Mr. Tracy Tucker, President  
Indemnity National Insurance Company  
4800 Old Kingston Pike  
Knoxville, TN 37919  

RE: Report of Examination as of December 31, 2013  

Dear Mr. Tucker:  

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.  

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.  

If you have any questions or comments, please feel free to contact me.  

Sincerely,  

MIKE CHANEY  
COMMISSIONER OF INSURANCE  

BY  
Christina J. Kelsey  
Senior Attorney  

MC/CJK/bs  
Encls. Order w/exhibit
BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI

IN RE: REPORT OF EXAMINATION OF INDEMNITY NATIONAL INSURANCE COMPANY CAUSE NO. 15-6871

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011). The Commissioner, having fully considered and reviewed the Report of Examination, together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011).

II.

That Indemnity National Insurance Company is a Mississippi-domiciled company licensed to write Accident & Health; Automobile Physical Damage/Liability; Boiler & Machinery; Casualty/Liability; Fidelity; Fire/Allied Lines; Guaranty; Home/Farm Owners; Industrial Fire; Inland Marine; Legal; Mortgage Guaranty; Ocean Marine; Plate Glass; Surety; Title and Workers’ Compensation coverages.
FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for an examination of Indemnity National Insurance Company and appointed Kimberly Strong, Examiner-In-Charge, to conduct said examination.

IV.

That on or about March 23, 2015, the draft Report of Examination concerning Indemnity National Insurance Company for the period of January 1, 2010, through December 31, 2013, was submitted to the Department by the Examiner-In-Charge, Kimberly Strong.

V.

That on or about May 29, 2015, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period to submit any rebuttal to the draft report. The Company responded to the draft on or about June 12, 2015.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the Report of Examination, the Company’s rebuttal, and all relevant examiner work papers, that the Report of Examination of Indemnity National Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.
IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage prepaid, return receipt requested.

IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential information for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, Indemnity National Insurance Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that Indemnity National Insurance Company take the necessary actions and implement the necessary procedures to properly and promptly comply with all recommendations contained in the Report of Examination.

SO ORDERED, this the 18th day of June 2015.

[Signature]
MARK HAIRE
DEPUTY COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI
CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 18th day of June 2015, to:

Mr. Tracy Tucker, President
Indemnity National Insurance Company
4800 Old Kingston Pike
Knoxville, TN 37919

[Signature]
Christina J. Kelsey
Senior Attorney

Christina J. Kelsey
Senior Attorney
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 9853
MISSISSIPPI INSURANCE DEPARTMENT

Report of Examination

of

Indemnity National Insurance Company

as of

December 31, 2013
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EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

State of Mississippi, 
County of Madison, 

Kimberly Strong, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Indemnity National Insurance Company as of December 31, 2013.

2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination workpapers and examination report, and the examination of Indemnity National Insurance Company was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.

Kimberly Strong, CPA, CFE
Examiner-in-Charge

Subscribed and sworn before me by Kimberly Strong on this 19th day of

Man...[signature]

Notary Public
My commission expires 10/1/2017 [date].
March 23, 2015

Honorable Mike Chaney
Commissioner of Insurance
Mississippi Insurance Department
1001 Woolfolk Building
501 North West Street
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2013, of the affairs and financial condition of:

INDEMNITY NATIONAL INSURANCE COMPANY
4800 Old Kingston Pike
Knoxville, Tennessee 37919

<table>
<thead>
<tr>
<th>License #</th>
<th>NAIC Group #</th>
<th>NAIC #</th>
<th>FEETS #</th>
<th>ETS #</th>
</tr>
</thead>
<tbody>
<tr>
<td>9300036</td>
<td>4765</td>
<td>18468</td>
<td>18468-MS-2013-3</td>
<td>MS129-M8</td>
</tr>
</tbody>
</table>

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 et seq. and was performed in Knoxville, Tennessee at the home office of the Company. The report of examination is herewith submitted.
SCOPE OF EXAMINATION

We have performed a multi-state examination of Indemnity National Insurance Company ("Company" or "INIC"). The last exam was completed as of December 31, 2009. This examination covers the period January 1, 2010 through December 31, 2013.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. 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 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, 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.

COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION

The comments and recommendation included in the previous examination report were addressed by the Company in a manner deemed to be acceptable by the MID.

HISTORY OF THE COMPANY

The Company was incorporated as Great River Insurance Company ("Great River") on December 2, 1993, under the laws of the State of Mississippi and commenced business on that date. The purpose for which the Company was formed, as stated in the Articles of Association, was to enter into all forms of insurance contracts insuring perils similar to those described within Miss. Code Ann. § 83-19-1 "Class One (1) – Fire and Casualty", and accident and health, and to carry on any other business activities and financial services that an insurance company can lawfully conduct under the laws of the State of Mississippi.

On July 1, 2004, Great River entered into a 100% Transfer and Assumption Agreement with a former affiliate, Union Insurance Company ("Union"), under which all policies in force, all policy liabilities, and all non-policy liabilities were transferred to Union. This transaction was approved by the domiciliary insurance departments of both companies.

On December 15, 2005, the Mississippi Insurance Commissioner approved the sale of all of the issued and outstanding shares of Great River to Knox Holdings, Inc. ("Knox"). Knox is a holding company organized in August 2005 as a corporation under the laws of Tennessee for the purposes of acquiring Great River.
On December 27, 2005, Great River amended its Articles of Association to change the name of the company to Indemnity National Insurance Company.

**CORPORATE RECORDS**

The minutes of the meetings of the stockholders and board of directors, prepared during the period under examination, were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation, which included approval of the Company's investment portfolio and actions of the Company's officers.

**MANAGEMENT AND CONTROL**

**Stockholders**

As of December 31, 2013, the Company had issued and outstanding thirty-three thousand eight hundred fifty-nine (33,859) shares of common capital stock with a par value of $65 per share. Knox owned 92.96% and various investors, some representing management, owned the balance of the outstanding shares. The Company paid extraordinary dividends in the amount of $2,713,920 during 2013.

**Board of Directors**

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board of Directors ("Board"). The members of the duly elected Board, along with their place of residence and principal occupation, at December 31, 2013, were as follows:

<table>
<thead>
<tr>
<th>Name and Residence</th>
<th>Principal Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matthew Tracy Tucker</td>
<td>President, Indemnity National Insurance Company</td>
</tr>
<tr>
<td>Knoxville, Tennessee</td>
<td></td>
</tr>
<tr>
<td>Charles Kyle Slatery</td>
<td>Chief Executive Officer, NFC Investments, LLC</td>
</tr>
<tr>
<td>Memphis, Tennessee</td>
<td></td>
</tr>
<tr>
<td>James Donald Lackie</td>
<td>President, Lackie Trading, Inc.</td>
</tr>
<tr>
<td>Memphis, Tennessee</td>
<td></td>
</tr>
</tbody>
</table>
### Officers

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matthew Tracy Tucker</td>
<td>President</td>
</tr>
<tr>
<td>Charles Kyle Slatery</td>
<td>Secretary</td>
</tr>
<tr>
<td>James Donald Lackie</td>
<td>Treasurer</td>
</tr>
<tr>
<td>Robert Willard Shepard</td>
<td>Chief Financial Officer</td>
</tr>
</tbody>
</table>

### Conflict of Interest

The Company had formal procedures whereby disclosure was made to the Board of any material interest or affiliation on the part of any officer or director that was, or would likely be, a conflict with the official duties of such persons. Written statements were signed annually by all officers and members of the Board.

### Corporate Governance

The risk-focused surveillance approach requires examiners to consider the insurer's corporate governance and established risk management processes. This evaluation included assessing the "tone-at-the-top", board of directors and management oversight and understanding and conveyance of the necessity of internal controls to employees. Strong corporate governance encompasses a clearly defined vision of ethics, appropriate goals, effective strategy, effective implementation of the strategy, and appropriate reporting systems emphasizing feedback and transparency.

It was noted that the Company's management, as of December 31, 2013, consisted of a President, Secretary, Treasurer and Chief Financial Officer. In accordance with the Company's Bylaws, the Board consisted of three board members. Information regarding the Board members and officers can be found in the "Management and Control" section of this report.

The appropriateness of the Company's organizational structure and its ability to provide the necessary information flow to manage its activities were considerations in obtaining an understanding of the organizational structure. This consideration also encompassed an understanding of the assignment of authority and responsibility. It was noted that the Company maintained informal internal control policies during the period under examination. Management maintained controls over its IT environment and frequently corresponded with its external auditors, Plante & Moran. The management structure of the Company showed clear assignment of responsibilities within the Company. It was determined that the Company exhibited acceptable internal controls for the size and nature of the Company; however, additional procedures need to be implemented in the area of segregation of duties.

Management competence was a consideration in the overall assessment of corporate governance. Factors such as management's experience level and management turnover were considered as part of the assessment. It was determined that management had significant experience with the Company and the surety bond industry.
The Company's enterprise risk management was informal. Risk management was discussed in regular meetings by management and plans were developed to manage and mitigate those risks. Management interacted and communicated frequently.

**HOLDING COMPANY STRUCTURE**

The Company was a member of an insurance holding company system as defined in Miss. Code Ann. § 83-6-1. The Company was required to file with the MID, Holding Company Registration Statements in accordance with Miss. Code Ann. § 83-6-5 and § 83-6-9. These filings set forth material changes in structure, identity or relationships of affiliates and any material transactions by and between the Company and its affiliates.

**Organizational Chart**

The above organizational chart represents the direct ownership of the Company. The complete organizational chart is included as Appendix A to this report.

**Parent and Subsidiaries:**

KNOX HOLDINGS, INC ("Knox"): Knox Holdings, Inc. is a Tennessee corporation organized in August 31, 2005 for purpose of acquiring Great River Insurance Company.
Related Party Transactions

Tax Sharing Agreement among Affiliates:

The Company and Knox entered into an Intercompany Tax Sharing Agreement effective January 1, 2006. Pursuant to the terms of the agreement, the Company will file a consolidated tax return and pay any taxes due on or before the due date. The Company will compute its tax as if a separate return was filed using currently applicable federal income tax rates. If the Company has a tax due, the amount will be paid to Knox on a quarterly basis. If the Company has a net loss that will reduce the consolidated tax liability, Knox will reimburse the Company on a quarterly basis. This agreement appears to be in compliance with the requirements of SSAP No. 25.

Investment Advisory Agreement:

Effective January 1, 2006, the Company entered into an investment advisory agreement with CKS Advisors, LLC, now NFC Investments. The agreement states that NFC Investments will provide investment advice and investment management services. Investment fees will be charged a rate of six-tenths of one percent (0.6%) of the monthly market value to be paid monthly in arrears. For the year end December 31, 2013, the Company paid NFC Investments, LLC $99,810. This agreement appears to be in compliance with the requirements of SSAP No. 25.

FIDELITY BOND AND OTHER INSURANCE

The Company had a comprehensive corporate insurance program in place, which included commercial general liability and commercial property; as well as, other policies deemed appropriate by management. At December 31, 2013, the Company was covered by a financial institutions bond with a $500,000 single loss limit. The amount recommended by the NAIC was $175,000. It is noted the Company is in compliance with the Financial Examiners Handbook requirements.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had three employees that performed its day-today operations. The Company provided paid vacation, holidays, and sick leave for these employees. The Company does not currently offer pension, stock ownership and insurance plans to its employees.
TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was authorized to write the following lines of business in the State of Mississippi:

- Accident & health
- Automobile physical damage/liability
- Boiler and machinery
- Casualty/liability
- Fidelity
- Fire/allied lines
- Guaranty
- Home/farm owners
- Workers' compensation
- Industrial fire
- Inland marine
- Legal
- Mortgage guaranty
- Ocean marine
- Plate glass
- Surety
- Title

As of December 31, 2013, the Company was licensed in the following states:

- Alabama
- Arizona
- Arkansas
- Colorado
- Georgia
- Kentucky
- Louisiana
- Mississippi
- Nevada
- New Mexico
- Oklahoma
- South Carolina
- Tennessee
- Texas
- Utah

INIC's single line of business is coal reclamation surety bonds marketed through a limited number of agents. These bonds warrant that land used for coal mining will be returned to its pre-existing condition. For the year ended December 31, 2013, approximately 98% of the Company's direct premiums were written in the State of Kentucky. As of December 31, 2013, the Company had approximately 1,790 bonds outstanding.

GROWTH OF COMPANY

The review of the growth of the Company was performed based on balances as reported in the annual statements filed with the MID during the period under examination.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in surplus</td>
<td>$(575,059)</td>
<td>$219,686</td>
<td>$(872,645)</td>
<td>$950,369</td>
</tr>
<tr>
<td>Ratio of premiums to</td>
<td>.20 to 1</td>
<td>.20 to 1</td>
<td>.20 to 1</td>
<td>.19 to 1</td>
</tr>
<tr>
<td>capital and surplus</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio of assets to</td>
<td>3.0 to 1</td>
<td>3.3 to 1</td>
<td>3.5 to 1</td>
<td>3.9 to 1</td>
</tr>
<tr>
<td>liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio of revenues to</td>
<td>1.7 to 1</td>
<td>1.7 to 1</td>
<td>2.0 to 1</td>
<td>1.6 to 1</td>
</tr>
<tr>
<td>expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flows from</td>
<td>$1,646,015</td>
<td>$1,583,425</td>
<td>$1,835,893</td>
<td>$1,821,571</td>
</tr>
<tr>
<td>operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>$1,502,111</td>
<td>$1,615,342</td>
<td>$1,835,893</td>
<td>$1,821,571</td>
</tr>
</tbody>
</table>
REINSURANCE

Reinsurance Intermediary:

The Company used the services of the Integro Insurance Brokers, Limited, a Mississippi licensed reinsurance intermediary.

Ceded Reinsurance Agreements:

The Company had two reinsurance agreements in force as of the examination date. These agreements were in excess of loss agreements with various Lloyd's Underwriting Syndicates and R&V Allgemeine Versicherung Ag. and provide reinsurance on any occurrence in excess of $2,000,000 up to $22,500,000 per principal.

ACCOUNTS AND RECORDS

The Company's 2013 trial balances were tied to the financial statements within the statutory annual statements filed with the MID, with no material exceptions noted. The Company was audited annually by an independent CPA firm. The Company utilized the services of a consulting actuary to review loss and loss adjustment expenses and provide an actuarial opinion to be submitted to the MID.

The Company is licensed as a multi-line insurance company pursuant to Miss. Code Ann. § 83-19-31(1)(b), which requires the Company to maintain a minimum capital of $600,000 and surplus of $900,000. Pursuant to Miss. Code Ann. § 83-5-55, the Company is required to file an NAIC Property and Casualty Annual Statement. The Company is also required to file a risk-based capital (RBC) report pursuant to Miss. Code Ann. § 83-5-401 through § 83-5-427.

It was noted that Other Invested Assets (Schedule BA) exceeded the statutory limitation of ten percent (10%) of total admitted assets as permitted by Miss. Code Ann. § 83-19-51(2). The adjustment for the excess in the amount of $218,459 was considered immaterial and no financial statement adjustment was included in the financial statements included in this report at pages 11 through 14. It is recommended the Company appropriate non-admit assets in excess of statutory limitations as established by Miss. Code Ann. § 83-19-51(2).

It was noted that as of December 31, 2013, the Company's surety bond detail included surety bonds issued to a single principal in excess of the U. S. Treasury underwriting limitation. Code of Federal Regulation ("CFR") Part 223.10 states that "no company shall underwrite any risk on any bond or policy on behalf of any corporation the amount of which is greater than ten percent of the paid – up capital and surplus of such company". In addition, Miss. Code Ann. § 83-27-9, states that "no company shall be accepted as a surety on any bond for an amount larger than one tenth (1/10) of the company's paid up capital and surplus as reflected in its last annual statement, unless it shall be secured from loss beyond such amount by reinsurance in an authorized company or by the amount
of any "cosuretyship". It is recommended the Company implement procedures to ensure that no bonds are issued to a single principal in excess of the U. S. Treasury underwriting limitation (CFR 223.10) and Miss. Code Ann. § 83-27-9.

STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-19-31(2) and § 83-7-21. The following chart displays the Company's deposits at December 31, 2013:

<table>
<thead>
<tr>
<th>Description of Security</th>
<th>State Deposited</th>
<th>Book/Adjusted Carrying Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>Arkansas</td>
<td>$ 208,108</td>
<td>$ 197,228</td>
</tr>
<tr>
<td>Bonds</td>
<td>Georgia</td>
<td>75,000</td>
<td>75,270</td>
</tr>
<tr>
<td>Bonds</td>
<td>Mississippi</td>
<td>1,700,804</td>
<td>1,713,193</td>
</tr>
<tr>
<td>Bonds</td>
<td>New Hampshire</td>
<td>300,728</td>
<td>304,782</td>
</tr>
<tr>
<td>Bonds</td>
<td>New Mexico</td>
<td>630,097</td>
<td>648,505</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$ 2,914,737</td>
<td>$ 2,938,978</td>
</tr>
</tbody>
</table>

Indemnity National Insurance Company
MID Examination as of December 31, 2013
FINANCIAL STATEMENTS

Introduction

The following financial statements consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2013, a Statement of Income for the year ended December 31, 2013, a Reconciliation of Surplus as Regards Policyholders for the examination period ended December 31, 2013 and a Reconciliation of Examination Adjustments to Surplus as Regards Policyholders at December 31, 2013.
## Statement of Assets, Liabilities, Surplus and Other Funds
### December 31, 2013

### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$8,115,674</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>2,427,447</td>
</tr>
<tr>
<td>Common stock</td>
<td>3,365,426</td>
</tr>
<tr>
<td>Cash and short-term investments</td>
<td>834,280</td>
</tr>
<tr>
<td>Derivatives</td>
<td>141,760</td>
</tr>
<tr>
<td>Other invested assets</td>
<td>1,957,078</td>
</tr>
<tr>
<td>Receivables for securities</td>
<td>271,759</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>108,197</td>
</tr>
<tr>
<td>Uncollected premiums and agents' balances in the course of collection</td>
<td>164,566</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$17,386,187</td>
</tr>
</tbody>
</table>

### Liabilities, Surplus and Other Funds

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses</td>
<td>$2,739,877</td>
</tr>
<tr>
<td>Loss adjustment expenses</td>
<td>1,105,806</td>
</tr>
<tr>
<td>Other expenses</td>
<td>3,353</td>
</tr>
<tr>
<td>Taxes, licenses and fees</td>
<td>32,111</td>
</tr>
<tr>
<td>Current federal and foreign income taxes</td>
<td>136,558</td>
</tr>
<tr>
<td>Net deferred tax liability</td>
<td>232,907</td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>1,502,887</td>
</tr>
<tr>
<td>Ceded reinsurance premiums payable (net of ceding commissions)</td>
<td>(137,053)</td>
</tr>
<tr>
<td>Amounts withheld or retained by company for account of others</td>
<td>200,000</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>5,816,446</td>
</tr>
</tbody>
</table>

- Common capital stock: $65 par value; 100,000 shares authorized; 33,859 shares issued and outstanding: $2,200,245
- Gross paid-in and contributed surplus: $10,499,960
- Unassigned funds (surplus): $(1,130,464)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus as regards policyholders</td>
<td>11,569,741</td>
</tr>
<tr>
<td><strong>Total liabilities, surplus and other funds</strong></td>
<td>$17,386,187</td>
</tr>
</tbody>
</table>
**Statement of Income**  
For the Examination Period Ended December 31, 2013

<table>
<thead>
<tr>
<th>Underwriting Income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums earned</td>
<td>$2,324,412</td>
</tr>
<tr>
<td>Losses incurred</td>
<td>596,144</td>
</tr>
<tr>
<td>Loss adjustment expenses incurred</td>
<td>108,389</td>
</tr>
<tr>
<td>Other underwriting expenses incurred</td>
<td>877,659</td>
</tr>
<tr>
<td><strong>Total underwriting deductions</strong></td>
<td>1,582,192</td>
</tr>
<tr>
<td><strong>Net underwriting gain (loss)</strong></td>
<td>742,220</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment income earned</td>
<td>1,020,232</td>
</tr>
<tr>
<td>Net realized capital gains</td>
<td>184,911</td>
</tr>
<tr>
<td><strong>Net investment gain (loss)</strong></td>
<td>1,205,143</td>
</tr>
<tr>
<td>Net income before federal income taxes</td>
<td>1,947,363</td>
</tr>
<tr>
<td>Federal and foreign income taxes</td>
<td>445,252</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$1,502,111</td>
</tr>
</tbody>
</table>
## Reconciliation of Surplus as Regards Policyholders
**For the Examination Period Ended December 31, 2013**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus as regards policyholders, beginning of the year</td>
<td>$12,144,800</td>
<td>$11,925,114</td>
<td>$12,797,759</td>
<td>$11,847,390</td>
</tr>
<tr>
<td>Net income</td>
<td>1,502,111</td>
<td>1,615,342</td>
<td>1,412,612</td>
<td>1,309,700</td>
</tr>
<tr>
<td>Change in net unrealized capital gains</td>
<td>685,330</td>
<td>310,536</td>
<td>(791,191)</td>
<td>496,554</td>
</tr>
<tr>
<td>Change in net deferred income tax</td>
<td>(98,643)</td>
<td>(566,282)</td>
<td>204,325</td>
<td>601,361</td>
</tr>
<tr>
<td>Change in non-admitted assets</td>
<td>-</td>
<td>2,218,490</td>
<td>(693,043)</td>
<td>(515,307)</td>
</tr>
<tr>
<td>Capital changes: paid in</td>
<td>50,063</td>
<td>50,075</td>
<td>50,006</td>
<td>50,061</td>
</tr>
<tr>
<td>Dividends to stockholders</td>
<td>(2,713,920)</td>
<td>(3,408,475)</td>
<td>(1,055,354)</td>
<td>(992,000)</td>
</tr>
<tr>
<td>Surplus as regards policyholders, end of the year</td>
<td>$11,569,741</td>
<td>$12,144,800</td>
<td>$11,925,114</td>
<td>$12,797,759</td>
</tr>
</tbody>
</table>
There were no changes made to the admitted assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2013. Surplus as regards policyholders, which totaled $11,569,741 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann., § 83-19-31.
MARKET CONDUCT ACTIVITIES

A full market conduct examination was not conducted; however, specific areas of the market conduct activities were reviewed. The specific areas reviewed included those items as indicated below.

Policyholder Service

The examiners noted no complaints filed with the Company or the MID during the period under examination.

Underwriting and Rating

Based upon procedures performed during the course of the examination, the Company appeared to be appropriately applying premium rates for surety bonds based on application data and was actively underwriting bonds on an individual basis.

Producer Licensing

The Company appeared to have the appropriate licensure to issue its products and agents appeared to have been properly licensed and appointed.
COMMITMENTS AND CONTINGENT LIABILITIES

Procedures performed during the course of the examination revealed no pending litigation outside of the normal course of business, commitments or other contingent liabilities to which the Company was a party.
COMMENTS AND RECOMMENDATIONS

1. It is recommended the Company appropriately non-admit assets in excess of statutory limitations as established by Miss. Code Ann. § 83-19-51(2).

2. It is recommended the Company implement procedures to ensure that no bonds are issued to a single principal in excess of the U. S. Treasury underwriting limitation (CFR 223.10) and Miss. Code Ann. § 83-27-9.
SUBSEQUENT EVENTS

Subsequent to the examination date, the following actions were taken in regard to items contained within the "Comments and Recommendations" sections of this report:

In April, 2014, the Company discovered that bonds had been issued to a principal in excess of the U. S. Treasury underwriting limitation (CFR 223.10) and Miss. Code Ann. § 83-27-9. The Company cancelled the bonds and placed the bonds with another carrier.
ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Administrative Examiner  
Examiner-in-charge  
Consulting Actuary  
Examiner  
Examiner  
Investment Specialist  
Investment Specialist  

Jimmy Blissett, CFE  
Kimberly Strong, CPA, CFE  
Robert P. Daniel, ACAS, MAAA  
Mary Anne King, CPA  
Todd Merchant, CPA  
Charles E. Ross, Attorney  
Jane Meynardie, Attorney  

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,

Kimberly Strong

Kimberly Strong, CPA, CFE  
Examiner-in-charge
As of December 31, 2013

Appendix A

Insurance Holding Company Systems Included by the NAIC in Group Code #4765
As of December 31, 2013 (continued)

Insurance Holding Company Systems Included by the NAIC in Group Code #4765

NF&C Risk Services Corporation (IL Corporation) (Company Management)
Approx 20%
National Fire & Casualty Company (IL Insurance Company) NAIC#10568

WBL Corp. (TN Corporation)
Approx 80%

Company Management
7%

Knox Holdings, Inc. (TN Corporation)
51%

Indemnity National Insurance Company (MS Insurance Company) NAIC#16488