

**PROCEEDINGS BEFORE MICHAEL D. RILEY
INSURANCE COMMISSIONER
OF THE STATE OF WEST VIRGINIA**

IN RE: COVENTRY HEALTHCARE OF WEST VIRGINIA, INC.

Administrative Proceeding No.: 14-AP-FINCON-02007

**AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND
DIRECTING ACTION**

COMES NOW Michael D. Riley, Insurance Commissioner of the State of West Virginia, and issues this Order which adopts the REPORT OF FINANCIAL EXAMINATION as of December 31, 2012, of COVENTRY HEALTH CARE OF WEST VIRGINIA, INC. (hereinafter referred to as "Company") based upon the following findings, to wit:

JURISDICTION

1. Michael D. Riley is the Insurance Commissioner of the State of West Virginia (hereinafter the "Insurance Commissioner") and is charged with the duty of administering and enforcing the provisions of Chapter 33 of the West Virginia Code of 1931, as amended.

2. The Company was originally incorporated on August 25, 1994 under the name of Charleston Area Health Plans, Inc. However, the name was changed to Carelink Health Plans, Inc., (Carelink) on September 5, 1997. The plan became a federally qualified HMO on April 28, 1998. Pursuant to the Form A filing of July 31, 1999, Coventry Health Care, Inc., (Coventry) acquired Carelink in a transaction that included the merger of Coventry Health Plan of West Virginia (dba HealthAssurance HMO) with and into Carelink. Carelink was the surviving entity. On September 4, 2012, Carelink changed its name to Coventry Health Care of West Virginia, Inc.

FINDINGS OF FACT

1. An examination of the financial condition and operational affairs of the Company for period beginning January 1, 2008 and ending December 31, 2012, was conducted in accordance with West Virginia Code §33-2-9(c) by the Insurance Commissioner.

2. The examiner filed a REPORT OF FINANCIAL EXAMINATION with the Insurance Commissioner pursuant to W.Va. Code § 33-2-9(j)(2). A copy of the REPORT OF FINANCIAL EXAMINATION is attached hereto as Exhibit A and incorporated herein as if set forth in full.

3. On or about June 10, 2014, a true and accurate copy of the REPORT OF FINANCIAL EXAMINATION was forwarded to the Company by certified mail, return receipt requested. On June 13, 2014, the Company received the certified mail copy of the REPORT OF FINANCIAL EXAMINATION.

4. Pursuant to W.Va. Code § 33-2-9(j)(2), the Company was notified and afforded a period of thirty (30) days after receipt of the REPORT OF FINANCIAL EXAMINATION within which to make a submission, rebuttal, or objection concerning any matter contained in the REPORT OF FINANCIAL EXAMINATION.

5. By letter dated June 20, 2014, the Company responded to the REPORT OF FINANCIAL EXAMINATION within the time allowed by W. Va. Code § 33-2-9(j)(2). Said response was reviewed and considered by the Insurance Commissioner.

CONCLUSIONS OF LAW

W.Va. Code § 33-2-9(j)(3)(A) provides that following a review of the REPORT OF FINANCIAL EXAMINATION, the examination work papers, and any written submission, rebuttal, or objection the Insurance Commissioner shall enter an ORDER adopting the REPORT OF FINANCIAL EXAMINATION as filed or with modifications or corrections.

ORDER

It is therefore AGREED by the Parties and ORDERED the following:

1. It is **ORDERED** that the Report of Financial Examination of COVENTRY HEALTH CARE OF WEST VIRGINIA, INC., attached hereto as Exhibit A, is hereby ADOPTED and APPROVED by the Insurance Commissioner.

2. It is further **ORDERED** that a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION AND DIRECTING ACTION and the adopted REPORT OF FINANCIAL EXAMINATION shall be mailed to COVENTRY HEALTH CARE OF WEST VIRGINIA, INC., by certified mail, return receipt requested upon entry of this Order by the Insurance Commissioner.

3. It is **ORDERED** that COVENTRY HEALTH CARE OF WEST VIRGINIA, INC., shall file with the Insurance Commissioner, within thirty (30) days of the issuance of this ORDER, affidavits executed by each of its directors stating under oath that they have received a copy of the adopted REPORT OF FINANCIAL EXAMINATION and a copy of this AGREED ORDER ADOPTING REPORT OF FINANCIAL EXAMINATION and DIRECTING ACTION, in accordance with W.Va. Code § 33-2-9(j)(4).

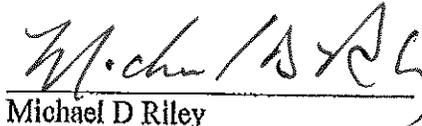
4. It is **ORDERED** that COVENTRY HEALTH CARE OF WEST VIRGINIA, INC., take whatever actions are required to comply with the recommendations set forth in the REPORT OF FINANCIAL EXAMINATION, if any, and shall demonstrate compliance to the satisfaction of the Insurance Commissioner, if necessary.

5. That COVENTRY HEALTH CARE OF WEST VIRGINIA, INC., waives any right to any notice, administrative hearing or appeal therefrom for the actions taken by the Insurance

Commissioner herein this Agreed Order Adopting Report of Financial Examination and Directing Action, COVENTRY HEALTH CARE OF WEST VIRGINIA, INC., reserves herein its rights to notice, administrative hearing or appeal for any future enforcement actions taken by the Commissioner that might result from this Agreed Order, if any.

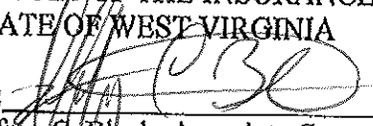
6. It is finally **ORDERED** that this administrative matter be hereby dismissed from the administrative docket of the Insurance Commissioner.

Entered this 30 day of June, 2014.


Michael D Riley
Insurance Commissioner

THE PARTIES DO SO AGREE:

OFFICES OF THE INSURANCE COMMISSIONER
STATE OF WEST VIRGINIA

By: 
Jeffrey C. Black, Associate Counsel
Attorney Supervisory

6/30/14
Date

COVENTRY HEALTH CARE OF WEST VIRGINIA, INC.,

BY: Dane J Kreiss
[Print Name]

Signed: Dane J Kreiss

Its: Controller & Interim C.F.O.

Dated: June 30, 2014

REPORT OF EXAMINATION
OF
COVENTRY HEALTH CARE OF WEST VIRGINIA, INC.
CHARLESTON, WEST VIRGINIA
NAIC #95408
AS OF DECEMBER 31, 2012

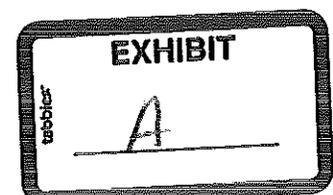
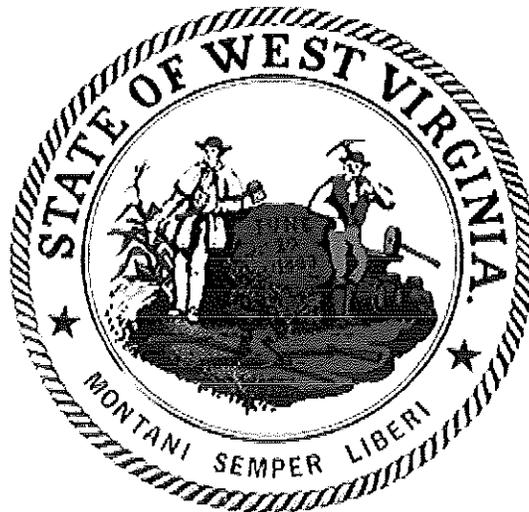


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June 9, 2014

Honorable Michael D. Riley
West Virginia Insurance Commissioner
1124 Smith Street, 4th Floor
Charleston, West Virginia 25301

Honorable Commissioner:

Pursuant to the authority vested in the West Virginia Offices of the Insurance Commissioner (WVOIC), a comprehensive examination has been made of the affairs and financial condition of:

Coventry Health Care of West Virginia, Inc.
3721 Tecport Drive
Harrisburg, PA 17106-7103

hereinafter referred to as "CHCWV" or "the Company".

The interview phase of the examination was conducted at the Company's home office.

The following examination report is respectfully submitted.

SCOPE OF EXAMINATION

Pursuant to W. Va. Code §33-2-9, a full scope examination of Coventry Health Care of West Virginia, Inc was conducted. The last examination was completed as of December 31, 2007. This examination covers the period January 1, 2008, through December 31, 2012. The examination included a review of significant transactions and/or events occurring subsequent to December 31, 2012 that were noted during the course of this examination.

The examination was conducted pursuant to the instructions, procedures and guidelines prescribed by the WVOIC and in accordance with the *NAIC Financial Condition Examiners' Handbook* (Handbook). The Handbook requires that examiners 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.

SUMMARY OF SIGNIFICANT FINDINGS

Finding #	Page #	
1	9	The Company did not disclose its statutory deposits on Schedule E Part 3 – Special Deposits of its 2012 Annual Statement. Recommendation: It is recommended that CHCWV complete its Annual Statement in compliance with W. Va. Code §33-4-14(a).

SUBSEQUENT EVENTS

On May 7, 2013, Coventry merged into a wholly-owned subsidiary of Aetna Inc., and as a result, Aetna Inc. indirectly owns 100 percent of the outstanding capital stock of CHCWV.

Effective September 27, 2013, Ernst & Young LLP (E&Y) was dismissed as the Company's independent auditors as a result of the acquisition of Coventry by Aetna Inc. effective May 7, 2013. KPMG LLP became the Company's new independent auditors.

Aetna Health, Inc. has filed for an HMO license in West Virginia. The Company has notified the WVOIC of its intent to move the CHCWV's commercial and Medicare business to Aetna Health, Inc.

COMPANY HISTORY

CHCWV is a for-profit organization operating a health maintenance organization (HMO) in the State of West Virginia as permitted and authorized under Chapter 33, Article 25A of the West Virginia Code. The Company was incorporated on August 25, 1994 and commenced business on January 2, 1995 under the name of Charleston Area Health Plans, Inc. The name was changed to Carelink Health Plans, Inc. (Carelink) on September 5, 1997. The plan became a federally qualified HMO on April 28, 1998. Pursuant to the Form A filing of July 31, 1999, Coventry Health Care, Inc. (Coventry) acquired Carelink in a transaction that included the merger of Coventry Health Plan of West Virginia (dba HealthAssurance HMO) with and into Carelink. Carelink was the surviving entity. On September 4, 2012, Carelink changed its name to Coventry Health Care of West Virginia, Inc.

The Company is a wholly owned subsidiary of Coventry. Coventry, headquartered in Bethesda, Maryland, is a national managed health care company that provides a full range of risk and fee-based managed care products and services, including HMOs, preferred provider organizations (PPO), point-of-service products (POS), Medicare Advantage, Medicare Prescription Drug Plans, Medicaid, Workers' Compensation, and Network Rental to a broad cross section of individuals, employer and government-funded groups, government agencies, and other insurance carriers and administrators in all 50 states.

On August 19, 2012, Coventry, Aetna Inc. (Aetna), and Jaguar Merger Subsidiary, Inc. (Merger Sub) entered into an Agreement and Plan of Merger (as amended), pursuant to which, subject to the satisfaction or waiver of certain conditions, Merger Sub was to be merged with and into Coventry, with Coventry surviving the merger as a wholly-owned subsidiary of Aetna (the Merger). Coventry's stockholders approved the Merger on November 21, 2012. The Merger was completed on May 7, 2013.

CORPORATE RECORDS

The minutes of meetings of the Board of Directors and committees reflected the elections of directors and officers, and approvals of other pertinent matters requiring corporate review. The minutes of the Board of Directors of CHCWV did not include approvals of investment transactions; rather, investment transactions were reviewed in aggregate at the corporate level by the Coventry Healthcare, Inc. Board.

MANAGEMENT AND CONTROL

Corporate governance is provided by the Company's Board of Directors and is carried out by Company management.

Board of Directors and Officers

At December 31, 2012, the following individuals served as members of the Board of Directors:

Name & Location	Year First Elected	Principle Business Affiliation
Michael D. Bahr	2010	President of Coventry Health and Life Insurance Company; Executive Vice President of Coventry Health Care, Inc.
David W. Fields	2012	President and Chief Executive Officer
Charles R. Stark	2009	President and Chief Executive Officer of affiliate Coventry Health Care of Kansas, Inc.

The Officers as of December 31, 2012, were as follows:

<u>Name</u>	<u>Title</u>
David W. Fields	President and CEO
Jerome D. Dioguardi	Executive Vice President and Chief Operating Officer
John J. Ruhlmann	Corporate Controller
Dane J. Kreiss	Assistant Corporate Controller
John K. Muraca	Vice President
Deloris Barrett	Vice President Network Management
Shirley Ann R. Smith	Secretary
Johnathan D. Weinberg	Assistant Secretary
Melinda L. Tuozzo	Assistant Treasurer
Zachary Bohler	Actuary

There have been numerous changes to the Board of Directors and Officers since the merger with Aetna.

Board Committees

Individuals serving on the Company's Board Committees as of December 31, 2012, included:

Audit Committee*

Lawrence N. Kugelman

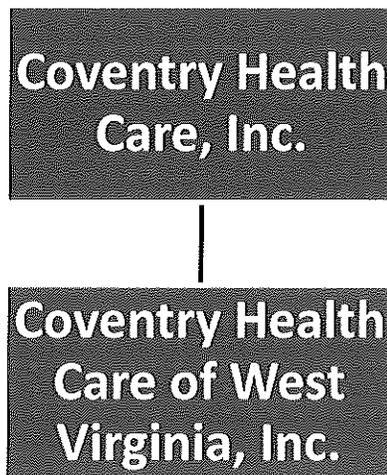
L. Dale Crandall

Elizabeth E. Tallett

* At its regular meeting held on August 5, 2010, the Audit Committee of the Board of Directors of Coventry designated itself to act as the independent audit committee for all of Coventry's direct and indirect regulated subsidiaries, including CHCWV, for purposes of complying with the independent audit committee requirements of the NAIC Annual Financial Reporting Model Regulation (the Model Audit Rule).

Organizational Chart

An organizational chart of the Company and its subsidiaries at December 31, 2012, follows:



Affiliated Companies

The Company is a wholly owned subsidiary of Coventry and part of a holding company system of affiliated companies owned by Coventry.

Cost-Sharing Agreements

The Company is party to a Management Services Agreement with Coventry whereby Coventry provides management, consulting and administrative services to the Company, including claims adjudication and payment, group setup and maintenance, and billing and collections. The Company reimburses Coventry for certain expenses paid by Coventry on behalf of the Company.

The Company incurred management fees to Coventry of \$12,082,687 and \$13,607,542 in 2012 and 2011 respectively under the terms of the agreement.

The Company is party to a management agreement with Coventry Health Care of Virginia, Inc. whereby Coventry Health Care of Virginia, Inc. provides general management services to the Company including, but not limited to, senior management services, finance and accounting services, regulatory compliance and governmental affairs, medical management services, and human resources consulting. The Company incurred management fees to Coventry Health Care of Virginia, Inc. of \$3,723,788 and \$3,408,276 in 2012 and 2011 respectively. As of December 31, 2012 and 2011, the Company had \$375,744 and \$382,005, respectively, of related payables included in due to affiliates.

Capital Contributions

The Company did not receive any capital contributions during the examination period.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond, pursuant to W. Va. Code §33-25A-7. The bond exceeds the minimum amount recommended by the NAIC.

The Company maintains various other property and liability coverages which the Company believes are adequate to cover its corporate risks.

EMPLOYEE WELFARE

Company employees are eligible to participate in a 401(k) defined contribution plan sponsored by the Parent (the Coventry Plan). Subject to certain limitations, employees may contribute 75 percent of their salary to the plan which the Company matches at a rate of 100 percent up to the first 3 percent and 50 percent of the next 3 percent of each employee's contributions to a maximum of 4.5 percent of their total salary.

Pension Plan

The Company does not sponsor a Defined Benefit Plan.

Other Postretirement Benefits

The Company does not have an obligation for any post-employment benefits or compensated absences. The Company does not have any impact on any postretirement benefits related to the Medicare Moderation Act.

TERRITORY AND PLAN OF OPERATIONS

The Company serves commercial HMO, Medicare and Medicaid eligible participants in West Virginia. Services are typically provided under one-year (or less) contracts with employers and individuals under which the Company insures the health benefits of the employees who select coverage. The Company also offers administrative services only contracts with employee benefit plans to provide a full range of health care options without assuming insurance risk.

The Company is licensed in all 55 counties of West Virginia, and was licensed in the State of Ohio on October 3, 2005. The Company has not reported any premiums written in Ohio.

GROWTH OF THE COMPANY

The following chart shows the Company's growth over the examination period.

Year	Admitted Assets	Capital and Surplus	Net Premium Income	Net Income
2012	\$68,971,535	\$36,986,453	\$189,001,107	\$8,494,529
2011	\$64,427,884	\$37,701,645	\$165,264,608	\$10,143,935
2010	\$58,283,417	\$33,885,361	\$160,095,301	\$9,119,258
2009	\$58,842,782	\$33,690,469	\$167,835,415	\$7,639,016
2008	\$49,496,914	\$26,607,260	\$145,030,787	\$8,358,429

CLAIMS UNPAID EXPERIENCE

The statutory reserves and related items for 2012 were reviewed and certified by the Company's Appointed Actuary, Zachary W. Bohler, ASA, MAAA, of Coventry Health Care, Inc.

The reserves established by the Company were reviewed for reasonableness by the examination actuary. The actuary determined the claims unpaid, unpaid claims adjustment expenses and aggregate health policy reserves presented in the 2012 annual statement appear to make reasonable provision for all unpaid claims.

REINSURANCE

Assumed Reinsurance

The Company does not assume any reinsurance.

Ceded Reinsurance

The Company is party to an affiliated reinsurance agreement with Coventry Health and Life (CH&L). Under the terms of the agreement, CH&L's actuaries review the financial stability of CH&L monthly to ascertain whether CH&L is solvent and has the ability to meet liabilities assumed under the agreement. The Company is contingently liable for its reinsured losses to the extent that CH&L cannot meet its obligations under the agreement. The Annual Statements of CHCWV and CH&L indicated that CH&L assumed premiums from CHCWV of \$3,422,689 on Schedule S of its Annual Statement, and CHCWV ceded \$2,678,071 to CH&L on Schedule S of its Annual Statement.

ACCOUNTS AND RECORDS

General

The Company's internal control structure was discussed with management through questionnaires, interviews and a review of the work performed by the Company's independent public accountants.

The NAIC provides a questionnaire covering the evaluation of the controls in EDP systems. The Company's response was reviewed by computer audit specialists of the examination team who evaluated the adequacy of the EDP controls.

Data center operations are located in Phoenix, Arizona.

Designated Certified Public Accountant

The Company was audited by Ernst & Young LLP (E&Y) for the years under examination in compliance with W. Va. Code §33-33-4. The Company received an unqualified statutory opinion in all years under examination.

The applicable work papers of E&Y were reviewed and where appropriate, certain procedures performed by the auditors were relied upon in this examination. In those instances, the work papers documenting the work of the auditors were copied for inclusion into the work papers of this examination.

Safekeeping of Assets

During the examination period assets were held pursuant to custodial agreements with JPMorgan Chase & Co.; as part of the integration with Aetna, the custodian was changed to State Street Bank and Trust Company in 2013. There was not a formal authorization of the change in custodians by the CHCWV Board.

The Company has a written investment policy that is reviewed and approved annually by the Board. The Company's investment portfolio is managed by professional investment managers under a written agreement that is in accordance with the established investment policies.

STATUTORY DEPOSITS

At December 31, 2012, the Company had the following securities held for the benefit of all policyholders:

<u>State</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Ohio	\$ 400,132	\$ 400,252
West Virginia	\$ 300,636	\$ 300,636
Totals	<u>\$ 700,768</u>	<u>\$ 700,888</u>

The Company did not disclose its statutory deposits on Schedule E Part 3 – Special Deposits of its 2012 Annual Statement.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities and surplus and a statement of operations as of December 31, 2012. A reconciliation of surplus of the Company for the years 2008 through 2012 follows. The examination team reviewed and accepted the work of the Designated Certified Public Accountant related to these financial statements.

COVENTRY HEALTH CARE OF WEST VIRGINIA, INC.

Assets
December 31, 2012

<u>ASSETS</u>	<u>Per Annual Statement</u>	<u>Statutory Exam Adjustments</u>	<u>Per Statutory Exam</u>
Bonds	\$40,699,061	-	\$40,699,061
Cash and short-term investments	<u>20,184,057</u>	<u> </u>	<u>20,184,057</u>
Subtotals, cash and invested assets	\$60,883,118	-	\$60,883,118
Investment income due and accrued	393,482	-	393,482
Premiums and considerations:			
Uncollected premiums and agents' balance	170,659	-	170,659
Reinsurance:			
Amounts recoverable from reinsurers	949,371	-	949,371
Current federal and foreign income tax recoverable	1,044,504	-	1,044,504
Net deferred tax asset	800,935	-	800,935
Health care and other amounts receivable	<u>4,729,466</u>	<u> </u>	<u>4,729,466</u>
Total Assets	<u><u>\$68,971,535</u></u>	<u><u> </u></u>	<u><u>\$68,971,535</u></u>

COVENTRY HEALTH CARE OF WEST VIRGINIA, INC.
Liabilities, Capital and Surplus
December 31, 2012

<u>LIABILITIES, CAPITAL AND SURPLUS</u>	<u>Per Annual Statement</u>	<u>Statutory Exam Adjustments</u>	<u>Per Statutory Exam</u>
Claims unpaid	\$20,598,941	-	\$20,598,941
Accrued medical incentive pool and bonus amounts	6,933,515	-	6,933,515
Unpaid claims adjustment expenses	230,999	-	230,999
Premiums received in advance	1,281,356	-	1,281,356
General expenses due or accrued	1,988,637	-	1,988,637
Amounts withheld or retained for account of others	772	-	772
Remittances and items not allocated	95,946	-	95,946
Amounts due to parent, subsidiaries and affiliates	524,273	-	524,273
Liability for amounts held under uninsured plans	329,631	-	329,631
Aggregate write-ins for other liabilities	1,012	-	1,012
Total Liabilities	\$31,985,082	-	\$31,985,082
Common capital stock	1,000,000	-	1,000,000
Gross paid in and contributed surplus	\$84,840,983	-	\$84,840,983
Unassigned funds (surplus)	(48,854,530)	-	(48,854,530)
Total Capital and Surplus	\$36,986,453	-	\$36,986,453
Total Liabilities, Surplus & Other Funds	\$68,971,535	-	\$68,971,535

COVENTRY HEALTH CARE OF WEST VIRGINIA, INC.
Statement of Income
December 31, 2012

	<u>Per Annual Statement</u>	<u>Statutory Exam Adjustments</u>	<u>Per Statutory Exam</u>
Premium income	\$189,001,107	-	\$189,001,107
Hospital and Medical:			
Hospital/medical benefits	127,776,352	-	127,776,352
Other professional services	6,705,336	-	6,705,336
Emergency room and out-of-area	12,666,237	-	12,666,237
Prescription drugs	4,632,904	-	4,632,904
Aggregate write-ins for other hospital and medical	501,281	-	501,281
Incentive pool, withhold adjustments and bonus amounts	6,298,961	-	6,298,961
Subtotal	<u>158,581,071</u>	-	<u>158,581,071</u>
Less:			
Net reinsurance recoveries	1,012,496	-	1,012,496
Total hospital and medical	157,568,575	-	157,568,575
Claims adjustment expenses	6,194,842	-	6,194,842
General administrative expenses	14,778,173	-	14,778,173
Total underwriting deductions	<u>178,541,590</u>	-	<u>178,541,590</u>
Net underwriting gain or (loss)	10,459,517	-	10,459,517
Net investment income earned	1,182,168	-	1,182,168
Net realized capital gains	585,465	-	585,465
Net investment gains	1,767,633	-	1,767,633
Net gain or (loss) from agents' or premium balances charged off	(13,769)	-	(13,769)
Net income or (loss) before federal income taxes	12,213,318	-	12,213,381
Federal and foreign income taxes incurred	3,718,852	-	3,718,852
Net income	<u>\$8,494,529</u>	-	<u>\$8,494,529</u>

COVENTRY HEALTH CARE OF WEST VIRGINIA, INC.
 Reconciliation of Surplus
 December 31, 2012

<u>SURPLUS ACCOUNT</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and Surplus, December 31, previous year	\$37,701,645	\$33,885,361	\$33,690,469	\$26,607,260	\$26,146,671
Net Income	8,494,529	10,143,935	9,119,258	7,639,016	8,358,429
Change in net deferred income tax	(140,948)	(1,545,234)	676,942	(14,203)	166,172
Change in non-admitted assets	631,227	4,217,583	(2,962,292)	(541,604)	435,988
Dividends to stockholders	<u>(9,700,000)</u>	<u>(9,000,000)</u>	<u>(6,639,016)</u>	-	<u>(8,500,000)</u>
Net change in surplus of the year	(715,192)	3,816,284	194,892	7,083,209	460,589
Capital and Surplus, December 31, current year	<u>\$36,986,453</u>	<u>\$37,701,645</u>	<u>\$33,885,361</u>	<u>\$33,690,469</u>	<u>\$26,607,260</u>

ACKNOWLEDGEMENT

Acknowledgment is hereby made of the courtesy and cooperation extended by personnel of the Company during the course of the examination.

Respectfully submitted:



Jan M. Moenck, CFE
Examiner-in-Charge
Representing the State of West Virginia