief synopsis of this treaty is shown below:

<b>Reinsurers</b>	<b>Share percentage</b>	<b>Business Covered</b>
Aspen Insurance UK Limited	40% share of \$1 Million	Policies becoming effective on or after the 1/1/18 and classified by the Company as Property
Hannover Rueck SE	25% share of \$1 Million	
Partner Reinsurance Company	25% share of \$1 Million	

Quota Share Agreement of Reinsurance

Effective January 1, 2007, USLI, MVF, and USU entered into a perpetual contract with National Indemnity Insurance Company. The Company entered a Quota Share Agreement that attaches on a "loss occurring" basis. The agreement covers all business net of all other reinsurance and National Indemnity's share is 50%.

Property and Casualty (Mortgage Guard) Quota Share Reinsurance Contracts

Effective January 1, 2007, USLI, MVF, and USU entered into a perpetual contract with National Indemnity Insurance Company. The Company entered a Quota Share Agreement that attaches on a "loss occurring" basis. The agreement covers policies issued on an "F" prefix and classified by the Company as "Blanket Mortgage Fire". The companies cede 70% of the business to National Indemnity Insurance Company and retains the remaining 30%. Business necessitating the treaties was terminated in 2013 and the Company plans to terminate the contracts as of 12/31/2019.

Assumed

The Company does not assume any reinsurance.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to the extent deemed appropriate for this examination.

## FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2018. This statement is followed by supporting statements and reconciliations presented in the following order:

- Statement of Assets, Liabilities, Surplus, and Other Funds, December 31, 2018
- Summary of Income, Year 2018
- Reconciliation of Capital and Surplus, January 1, 2014, through December 31, 2018

These financial statements are based on the statutory financial statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered and integral part of the financial statements.

U.S. Underwriters Insurance Company  
Statement of Assets, Liabilities, Surplus, and Other Funds  
as of December 31, 2018

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 7,005,872		\$ 7,005,872
Common stocks	15,188,948		15,188,948
Cash, cash equivalents, and short term investments	135,680,131		135,680,131
Investment income due and accrued	115,761		115,761
Premiums and considerations: Uncollected premiums and agents' balances in the course of collection	3,608,919	\$ 292,149	3,316,770
Deferred premiums	48,557		48,557
Reinsurance: Amounts recoverable from Reinsurers	1,453,245		1,453,245
Net deferred tax asset	648,681		648,681
Totals	<u>\$163,750,114</u>	<u>\$292,149</u>	<u>\$163,457,965</u>

U.S. Underwriters Insurance Company  
Statement of Assets, Liabilities, Surplus, and Other Funds  
as of December 31, 2018

Losses		\$ 21,544,559
Loss adjustment expenses		6,798,028
Commissions payable, contingent commissions and similar charges		279,958
Taxes, licenses, and fees		61,756
Current federal and foreign income taxes		631,607
Unearned premiums		6,445,956
Ceded reinsurance premiums payable		2,212,486
Payable to parent, subsidiaries, and affiliates		<u>453,905</u>
Total liabilities		\$ 38,438,255
Common capital stock	\$ 4,200,000	
Gross paid in and contributed surplus	14,000,000	
Unassigned funds (surplus)	<u>106,819,710</u>	
Surplus as regards policyholders		<u>125,019,710</u>
Total		<u><u>\$163,457,965</u></u>



U.S. Underwriters Insurance Company  
Underwriting and Investment Exhibit  
for the Year Ended December 31, 2018

**UNDERWRITING INCOME**

Premiums earned		\$12,849,769
Deductions:		
Losses incurred	\$ 3,267,911	
Loss expenses incurred	988,615	
Other underwriting expenses incurred	<u>5,379,251</u>	
Total underwriting deductions		<u>9,635,777</u>
Net underwriting gain or (loss)		\$3,213,992

**INVESTMENT INCOME**

Net investment income earned	\$2,967,294	
Net realized capital gains or losses	<u>32,026</u>	
Net investment gain or (loss)		<u>2,999,320</u>

**OTHER INCOME**

Finance and service charges not included in premiums		1,520
Net income before federal income taxes		\$ 6,214,832
Federal income taxes incurred		<u>1,315,968</u>
Net income		<u>\$4,898,864</u>

**U.S. Underwriters Insurance Company**  
**Reconciliation of Capital and Surplus Accounts**

	2018	2017	2016	2015	2014
Capital and surplus, December 31, previous year	\$122,075,508	\$126,927,329	\$124,188,989	\$122,717,938	\$115,665,038
Net income	4,898,864	4,167,768	1,746,315	1,890,653	13,459,762
Change in net unrealized capital gains or (losses)	(1,881,224)	2,465,449	1,123,688	(222,104)	1,742,162
Change in net unrealized foreign exchange capital gain or (loss)					(7,663,500)
Change in net deferred income tax	19,907	(943,565)	(251,890)	(223,423)	(263,132)
Change in nonadmitted assets	(93,344)	64,527	120,229	35,925	(222,392)
Dividends to stockholders		(10,606,000)			
Net change in capital and surplus for the year	\$2,944,203	\$(4,851,821)	\$2,738,342	\$1,471,051	\$7,052,900
Capital and surplus, December 31, current year	\$125,019,711	\$122,075,508	\$126,927,331	\$124,188,989	\$122,717,938

## CONCLUSION

The financial condition of the Company, as of December 31, 2018, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$163,457,965</u>
Total Liabilities	\$ 38,438,255	
Surplus as Regards Policyholders	<u>125,019,710</u>	
Liabilities, Surplus, and Other Funds		<u>\$163,457,965</u>

No change was made to the amounts reported by the Company in its 2018 annual statement.

Since the last examination conducted as of December 31, 2013, the Company's admitted assets have decreased \$9,837,554, its total liabilities have decreased \$19,192,233, and its surplus as regards policyholders has increased \$9,354,679.

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

Respectfully submitted,



Colton Schulz, CFE, CFE  
Supervising Examiner  
North Dakota Insurance Department