

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

REPORT OF EXAMINATION

OF

**DAKOTA FIRE INSURANCE COMPANY
BISMARCK, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2023**

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

Dakota Fire Insurance Company

Bismarck, North Dakota

as of December 31, 2023, 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 31st day of
March, 2025.





Jon Godfread
Insurance Commissioner

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Bismarck, North Dakota
January 14, 2025

Honorable Jon Godfread
Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505-0320

Dear Commissioner:

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

Dakota Fire Insurance Company

Statutory Home Office
1838 East Interstate Ave
Bismarck, ND 58501

Administrative Offices
717 Mulberry Street
Des Moines, IA 50309-3872

hereinafter referred to as the "Company", was last examined as of December 31, 2018, by representatives of the North Dakota Insurance Department, hereinafter referred to as 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, 2014, to December 31, 2018. This examination covers the period of January 1, 2019 through December 31, 2023, 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.

Concurrent examinations were made of the following EMC Insurance group companies ("EMC"):

| <u>Company</u> | <u>Domicile</u> |
|---------------------------------------|-----------------|
| Dakota Fire Insurance Company | North Dakota |
| Employers Mutual Casualty Company | Iowa |
| EMC Property & Casualty Company | Iowa |
| EMC Reinsurance Company | Iowa |
| EMCASCO Insurance Company | Iowa |
| Illinois EMCASCO Insurance Company | Iowa |
| Union Insurance Company of Providence | Iowa |

STATUS OF PRIOR EXAM FINDINGS

The prior examination noted no examination level findings.

SUMMARY OF SIGNIFICANT FINDINGS

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

SUBSEQUENT EVENTS

There were no significant subsequent events identified during the examination.

COMPANY HISTORY

General

The Company was incorporated on August 23, 1957, as a stock insurance company under the provisions of Chapters 10-02 and 26-08 of the North Dakota Revised Code of 1943, and amendments thereto, as the "Dakota Fire Insurance Company" with its home office and principal place of business in the city of Bismarck, North Dakota. The Company commenced business on January 10, 1958. In 1973, Employers Mutual Casualty Company assumed control of the Company by acquiring 78 percent of outstanding shares. Through subsequent purchases of stock and a series of affiliated transactions, ownership of the Company was transferred to EMC in 1981.

The Articles of Incorporation provide that the Company may carry the lines of insurance as authorized under N.D.C.C. § 26.1-05-02.

Capital Stock

As of December 31, 2023, 1,500,000 shares of common stock were outstanding and 100 percent of outstanding shares were held by EMC.

Dividends to Stockholders

During the period under examination, the following dividends were paid to the sole stockholder:

2019 - \$1,500,000
2023 - \$9,150,000

MANAGEMENT AND CONTROL

Shareholders

The regular annual meeting of the shareholders shall be held within the first six months of each year, at such date and time as shall be fixed by the Chief Executive Officer or the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may come before the meeting.

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

Board of Directors

The Bylaws provide that the general control and management of the Company shall be vested in a Board of six directors. Each director shall hold office until the next annual meeting of the shareholders and until his or her successor shall have been elected and qualified.

A regular meeting of the Board of Directors shall be held without notice immediately after, and at the same place as, the annual meeting of shareholders.

A majority of the number of directors fixed by the Bylaws constitutes a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Duly elected members serving on the Board of Directors at December 31, 2023, were as follows:

| <u>Name</u> | <u>Business Affiliations</u> |
|-----------------------|-------------------------------------|
| Bradley J. Fredericks | Senior Vice President |
| Scott R. Jean | Chairman |
| Philip R Lucca | Senior Vice President |
| Todd A. Strother | Executive Vice President |
| Elizabeth A. Nigut | Executive Vice President |
| Ian C. Asplund | Senior Vice President |
| Ann Marie Collins | Executive Vice President |

Officers

The executive officers of the Company are a chairman, one or more vice chairmen, a president, one or more executive vice presidents, one or more senior vice presidents, one or more vice presidents, a secretary, a treasurer, and a general counsel, each of whom shall be elected annually by the Board of Directors at its regular annual meeting. The Board may also elect or appoint one or more resident vice presidents, an actuary, a controller, and any assistant officers it may deem necessary. Any executive office, except that of president, one vice president, treasurer, and secretary, may be left unfilled. Any two or more offices may be held by the same person except the offices of president and secretary.

Duly elected or appointed officers serving at December 31, 2023, were as follows:

| <u>Name</u> | <u>Office</u> |
|-----------------------|--|
| Scott R. Jean | Chairman, Chief Executive Officer, President and Treasurer |
| Ann M. Collins | Executive Vice President – Chief Financial Officer |
| Elizabeth A. Nigul | Executive Vice President |
| Todd A. Strother | Executive Vice President – Chief Legal Officer |
| Ian C. Asplund | Senior Vice President -- Chief Actuary & Analytics Officer |
| Bradley J. Fredericks | Senior Vice President – Chief Investment Officer |
| Phil R. Lucca | Senior Vice President – Chief Field Officer |
| Meg M. Weist | Senior Vice President – Chief Claims Officer |
| Gary D. Alford | Vice President – Denver & Omaha Branch Offices |
| Karey S. Anderson | Vice President – Portfolio Manager |
| Paul A. Ceasar | Vice President – Reserving and Appointed Actuary |
| Ryan J. Springer | Vice President – Bond |
| Bruce E. Stanley | Vice President -- Finance |
| Laks Krishnamoorthy | Vice President – Enterprise Data Management |
| Ronald D. Herman | Vice President – Corporate Tax |
| Douglas S. Van Zanten | Vice President – Deputy General Counsel & Secretary |
| Katherine M. Hedrick | Assistant Vice President |
| Benjamin P. Herman | Assistant Vice President |

Committees

The Board of Directors at its regular annual meeting appoints an Executive Committee and may appoint such other committees as it may deem necessary. All committees shall consist of three or more directors. The chief executive officer of the Company shall be a member and chairman of the Executive Committee and may be a member of any other committee.

Appointed committees serving at December 31, 2023, were as follows:

Executive Committee

Scott R. Jean
Ann M. Collins
Todd A. Strother
Elizabeth A. Nigul

Investment Committee

Bradley J. Fredericks
Scott R. Jean
Ann M. Collins

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company made no changes to its Articles of Incorporation during the period under review. An amendment was made to the Bylaws on December 11, 2020, increasing the number of directors on the Board from 6 members to 12 and enabled the shareholders to declare certain board positions vacant.

Stockholder and Board of Directors Meetings

The minutes of the Board of Directors, and shareholders meetings for the period under examination were read.

The minutes of the various meetings indicate that full Board meetings were well attended and were held in compliance with the Bylaws, Articles of Incorporation, and statutory requirements. The deliberations of the Board were adequately documented and supported the Company's transactions and events.

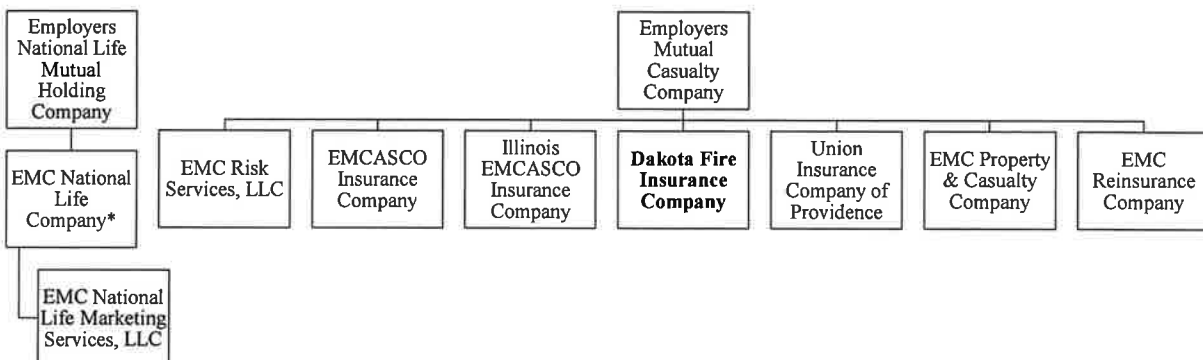
Investments made during the period covered by the examination were approved by the Company's Investment Committee and the full Board of Directors.

Conflict of Interest

The Company has an established procedure for disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers or key employees which is in or likely to, conflict with their official duties. Conflict of interest statements are circulated and reviewed annually. While conflicts were disclosed, none were identified that would materially impact the Company and all were addressed by the Audit Committee.

HOLDING COMPANIES, SUBSIDIARIES, AND AFFILIATES

The EMC group is comprised of seven property and casualty insurance companies, one life insurance company, and two non-risk-bearing service companies ("Affiliates"). The group, led by Employers Mutual Casualty Company ("EMCC"), is a multi-regional, multiple lines property and casualty insurer. The organization chart for the EMC group is as follows:



*EMCC owns 49 percent of the voting stock of EMC National Life Company, which wholly owns EMC National Life Marketing Services, LLC. EMC National Life Company's voting stock is 51 percent owned by Employers National Life Mutual Holding Company.

INTERCOMPANY AGREEMENTS

Service Agreements

Effective December 31, 2010, the Company and its affiliates entered into a Services Agreement with EMCC. EMCC provides to the Affiliates the systems and employees necessary to conduct business, as the Affiliates do not have any systems or employees of their own. EMCC provides data processing, claims handling, financial services, legal services, actuarial services, audit services, marketing services, underwriting services and risk management services to the Company. Under the terms of the agreement, all expenses incurred by EMCC for the provision of employees and services set forth in the agreement that are not allocated to parties that do not participate in the reinsurance pooling agreement shall be allocated to the pool, and each pool participant shall share in the total costs in accordance with its participation percentage as established under the terms of the reinsurance pooling agreement.

Inter-Company Loan Agreements

Effective January 31, 2012, the Company and its Affiliates entered into a loan agreement that allows the EMC property and casualty companies to borrow or loan money to each other on short-term basis (up to 180 days) at market-based interest rates and sets loan repayment terms. No loans made pursuant to the Loan Agreement, in the aggregate, may exceed 5% of the lending party's admitted assets as of December 31 of the current preceding year.

Investment Management Agreement

Effective December 31, 2007, the Company and its Affiliates entered into an investment management agreement with EMCC. EMCC serves as a centralized point for handling invested assets, establishing and overseeing the activities of external investment managers, and preparing reports for various internal committees. The Company reimburses EMCC for the cost of its investment management services which includes actual expenses incurred plus an allocation of other investment expenses incurred by EMCC, which is based on a weighted average of total invested assets and number of investment transactions of the Company. Reimbursements are due to EMCC no later than forty-five (45) days after the end of the applicable quarter.

Agreements for Payment of Taxes

Effective December 31, 2007, the Company and its Affiliates entered into an agreement for payment of taxes with EMCC. EMCC pays the federal and state tax liabilities on the Company's behalf and the Company agrees to reimburse EMCC for those payments. EMCC provides the Company with a quarterly accounting of the funds advanced on behalf of the Company. The Company reimburses EMCC for any advanced funds, with reimbursement being due to EMCC no later than forty-five (45) days after the end of the applicable quarter.

Effective December 31, 2010, the Company and its Affiliates entered into a Tax Allocation Agreement wherein federal taxes are allocated among the parties on the basis of the percentage of the total tax which the tax of an individual party if computed on a separate return would bear to the total amount of the taxes for all members of the group so computed.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured along with EMCC and its other affiliates on a Financial Institution Bond with a basic limit of \$20,000,000 and aggregate limit of \$40,000,000, which exceeds the minimum amount suggested by the NAIC.

The Company has other types of insurance coverage including Directors and Officers Liability, Automobile, Property, Workers' Compensation, and Commercial General Liability which were considered adequate.

PENSION AND INSURANCE PLANS

The Company has no employees; all employees are classified as employees of Employers Mutual Casualty Company (EMCC).

Employees of EMCC receive retirement benefits, group health and dental insurance, group life insurance, group long-term disability income, and group accidental death and dismemberment indemnity for qualified employees. The cost of retirement benefits, life insurance, and long-term disability income for the employees is borne by EMCC. EMCC will match 50 percent of the first 4 percent of an employee's contribution. A nonqualified defined contribution plan provides deferred compensation benefits for highly compensated employees who are limited by IRS regulations in their qualified defined contribution plan deferral percentage.

STATUTORY DEPOSITS

The book value of securities held in a custodial account and vested in the North Dakota Insurance Commissioner for the benefit of all policyholders totaled \$1,068,486 at December 31, 2023.

TERRITORY AND PLAN OF OPERATION

At December 31, 2023, the Company was a multiple-line property and casualty insurance writer that is licensed to transact business in the following states:

| | |
|--------------|-----------|
| Idaho | Montana |
| North Dakota | Minnesota |
| South Dakota | |

At December 31, 2023, the Company was operating on an excess and surplus lines basis in the following four states:

| | |
|----------|--------------|
| Illinois | Nebraska |
| Iowa | Rhode Island |

The Company is a multiple-line property and casualty insurance writer the majority of direct business written in fire, allied lines, auto physical damage, commercial auto liability, and other liability lines of coverage.

REINSURANCE

The Company is a party to an intercompany reinsurance pooling agreement. Under the terms of the pooling agreement, the affiliated companies cede all of their gross insurance business to EMCC and assume from EMCC an amount equal to their participation in the pool. All losses, loss adjustment expenses and other underwriting and administrative expenses, excluding the voluntary reinsurance business assumed by the Company from unaffiliated insurance companies, are prorated among the companies on the basis of participation in the pool. EMCC will make up any shortfall or difference resulting from an error in its systems and/or computational process that would otherwise result in the required restatement of the pool participants' financial statements. Intercompany balances related to pooling activities are settled no later than 45 days after the end of each month. The investment activities and income tax liabilities of the pool participants are not subject to the pooling agreement.

As of December 31, 2023, the participation percentages for the reinsurance pooling participants were as follows:

| | |
|---------------------------------------|------|
| Employers Mutual Casualty Company | 100% |
| EMCASCO Insurance Company | 0% |
| Illinois EMCASCO Insurance Company | 0% |
| Dakota Fire Insurance Company | 0% |
| EMC Property & Casualty Company | 0% |
| Union Insurance Company of Providence | 0% |

The term of the agreement is continuous and unlimited as to duration but may be terminated as of the end of any calendar year by agreement of the parties. The agreement also contains a insolvency clause as required by N.D.C.C § 26.1-02-21.

Effective December 31, 2003, the pooling agreement was amended to provide that if the amounts produced by EMCC's systems and/or computational processes, and relied upon by both EMCC and its affiliated companies in implementing the pooling agreement, subsequently prove to be inaccurate or overstated to the extent that a restatement of the financial statements of one or more of the affiliated companies would otherwise be required. EMCC guarantees to make up the

shortfall or difference resulting from such error(s) in its systems and/or computational processes so that no such restatement of the financial statements of any affiliated company is required.

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 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, 2023. This statement is followed by supporting statements and reconciliations presented in the following order:

Statements of Assets, Liabilities, Surplus, and Other Funds, December 31, 2023
Summary of Income, Year 2023
Reconciliation of Capital and Surplus, January 1, 2019, through December 31, 2023

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, 2023. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Dakota Fire Insurance Company
Statement of Assets
December 31, 2023

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|--|---------------------|-----------------------|------------------------|
| Bonds | \$71,664,038 | | \$71,664,038 |
| Preferred stocks | 1,515,200 | | 1,515,200 |
| Cash equivalents | 1,627,987 | | 1,627,987 |
| Other invested assets (Schedule BA) | 3,793,159 | | 3,793,159 |
| Receivable for Securities | 1,036,498 | | 1,036,498 |
| Investment Income Due and Accrued | 525,063 | | 525,063 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances in the course of collection | 0 | | 0 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 0 | | 0 |
| Amounts recoverable from reinsurers | 0 | | 0 |
| Current federal and foreign income tax recoverable and interest thereon | 0 | | 0 |
| Net Deferred Tax Asset | 0 | | 0 |
| Guaranty Funds Receivable or on Deposit | 0 | | 0 |
| Other Prepaid Expenses | 0 | | 0 |
| Postretirement Benefit Plans Prepaid Expenses | 0 | | 0 |
| Qualified Pension Plan Prepaid Expenses | 0 | | 0 |
| Totals | \$80,161,944 | \$0 | \$80,161,944 |

Dakota Fire Insurance Company
Statement of Liabilities, Surplus, and Other Funds
December 31, 2023

| | | |
|---|--------------|--------------|
| Losses | | \$ 0 |
| Reinsurance Payable on Paid Loss and Loss Adjustment Expenses | | 0 |
| Loss Adjustment Expenses | | 0 |
| Commissions Payable, Contingent Commissions and Other Similar Charges | | 0 |
| Other Expenses | | 1,728 |
| Taxes, Licenses, and Fees | | 1,144,321 |
| Net Deferred Tax Liability | | 300,242 |
| Unearned Premiums | | 0 |
| | | |
| Payable to parent, subsidiaries, and affiliates | | 83,344 |
| | | |
| Total Liabilities | | \$1,529,635 |
| Common Capital Stock | \$ 1,500,000 | |
| Surplus Notes | 0 | |
| Gross Paid in and Contributed Surplus | 14,902,887 | |
| Unassigned Funds (Surplus) | 62,229,422 | |
| Surplus as Regards Policyholders | | 78,632,309 |
| Totals | | \$80,161,944 |

**Dakota Fire Insurance Company
Statement of Income
December 31, 2023**

Underwriting Income

| | | |
|--------------------------------------|-----|-----|
| Premiums earned | | \$0 |
| Deductions: | | |
| Losses incurred | \$0 | |
| Loss expenses incurred | 0 | |
| Other underwriting expenses incurred | 0 | |
| | | |
| Total Underwriting Deductions | | 0 |
| Net Underwriting Gain (Loss) | | \$0 |

Investment Income

| | | |
|-------------------------------------|--------------|-----------|
| Net Investment Income Earned | \$ 2,836,112 | |
| Net Realized Capital Gains (Losses) | (95,198) | |
| | | |
| Net Investment Gain (Loss) | | 2,740,914 |

Other Income

| | | |
|--|------|--------------|
| Net Gain (Loss) from Agents' or Premium Balances Charged Off | \$ 0 | |
| Finance and Service Charges not Included in Premiums | 0 | |
| Aggregate Write-ins for Miscellaneous Income | 1 | |
| | | |
| Total other income | | 1 |
| Net Income Before Dividends to Policyholders and Before Federal Income Taxes | | \$ 2,740,915 |
| Dividends to Policyholders | | 0 |
| Net Income Before Federal Income Taxes | | \$ 2,740,915 |
| Federal Income Taxes Incurred | | 608,357 |
| Net Income | | \$ 2,132,558 |

Dakota Fire Insurance Company
Reconciliation of Capital and Surplus Accounts
January 1, 2019, Through December 31, 2023

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|----------------------|---------------------|---------------------|---------------------|---------------------|
| Capital and Surplus, December 31, Previous Year | \$85,369,816 | \$84,009,386 | \$80,530,024 | \$67,085,807 | \$66,050,243 |
| Net Income | 2,132,558 | 1,952,650 | 2,537,601 | 17,949,596 | 7,058,495 |
| Change in Net Unrealized Capital Gains or Losses | 190,061 | (737,463) | 778,358 | (6,746,153) | 1,397,887 |
| Change in Net Deferred Income Tax | 89,874 | 145,243 | 163,403 | (4,397,648) | 232,066 |
| Change in Nonadmitted Assets | 0 | 0 | 0 | 6,703,385 | (2,103,454) |
| Dividends to Stockholders | (9,150,000) | 0 | 0 | 0 | (1,500,000) |
| Aggregate Write-ins for Gains and Losses in Surplus | 0 | 0 | 0 | (64,963) | 1,950,570 |
| Change in Surplus Notes | 0 | 0 | 0 | 0 | (6,000,000) |
| Net Change in Capital and Surplus for the Year | <u>\$(6,737,507)</u> | <u>\$1,360,430</u> | <u>\$3,479,362</u> | <u>\$13,444,217</u> | <u>\$1,035,564</u> |
| Capital and Surplus, December 31, Current Year | <u>\$78,632,309</u> | <u>\$85,369,816</u> | <u>\$84,009,386</u> | <u>\$80,530,024</u> | <u>\$67,085,807</u> |

CONCLUSION

The financial condition of the Company, as of December 31, 2023, as determined by this examination is summarized as follows:

| | | |
|---------------------------------------|-------------------|---------------------|
| Admitted Assets | | <u>\$80,161,944</u> |
| Total Liabilities | \$1,529,635 | |
| Surplus as Regards Policyholders | <u>78,632,309</u> | |
| Liabilities, Surplus, and Other Funds | | <u>\$80,161,944</u> |

No adjustments were made to the balance sheet or income statement amounts reported by the Company in its 2023 Annual Statement.

Since the last examination conducted as of December 31, 2023, the Company's admitted assets have decreased \$160,270,545, its total liabilities have decreased \$172,852,611, and its surplus as regards policyholders has increased \$12,582,066.

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

Respectfully submitted,



Colton Mork
Examiner-in-Charge
North Dakota Insurance Department