



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Lyndon Property Insurance Company for the period ended December 31, 2013.

ORDER

After full consideration and review of the report of the financial examination of Lyndon Property Insurance Company for the period ended December 31, 2013, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Lyndon Property Insurance Company as of December 31, 2013, be and is hereby ADOPTED as filed and for Lyndon Property Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 23rd day of January, 2015.




John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

FILED

FEB 2 2015

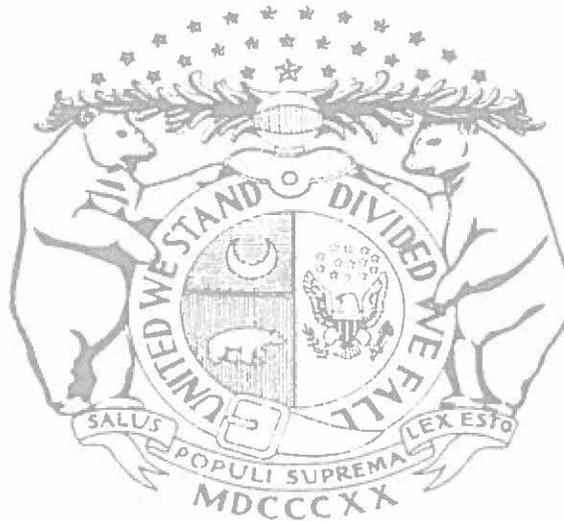
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

REPORT OF
FINANCIAL EXAMINATION

Lyndon Property Insurance Company

As of:

DECEMBER 31, 2013



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
Period Covered.....	1
Procedures.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
SUBSEQUENT EVENTS	2
COMPANY HISTORY	2
General.....	2
Capital Stock.....	2
Dividends.....	3
Acquisitions, Mergers and Major Corporate Events.....	3
Surplus Debentures	3
CORPORATE RECORDS	3
MANAGEMENT AND CONTROL	3
Officers	4
Committees	4
Holding Company, Subsidiaries and Affiliates	5
Organization Chart.....	5
Affiliated Transactions.....	6
FIDELITY BOND AND OTHER INSURANCE	8
PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS	8
TERRITORY AND PLAN OF OPERATION	8
GROWTH OF COMPANY	9
LOSS EXPERIENCE	9
REINSURANCE	10
General.....	10
Assumed.....	10
Ceded	10
ACCOUNTS AND RECORDS	11
General.....	11
Actuarial Opinion.....	12
Independent Auditor	12
Information Systems	12
STATUTORY DEPOSITS	12
Deposits with the State of Missouri.....	12
Deposits with Other States.....	13
Other Special Deposits.....	13
FINANCIAL STATEMENTS	14
ASSETS	15
LIABILITIES, SURPLUS AND OTHER FUNDS	16
STATEMENT OF INCOME	17
CAPITAL AND SURPLUS	18
COMMENTS ON THE FINANCIAL STATEMENTS	19
SUMMARY OF RECOMMENDATIONS	19
ACKNOWLEDGEMENT	20
VERIFICATION	20
SUPERVISION	21

November 18, 2014

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Huff:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

Lyndon Property Insurance Company

hereinafter referred to as such or as "Lyndon" or as the "Company." The Company's main administrative office is located at 14755 N. Outer Forty Road, Suite #400, Chesterfield, MO 63017, telephone number (636) 536-5600. This examination began on March 10, 2014 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of Lyndon Property Insurance Company. The last examination of Lyndon was completed as of December 31, 2009. This examination covers the period of January 1, 2010, through December 31, 2013, and material transactions or events occurring subsequent to December 31, 2013.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration (DIFP) or statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform 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 systems, 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, management's compliance with Statutory Accounting Principles and Annual Statement Instructions when applicable to domestic state regulations.

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

The examiners relied upon information and workpapers provided by the Company's independent auditor, PricewaterhouseCoopers LLP, for its audits covering the period from January 1, 2012, through December 31, 2013. Such reliance included fraud risk analysis, internal control narratives and tests of internal controls.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings.

SUBSEQUENT EVENTS

On June 4, 2014, Dai-ichi Life Insurance Company, Limited announced a definitive agreement to acquire 100% of the outstanding shares of Protective Life Corporation, the Company's ultimate parent. A Form A Statement Regarding the Acquisition of Control of or Merger with Lyndon Property Insurance Company by Dai-ichi Life Insurance Company, Limited was filed with the DIFP on July 18, 2014, pursuant to Sections 382.040 to 382-060 RSMo.

COMPANY HISTORY

General

The Company was incorporated on May 30, 1978, as a stock casualty insurance company and commenced business on August 1, 1978. Until May 1995, the Company was wholly owned by ITT Financial Corporation, a wholly owned subsidiary of ITT Corporation. On May 1, 1995, ITT Financial Corporation merged with ITT Corporation.

On October 20, 1995, Mercury Finance Company acquired all the outstanding common stock of the Company. On December 1, 1995, the name of the Company was changed from ITT Lyndon Property Insurance Company to its current name, Lyndon Property Insurance Company.

In June 1997, Frontier Insurance Group, Inc. purchased all the outstanding common stock of the Company. In 1998, Frontier Insurance Group, Inc. formed a wholly owned subsidiary, Lyndon Insurance Group, Inc., and contributed all the outstanding stock of the Company to the wholly owned subsidiary.

On January 20, 2000, Protective Life Insurance Company (PLICO), a wholly owned subsidiary of Protective Life Corporation, purchased all the outstanding common stock of Lyndon Insurance Group, Inc. (LIGI). In December 2007, LIGI contributed the Company to PLICO.

Capital Stock

The Company is authorized to issue 4,000 shares of common stock at a par value of \$1,000 per share. There were 4,000 common shares issued and outstanding as of December 31, 2013, resulting in a common capital stock account of \$4,000,000 and gross paid in and contributed surplus of \$81,038,424 at December 31, 2013.

Dividends

The Company has declared and paid dividends to stockholders as follows:

	<u>Cash</u>	<u>Stock</u>
Prior to 2010	\$219,663,543	\$2,000,000
2010	-	-
2011	10,000,000	-
2012	10,000,000	-
2013	50,000,000	-
Total	<u>\$289,663,543</u>	<u>\$2,000,000</u>

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions, merger, or major corporate events during the examination period.

Surplus Debentures

No surplus debentures were issued or outstanding during the current examination period.

CORPORATE RECORDS

The Company's articles of incorporation and bylaws were reviewed. There were no amendments to either during the examination period.

The minutes of the shareholder, board of directors, committee meetings, and relevant Protective Life Corporation committee meetings were reviewed and appear to properly support and approve the corporate transactions and events for the period under examination.

MANAGEMENT AND CONTROL

The management of the Company is vested in a board of directors which per the articles of incorporation and bylaws will consist of not less than nine or more than twenty-five members. The Company had nine Directors serving at December 31, 2013, as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
M. Scott Karchunas Chesterfield, MO	President and Chief Executive Officer, and Chairman of the Board Lyndon Property Insurance Company
Gregg O. Cariolano Chesterfield, MO	Senior Vice President, Treasurer, Contoller and Chief Financial Officer Lyndon Property Insurance Company
Christopher J. Bernish Bannockburn, IL	Senior Vice President of Operations Asset Protection Division

Robert A. Dickey Chesterfield, MO	Vice President of Product Development Lyndon Property Insurance Company
Richard C. Hackett Chesterfield, MO	Senior Vice President and Secretary Lyndon Property Insurance Company
Mark S. Downar Chesterfield, MO	Assistant Secretary and Assistant Treasurer Lyndon Property Insurance Company
Laura L. Foster Chesterfield, MO	Second Vice President Legal/Compliance Asset Protection Division
Carrie A. Profaizer Chesterfield, MO	Vice President of Information Systems Lyndon Property Insurance Company
Richard J. Kurtz Chesterfield, MO	Vice President of Distribution Lyndon Property Insurance Company

Officers

The officers of the Company serving and reported on the Jurat page of the Annual Statement at December 31, 2013, were as follows:

<u>Name</u>	<u>Position</u>
M. Scott Karchunas	Chairman of the Board, Chief Executive Officer and President
Gregg O. Cariolano	Senior Vice President, Treasurer, Chief Financial Officer, and Controller
Richard C. Hackett	Senior Vice President and Secretary
Gregory J. Ciezadlo	Appointed Actuary
Richard J. Bielen	Vice President of Investments
Steven G. Walker	Vice President
Alice A. Lowry	Vice President, Tax
Charles D. Evers, Jr.	Assistant Secretary
Carrie A. Profaizer	Vice President of Information Technology
Carl S. Thigpen	Vice President of Investments
Deborah J. Long	General Counsel
Malcom L. Bartlett	Vice President, Corporate Accounting
Mark B. Whiting	Vice President and Assistant Secretary
Mark S. Downer	Assistant Treasurer/Assistant Secretary
Anthony C. Phillip	Assistant Secretary
Michael G. Temple	Vice President and Chief Risk Officer

Committees

In accordance with the bylaws, the board has established an executive committee with responsibility for managing the Company's affairs between meetings of the board. On a quarterly basis, the full board reviews and approves the actions of the executive

committee. At December 31, 2013, M. Scott Karchunas and Gregg O. Cariolano served on the executive committee.

The Company does not have an audit committee. To comply with Sections 375.1025-1062 RSMo, the Company has designated its entire board of directors to constitute the audit committee.

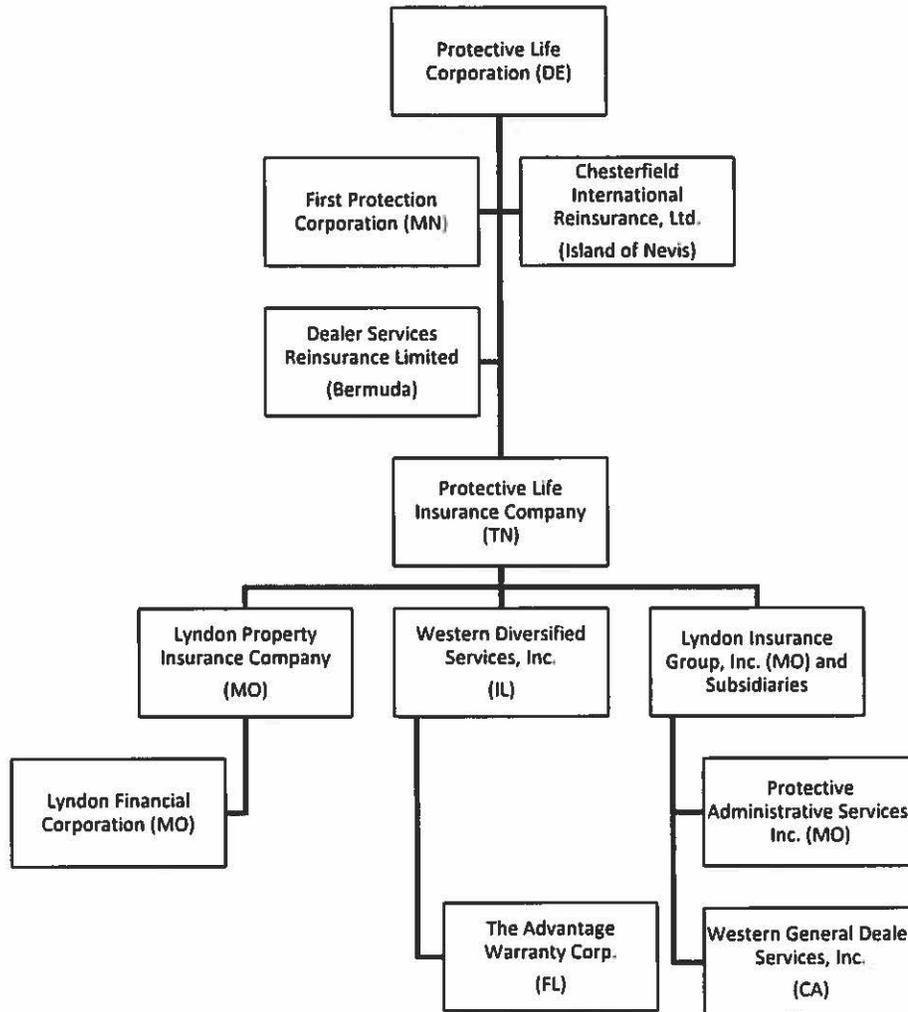
For practical purposes, the Company relies on the Audit Committee of Protective Life Corporation, the ultimate parent. That committee is comprised of five independent directors. Protective Life Corporation has other established committees that impact the Company such as the Corporate Governance and Nomination Committee, the Finance and Investments Committee, and the Compensation and Management Succession Committee.

Holding Company, Subsidiaries and Affiliates

The Company is part of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is a wholly owned subsidiary of PLICO, which in turn, is a wholly owned subsidiary of Protective Life Corporation, a Delaware holding company. Protective Life Corporation is the ultimate parent of the holding company system.

Organization Chart

The following organizational chart depicts an abbreviated portion of the holding company system at December 31, 2013. The following chart only includes the ultimate parent, the Company and other affiliates with which the Company has material affiliated agreements and transactions. All holdings are 100% unless otherwise noted.



Affiliated Transactions

The Company enters into various agreements with affiliates. The Company incurred \$6,585,063 in intercompany fees to affiliates, and earned \$22,987,005 from affiliates in 2013. In addition, the Company reported a \$1,707,691 income tax recoverable, and a \$6,103,765 deferred tax asset, pursuant to the intercompany tax allocation agreement. The intercompany agreements are described below:

Tax Allocation Agreement

- Affiliates: Protective Life Corporation, and its subsidiaries
- Effective: January 1, 1988. The last amendment was approved October 6, 2004.
- Terms: Protective Life Corporation and its subsidiaries consolidate their federal income tax returns. Each member of the Affiliated Group computes its separate tax liability as if it had filed a separate tax return. If a member incurs a tax loss or generates a tax credit resulting in a carry forward, the member will receive no credit until the credit can be used on a separate return basis. Intercompany tax balances are settled not later than the due date for corresponding tax payments or upon receipt of a refund.
- Rate(s): There are no fees related to the agreement.

Investment Services Agreement

Affiliates: Protective Life Corporation
Effective: January 20, 2000.
Terms: Protective Life Corporation provides investment services to the Company as well as the documentation necessary for the preparation of accounting records and any required reports.
Rate(s): Fees are computed from a set fee schedule and settled monthly.

Legal Services Agreement

Affiliates: Protective Life Corporation
Effective: January 1, 2004.
Terms: Protective Life Corporation provides legal services to the Company including the following: general corporate, insurance related, administrative and other regulatory, and litigation supervision and contracts.
Rate(s): Charges for legal services are settled quarterly at cost and include all direct and indirect allocable expenses.

Administrative Services Agreement

Affiliates: Protective Life Corporation, Protective Administrative Services, Inc., Western General Dealer Services, Inc., and various other members of the holding company
Effective: January 20, 2000.
Terms: The Company was added as a participant in to an already existing Agreement for Administrative Services dated October 1, 1988. Under this agreement, Protective Life Corporation provides administrative services as required by members of its holding company system. In addition, the agreement provides that the cost of administrative services provided to one member of the holding company to another that are not otherwise specifically provided for by separate agreements between the companies shall be shared in accordance to GAAP.
Rate(s): Such costs are accumulated and settled monthly.

Administrative Services Agreement

Affiliates: Western Diversified Services, Inc.
Effective: September 1, 2000. Amendment 2 was approved January 8, 2002.
Terms: Western Diversified Services, Inc. provides various administrative services for vehicle service and guaranteed asset protection contracts underwritten by the Company.
Rate(s): Under the agreement, Western Diversified Services, Inc. periodically presents an itemized statement of costs incurred in providing the services. The Company settles within fifteen days of receiving the statement.

Deposit Agreement

Affiliates: First Protection Corporation
Effective: November 1, 2001.
Terms: The Company agrees to accept and invest funds deposited from First Protection Corporation, and to make those deposited funds available to First Protection Corporation within five business days after receiving a written request.
Rate(s): The Company will pay interest on the funds at the same rate of return as the Company receives on its overall investment portfolio, net of investment expenses and including capital gains and losses.

Deposit Agreement

Affiliates: Chesterfield International Reinsurance Limited (Chesterfield)
Effective: February 1, 2006.
Terms: The Company agrees to accept and invest funds deposited from Chesterfield, and to make those deposited funds available to Chesterfield within five business days after receiving a written request.
Rate(s): The Company will pay interest on the funds at the same rate of return as the Company receives on its overall investment portfolio, net of investment expenses and including capital gains and losses.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a crime policy purchased by its parent, Protective Life Corporation, which provides \$75 million in coverage with a \$1.5 million deductible. This coverage exceeds the minimum amount of fidelity insurance recommended by the NAIC.

The Company is also a named insured on policies that provide the following liability coverages: general, automobile, excess, directors and officers, errors and omissions, fiduciary, and employment practices. The Company's insurance coverages appear adequate.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. Services are provided by affiliates under service agreements described under "Affiliated Transactions." Affiliates' employees are provided benefits typical of the industry including group health and dental coverage, group life insurance, short and long-term disability, a flexible spending account, a 401(k) plan, a non-contributory defined benefit pension plan, paid time off, an employee assistance plan and tuition reimbursement. Employee benefit costs, including retirement costs, are included in intercompany charges from affiliates.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in Missouri under Chapter 379 RSMo (Insurance other than life) to write property, liability, fidelity and surety, accident and health and miscellaneous

insurance. The Company is licensed in all states except New York, and is licensed in the District of Columbia and Puerto Rico.

The Company is a member of Protective Life Corporation's Asset Protection Division. The Company primarily markets extended service contracts (ESC) and guaranteed asset protection (GAP) products to auto dealers and recreational vehicle dealers. During 2013, approximately 55% of premiums earned were related to extended service contracts, while 43% were related to GAP products. The remaining 2% of earned premium was attributable to surety business. The Company's products are marketed by employee field representatives, independent agents, and retail dealers. During the examination period, the Company offered its products internationally, but has discontinued international operations.

GROWTH OF COMPANY

The Company's net written premium has been on an upward trend since 2010. The Company's main products, vehicle service contracts and GAP products are tied to the auto industry. The increase in premium is mainly a result of rebounding auto sales. Policyholder surplus has been on an upward trend as well, mirroring increases in net income. Decreases in policyholder surplus in 2011 and 2013 can be attributed to dividend payments.

Year	Net Premium Written	Policyholder Surplus	Net Premium Written to Policyholder Surplus
2009	\$ 43,750,943	\$ 168,059,277	26%
2010	42,935,450	185,334,670	23%
2011	63,291,821	180,704,318	35%
2012	74,644,772	183,970,572	41%
2013	77,709,877	146,597,978	53%

LOSS EXPERIENCE

The following exhibit reflects the Company's underwriting results over the last four years.

Year	Premiums Earned	Total Underwriting Deductions	Net Underwriting Gain/(Loss)
2010	\$ 63,750,871	\$ (64,816,867)	\$ (1,065,996)
2011	62,007,751	(64,953,625)	(2,945,874)
2012	65,831,452	(64,808,483)	1,022,969
2013	68,796,042	(68,589,233)	206,809

REINSURANCE

General

Direct written, assumed, and ceded premium for the current examination period was as follows:

	2010	2011	2012	2013
Direct Business	\$ 101,892,566	\$ 114,985,583	\$ 116,220,803	\$ 114,969,079
Reinsurance Assumed	3,900,609	9,975,474	11,152,952	9,390,297
Reinsurance Ceded	63,397,725	61,669,236	52,728,983	46,649,499
Net Premium	42,395,450	63,291,821	74,644,772	77,709,877

Assumed

The Company assumes a limited amount of business primarily pursuant to the contracts described below.

Old Republic Insurance Company (PA)

Effective January 1, 2001, the Company assumed, on a coinsurance basis, 100% of the liabilities related to a variety of products from Old Republic Insurance Company and Old Republic Minnehoma Insurance Company (subsequently renamed Old Republic Security Assurance Company). During the period under examination the products assumed were GAP and ESC. This agreement was effected by a novation agreement among the Company, Old Republic Insurance Company and Old Republic Security Assurance Company. The agreement was amended in July 2005 to redefine the territory covered by the agreement. The agreement was again amended January 1, 2007, to make Old Republic Insurance Company the sole ceding company pursuant to the agreement.

Virginia Surety Company Inc. (IL)

In conjunction with the PLICO's acquisition of the Prizm Group, Inc.'s service contract business on October 1, 2009, the Company entered into a reinsurance agreement, effective that date, with Virginia Surety Company Inc. ("VSCI"). The Company assumed on a coinsurance basis, 100% of the contractual indemnity losses under the insurance policies issued by VSCI related to a "Program Agreement" between VSCI, Prizm Administrative Solutions, Inc., Prizm Administrative Services of Wisconsin, Inc. and National Warranty of Florida, Inc.

Ceded

The Company cedes ESC and GAP coverages to affiliated alien reinsurers who retrocede that business to producer-affiliated reinsurance companies (PARCs). The PARCs are typically unauthorized, offshore corporations. Generally 100% of the risks associated with a given producer are ceded to one or more reinsurers affiliated with that producer. The Company also carries catastrophic loss coverage on its GAP product.

The following are descriptions of some of the more significant contracts the Company has in place to cede business. The Company also has agreements in place that are not described below, which cede products that are no longer emphasized or which have been discontinued such as workers' compensation.

Chesterfield International Reinsurance Limited (Island of Nevis - Caribbean)

Effective August 1, 2005, the Company ceded to Chesterfield, an affiliate, 100% of the liability on certain ESC contracts and GAP products. Chesterfield retrocedes the liability to PARCs. This agreement was effected by a novation agreement among the Company, Chesterfield and Dublin International, Ltd., which was originally effective July 1, 1998.

Chesterfield is not an authorized reinsurer. At December 31, 2013, the reserve credits were secured by funds withheld by the Company, letters of credit and/or trust accounts. The trust accounts were funded by the PARCs, naming the Company as beneficiary.

Dealer Services Reinsurance Limited (Bermuda)

Effective January 1, 2002, the Company ceded to Dealer Services Reinsurance, Ltd., (Dealer Services), an affiliate, 100% of the liability related to certain ESC contracts and GAP products. Dealer Services retrocedes the liability to PARCs. Dealer Services is not an authorized reinsurer. At December 31, 2013, the reserve credits were secured by funds withheld by the Company, letters of credit and/or trust accounts. The trust accounts were funded by the PARCs, naming the Company as beneficiary.

London Life International Reinsurance Corporation (Barbados)

Effective February 1, 2000, the Company ceded three blocks of business, on a coinsurance basis, to London Life International Reinsurance Corporation (Barbados). The reinsurance transaction was undertaken to reduce the statutory impact of PLICO's purchase of LIGI. The agreement has been amended twenty times with the latest amendment effective April 1, 2013. Various blocks of business have been added and recaptured over the years. At December 31, 2013, the reserve credits were secured by funds withheld by the Company and letters of credit.

Landmark American Insurance Company (OK)

Effective November 2011, the Company and Landmark American Insurance Company entered into an excess of loss reinsurance treaty, which provides catastrophic coverage for the Company's GAP product. The treaty has been renewed each subsequent November. The limit of liability is \$5,000,000 per occurrence, excess of \$1,000,000 in any one occurrence with a \$10,000,000 annual aggregate.

ACCOUNTS AND RECORDS

General

The Company's financial statements were prepared using Geac SmartStream general ledger software.

Most of the Company's business (ESC and GAP) are maintained in the MAX system, a mature AS/400 application that has been in use within the Protective Life Corporation (PLC). During the examination period, the Company began the process to replace the MAX system with a next generation administration application (TRAX). This project was abandoned in 2012, and TRAX is currently only being used to administer contract

cancellations and claims adjudication for the Canadian lines of business (now in runoff) and a small block of other business that was converted before the project was abandoned.

Actuarial Opinion

Reserves and related actuarial items were reviewed and certified by Gregory J. Ciezadlo, Vice President of Risk Management and Chief Actuary of Lyndon Property Insurance for each year under examination.

Pursuant to a contract with DIFP, Robert P. Daniel, ACAS, MAAA, of Merlinos & Associates, Inc., reviewed the underlying actuarial assumptions and actuarial methods used in determining the adequacy of reserves and other related liabilities. His report concluded that all actuarial items included in the review are fairly stated in accordance with accepted actuarial loss reserving standards and principles, meet the requirements of the insurance laws of Missouri, and make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and agreements.

Independent Auditor

The Company's financial statements for each year under examination were audited by PricewaterhouseCoopers LLP, Certified Public Accountants. The workpapers of the 2013 independent audit were reviewed and used during the course of this examination as deemed appropriate.

Information Systems

In conjunction with this examination, Andrew Balas, AES, Information Systems Financial Examiner with the DIFP, conducted a review of the Company's information systems. His evaluation did not identify any significant weaknesses.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2013, as reflected below had sufficient par and market values to meet the deposit requirement for the state of Missouri per Section 379.098 RSMo (Securities to be deposited by all companies, kind and amount).

Type of Security	Par Value	Fair Value	Statement Value
US Treasury Notes	\$ 2,650,000	\$ 2,656,633	\$ 2,664,071

Deposits with Other States

The Company also has funds on deposit with other states in which it is licensed. Those funds on deposit as of December 31, 2013, were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Georgia	US Treasury Note	\$ 55,000	\$ 54,330	\$ 54,316
Massachusetts	US Treasury Note	100,000	98,336	100,637
New Mexico	US Treasury Note	350,000	344,176	352,230
North Carolina	US Treasury Note	500,000	491,680	503,186
Oregon	US Treasury Note	290,000	285,174	291,848
Puerto Rico	PR Electric Power Authority	1,000,000	620,100	1,006,443
Virginia	US Treasury Note	265,000	260,590	266,688
		<u>\$ 2,560,000</u>	<u>\$ 2,154,386</u>	<u>\$ 2,575,348</u>

Other Special Deposits

In addition to the funds on deposit with the various states, the Company has numerous other securities reported as special deposits. These deposits are not for the benefit of all policyholders. The deposits are funds held by the Company to back specific reinsurance contracts. The statement and market value of these securities at December 31, 2013, was \$5,768,667 and \$6,257,812 respectively.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2013, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on the Financial Statements." These differences, if any, were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 302,025,643	\$ -	\$ 302,025,643
Preferred stocks	2,422,965	-	2,422,965
Common stock	2,483,600	-	2,483,600
Cash, cash equivalents and short-term investments	21,132,082	-	21,132,082
Receivable for securities	71,853	-	71,853
Investment income due and accrued	3,968,283	-	3,968,283
Uncollected premiums	456,270	524,387	(68,117)
Amounts recoverable from reinsurers	14,693	-	14,693
Funds held by or deposited with reinsured companies	14,695,485	-	14,695,485
Current federal income tax recoverable	1,707,691	-	1,707,691
Net deferred tax asset	16,250,304	6,103,765	10,146,539
Receivables from parent, subsidiaries and affiliates	6,766,147	-	6,766,147
EDP equipment	187,039	187,039	-
Furniture and equipment	450,070	450,070	-
Prepaid items	57,333	57,333	-
Total assets	\$ 372,689,458	\$ 7,322,594	\$ 365,366,864

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 14,730,255
Loss adjustment expenses	2,820
Commissions payable	393,193
Other expenses	4,139,301
Taxes, licenses and fees	478,201
Unearned premium	147,506,856
Ceded reinsurance premiums payable	570,035
Funds held by company under reinsurance treaties	44,066,740
Amounts withheld or retained for the account of others	1,250,000
Provision for reinsurance	184,000
Payable to parents, subsidiaries, and affiliates	<u>5,447,485</u>
Total liabilities	<u>\$ 218,768,886</u>
Common capital stock	\$ 4,000,000
Gross paid in and contributed surplus	81,038,424
Unassigned funds (surplus)	<u>61,559,554</u>
Total capital and surplus	<u>\$ 146,597,978</u>
Total liabilities, capital and surplus	<u><u>\$ 365,366,864</u></u>

STATEMENT OF INCOME

Premiums earned	\$ 68,796,042
Losses Incurred	51,983,927
Loss adjustment expenses incurred	45,447
Other underwriting expenses incurred	16,559,859
Aggregate write-ins for underwriting deductions	-
Total Underwriting deductions	<u>68,589,233</u>
Net underwriting gain or (loss)	\$ 206,809
Net investment income earned	17,132,400
Net realized capital gains or (losses) less capital gains tax	<u>1,822,626</u>
Net investment gain (loss)	\$ 18,955,026
Net gain or (loss) from agents' or premiums balances charged off	(24,642)
Other income	48
Interest expense on funds withheld	<u>(622,514)</u>
Total	<u>\$ (647,108)</u>
Net income before dividends, after capital gains tax and before FIT	\$ 18,514,727
Dividends to policyholders	-
Net gain from operations after dividends and before taxes	<u>\$ 18,514,727</u>
Federal and Foreign Income Tax	<u>5,897,495</u>
Net gain from operations after dividends and taxes and before capital gains	<u><u>\$ 12,617,232</u></u>

CAPITAL AND SURPLUS

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus, December 31 prior year	\$ 168,059,277	\$ 185,334,670	\$ 180,704,318	\$ 183,970,572
Change as a result of merger activity				
Adjusted beginning capital and surplus	<u>\$ 168,059,277</u>	<u>\$ 185,334,670</u>	<u>\$ 180,704,318</u>	<u>\$ 183,970,572</u>
Net income	12,761,070	7,891,271	7,339,798	12,617,232
Change in unrealized capital gains (losses)	3,621,596	(932,673)	3,088,847	83,027
Change in unrealized foreign exchange capital gains (losses)	419,547	(450,577)	77,291	(466,794)
Change in net deferred income tax	(1,981,833)	142,718	2,406,065	(410,588)
Change in non-admitted assets	2,609,013	(1,290,891)	10,072	807,529
Change in provision for reinsurance	(154,000)	9,800	14,200	(3,000)
Paid in capital and surplus			329,981	
Dividends to stockholders		(10,000,000)	(10,000,000)	(50,000,000)
Aggregate write-ins for gains and (losses) in surplus				
Examination changes				
Change in capital and surplus for the year	<u>\$ 17,275,393</u>	<u>\$ (4,630,352)</u>	<u>\$ 3,266,254</u>	<u>\$ (37,372,594)</u>
Capital and surplus, December 31 current year	<u>\$ 185,334,670</u>	<u>\$ 180,704,318</u>	<u>\$ 183,970,572</u>	<u>\$ 146,597,978</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There are no comments on the financial statements.

SUMMARY OF RECOMMENDATIONS

There are no recommendations.

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Michael Shadowens, CFÉ
Audit Manager, St. Louis
Missouri Department of Insurance, Financial
Institutions and Professional Registration