

JUL 01 2021

FILED

CERTIFICATION

July 1, 2021

I, Eric Dunning, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

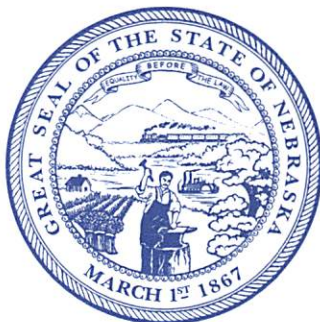
ABILITY INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.





DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

ABILITY INSURANCE COMPANY
49 WEST 23RD STREET, 8TH FLOOR
NEW YORK, NY 10010

dated as of December 31, 2019, verified under oath by the examiner-in-charge on
June 9, 2021, and received by the company on June 9, 2021, has been adopted
with modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 21st day of June 2021.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read "Justin C. Schrader", is written over a horizontal line.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

ABILITY INSURANCE COMPANY

as of

December 31, 2019

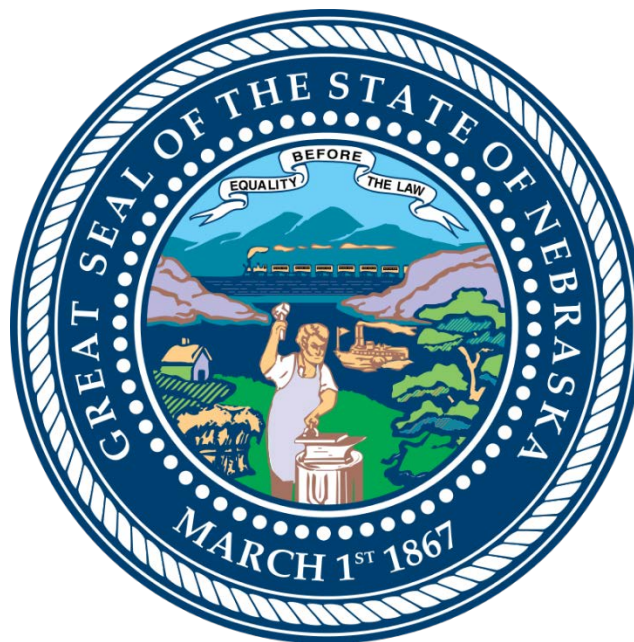


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New York, New York
June 3, 2021

Honorable Eric Dunning
Director of Insurance
Nebraska Department of Insurance
1526 K Street, Suite 200
Lincoln, Nebraska 68508

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

ABILITY INSURANCE COMPANY

which has its Statutory Home Office located at

**222 South 15th Street, Suite 1202S
Omaha, NE 68102**

with its Principal Executive Office located at

**49 West 23rd Street, 8th Floor
New York, NY 10010**

(hereinafter also referred to as the “Company”), and the report of such examination is respectfully presented herein.

INTRODUCTION

The State of Nebraska last examined the Company as of December 31, 2016. The current financial condition examination covers the intervening period to and includes the close of business on December 31, 2019 and such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska, South Carolina, and Utah participated in this examination and assisted in the preparation of this report.

The same examination staff conducted concurrent financial condition examinations of the Company's affiliates, Atlantic Coast Life Insurance Company (ACL), Foxtrot Re, LLC (FOX), Haymarket Insurance Company (HIC), Jazz Reinsurance Company (JZR), Sentinel Security Life Insurance Company (SSL), and Southern Atlantic Re, Inc. (SAR).

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. 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 but not limited to corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the Nebraska Department of Insurance (NDOI) as the coordinating state, and the South Carolina Department of Insurance (SCDOI), and the Utah Insurance Department (UID). The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures

and standards promulgated by the NAIC and by the respective state insurance departments where the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company." All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the Shareholder, Board of Directors, and committees held during the examination period were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, and approval of investment transactions were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. Certificates of Authority to conduct the business of insurance in the various states were inspected, and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report."

The Company's reinsurance facilities were ascertained and noted and have been commented upon in this report under the caption "Reinsurance." Accounting records and

procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Larson & Company, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2019. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated under the laws of the State of Nebraska on October 6, 1967 and commenced business on June 10, 1968 as a capital stock life insurance company. Under the provisions of its charter and in conformity with Nebraska Statutes, the Company is presently authorized to write life and sickness and accident insurance.

The Company was wholly owned by Medico Insurance Company (Medico), formerly Mutual Protective Insurance Company, until September 28, 2007. On this date, the Company was purchased by Ability Resources, Inc. (ARI). This purchase was approved by the NDOI on September 26, 2007. On February 10, 2009, the Company changed its name from Medico Life Insurance Company to Ability Insurance Company.

On December 8, 2010, ARI transferred ownership of the Company via a dividend to a newly created holding company, Ability Resources Holdings, Inc. (ARHI). The ownership transfer was part of a corporate restructuring to increase operational efficiencies, centralize personnel and facilities used for administrative services, and to arrange for cost sharing among the affiliated companies.

On August 10, 2012, ARHI entered into a stock purchase agreement to sell the Company to Advantage Capital Holdings, LLC, (A-CAP) a Delaware limited liability company. A-CAP is 87.3% owned by Advantage Capital Partners, LLC and was formed in July 2012 to serve as an insurance holding company. This stock purchase agreement was amended and restated on January 29, 2013 with the transaction approved by the Department on January 31, 2013. The sale closed on February 25, 2013.

The Company assumes a block of Long-Term Care (LTC) business from The Guardian Life Insurance Company of America (Guardian)/Employers Reassurance Corporation (ERAC). A portion of the annuity business assumed from SSL was retained, with the majority of the business being retroceded to HIC (one block further retroceded to FOX). The business was retroceded to HIC under a number of reinsurance agreements as capital was raised at HIC, rather than retroceding the business under an open flow agreement. Effective December 31, 2018, the Company terminated the retrocession agreement with HIC and the policies assumed from SSL were novated to HIC, leaving the Company with only two LTC blocks of business and a small amount of podiatry, vision, and dental business, known as SeniHealth.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the ‘Ultimate Controlling Person,’ as reported in the 2019 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Kenneth King
 - Royal Cap LLC
 - PACA-K LLC
 - PACA-HUD LLC
 - Advantage Capital Partners, LLC
 - Advantage Capital Holdings, LLC (87%).¹
 - Ability Insurance Company
 - RPM Indianapolis (67%)
 - Lough Shore Road, LLC
 - Lough Shore Road, Ltd. (85%)
 - Sancus Capital Credit Partners, LP (78.79%)
 - Sancus Capital Select Partners, LP (12.74%)
 - TCW 2019-1A (78.79%)
 - CRMN 2014-1A (52.82%)
 - Haymarket Holdings I, LLC
 - Haymarket Insurance Company
 - Foxtrot Re, LLC
 - Sancus Capital Credit Partners, LP (21.21%)
 - TCW 2019-1A (21.21%)
 - CRMN 2014-1A (14.22%)
 - Advantage Capital Management, LLC
 - Advantage West, LLC
 - Sentinel Security Life Insurance Company
 - Sancus Capital Select Partners, LP (32.54%)
 - Jazz Reinsurance Company
 - Secure Administrative Solutions.²
 - PACA – D LLC
 - PACA – E LLC
 - Ensurem LLC (70.4%).³

¹ Ownership amount changed to 80% as of December 31, 2020.

² Secure Administrative Solutions was sold on August 14, 2020.

³ Ensurem LLC was sold on December 31, 2020.

Ensurem II LLC
Secure Marketing Partners LLC (75%)
Secure Financial Services LLC
Advantage South LLC (69.99%)
Atlantic Coast Life Insurance Co
Southern Atlantic Re Inc.
Atlantic Coast General Agency
Atlantic Coast Burial Agency
Sancus Capital Select Partners, LP (32.54%)
PACA – WCR LLC
WCR Holdings LLC (50%)
Caprice Capital Partners LLC
PACA – MCC LLC
MCC Investors, LLC (50%)
PACA – Halsey LLC
HalseyPoint Holdco LLC (50%)
HalseyPoint Asset Management, LLC
A-CAP Agency Services, LLC
PACA – EFS LLC
PrimeHealth Group LLC
PrimeHealth of Illinois, Inc.
PrimeHealth of Indiana LLC
PrimeHealth of Illinois LLC
PrimeHealth of Michigan LLC
PrimeHealth of Ohio LLC
PrimeHealth of Kentucky LLC
Seniorwell of Iowa, LLC
Seniorwell of Missouri, LLC
Seniorwell of Wisconsin, LLC
Seniorwell POD of Iowa, LLC
Seniorwell POD of Missouri, LLC
Seniorwell POD of Ohio, LLC
Seniorwell POD of Wisconsin, LLC
Seniorwell of Virginia LLC
Seniorwell POD of Virginia LLC
SeniorWell of Pennsylvania LLC
SeniorWell of Minnesota LLC
SeniorWell of Florida LLC
SeniorWell of Texas LLC
SeniorWell POD of Minnesota LLC
SeniorWell POD of Florida LLC
SeniorWell POD of Texas LLC
Seniorwell of Massachusetts LLC
SeniorWell POD of Massachusetts, LLC
SeniorWell of North Carolina LLC
SeniorWell POD of North Carolina LLC

SeniorWell of Tennessee LLC
SeniorWell POD of Tennessee LLC
SeniorWell of Washington LLC
SeniorWell POD of Washington LLC

Shareholder

The Articles of Incorporation state that, “the aggregate number of shares which the Corporation shall have the authority to issue is three million shares of common stock, and the par value of each said share is to be one dollar.” As of December 31, 2019, Company records indicated that 2,500,000 shares were issued and outstanding, and all shares were owned by A-CAP.

Article II of the Company’s By-Laws states that, “annual meetings of the Shareholders of the Corporation for the purpose of electing Directors and for the transaction of such other proper business as may come before such meetings may be held at such time, date and place as the Board shall determine by resolution on or before June 10 of each calendar year.”

Surplus Note

On December 31, 2012, a surplus note in the amount of \$2,250,000 was issued to Alpha Re Limited (Alpha Re), a Cayman Island reinsurer, in exchange for cash. The surplus note has a 5% interest rate and matures on December 31, 2017. All payments of principal or interest may be made only from the Company’s available surplus when the amount of the Company’s surplus over all liabilities is double that of the amount of principal and interest. The principal or interest may only be paid with the prior approval of the Director of the NDOI pursuant to Neb. Rev. Stat. Section 44-221. As of March 30, 2017, ACL, an affiliate, and SQN Fund IV (SQN) purchased the note jointly from Alpha Re. None of the terms changed as a result of ACL and SQN’s acquisition of the note from Alpha Re.

On July 21, 2017, ACL purchased SQN's participation in the surplus note. None of the note terms enumerated above changed as a result of ACL's full acquisition of the note.

On June 12, 2018, The Company was permitted by the NDOI the authority to amend its surplus note to extend the maturity date to June 2023. With the exception of the maturity date, all conditions and repayments remained the same.

On September 30, 2019, SSL, an affiliate, purchased the note from ACL. None of the terms of the note changed as a result of SSL's full acquisition of the note.

Board of Directors

Article III, Section 2 of the Company's By-Laws states that, "the number of Directors of the Corporation shall be not less than five or more than nine. The first Board of Directors shall be elected by the Shareholders, and thereafter the Board of Directors shall be elected by the Shareholders at the annual meeting of the Shareholders of the Corporation. Each Director shall hold office until the next annual meeting of Shareholders and until his successor shall have been elected and qualified. Directors need not be Shareholders of the Corporation. One Director shall be resident of the State of Nebraska."

The following persons were serving as Directors at December 31, 2019:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Jason Block Greenwich, Connecticut	Partner and Chief Investment Officer Freedom 3 Capital
Daniel Cathcart Fort Lauderdale, Florida	Head of M&A, Chief Executive Officer Atlantic Coast Life Insurance Company
John Grant Omaha, Nebraska	Attorney Grant Law Office, P.C.
Kenneth King Pleasantville, New York	Chairman, President and Chief Executive Officer, Ability Insurance Company; President Advantage Capital Partners, LLC

Name and Residence

Principal Occupation

Robert Saliba
Highland Park, Illinois

Insurance Professional
Advantage Capital Management, LLC

Officers

Article IV, Section 1, of the By-Laws states that, “the Officers of the Corporation shall be a Chairman of the Board, a Chief Executive Officer, a President, a Chief Operating Officer, one or more Vice Presidents, a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors.”

The following is a listing of Officers elected and serving the Company at December 31, 2019:

Name

Office

Kenneth King

President and Chief Executive Officer

Anna M. Elliott

Secretary

Todd Matthew Bareika*

Treasurer

*Todd Bareika was replaced by David G. Charsky in 2020.

Committees

The Company does not have its own committees of the Board of Directors, but does utilize the Credit and Reinsurance Committees of A-CAP.

The following persons were serving on the Credit Committee of A-CAP at December 31, 2019:

Anthony Contessa

Kenneth King

Michael Saliba

Yuan Zhou

Frank Mayer (non-voting)

The following persons were serving on the Reinsurance Committee of A-CAP at December 31, 2019:

Dan Cathcart

Anna Elliott

Douglas George

Kenneth King

TRANSACTIONS WITH AFFILIATES**Administrative Services Agreement**

Effective January 1, 2013, the Company entered into a management and consulting agreement with its parent, A-CAP. A-CAP provides services, including but not limited to overall management and leadership of the Company, implementing an annual budget and business plan, negotiating third party contracts, and implementing an investment strategy. The Company will compensate A-CAP for actual expenses incurred in providing the services. Expenses shall be based on the Company's proportionate share of the cost directly allocable under statutory accounting principles. The amount reimbursed by the Company to A-CAP in 2019 was \$3,360,628.

Investment Management Agreement

Effective February 22, 2013, the Company entered into an Investment Management Agreement with SQN Capital Management, LLC (SQN), a Delaware limited liability company, for the management of certain assets held by the Company. On June 1, 2014, the agreement with SQN was assigned to the Company's affiliate, Advantage Capital Management LLC (ACM), a New York limited liability company. ACM will provide investment management and advisory services, including but not limited to investing and reinvesting the Company's portfolio in accordance with approved guidelines. The Company will compensate ACM according to a base fee of 0.5% of the principal amount of investments in the portfolio, as well as incentive management fees based upon the net annual performance of assets in the portfolio compared to established hurdle rates. The amount reimbursed by the Company to ACM in 2019 was \$1,578,318.

TERRITORY AND PLAN OF OPERATIONS

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states, and the District of Columbia, with the exception of Connecticut, Florida, Maine, New Hampshire, New Mexico, New York, Rhode Island, and Vermont.

Prior to year-end 2018, the Company's business consisted of a closed block of LTC policies and multi-year guaranteed annuity contracts assumed from its affiliate, SSL. The Company is heavily reliant upon reinsurance for surplus relief and protection against adverse development within the LTC block. The Company cedes all of the Medico Insurance Company (Medico) block LTC morbidity risk to an offshore reinsurer on a funds withheld basis and 40% of the Medico LTC block active life reserves to an unaffiliated Vermont protected-cell captive.

The Company assumes a block of LTC business from Guardian/ERAC. The Company also has a small amount of podiatry, vision and dental business, known as SeniHealth.

REINSURANCE

Assumed

The Company's assumed business primarily consists of two closed blocks of LTC policies. The first of these two blocks were acquired pursuant to an agreement dated September 28, 2007 to buy 100% of the LTC business from Medico. This block of business accounts for assumed reserves of \$37.8 million as of December 31, 2019.

The second block of business was acquired through a July 2011 reinsurance arrangement whereby the Company entered into a quota share reinsurance agreement with The Guardian Life Insurance Company of America. This agreement also covers business on a block of LTC business retroactive to January 1, 2011 and accounts for the remaining \$76.3 million of assumed reserves as of December 31, 2019.

Ceded

The Company is heavily reliant upon reinsurance for surplus relief and protection against adverse development within its LTC blocks. As of December 31, 2019, reinsurance is placed with two unaffiliated counterparties.

As part of a series of transactions initiated concurrent with the closing of the sale of the Company to A-CAP, the Company entered into a commutation of a 74.9% quota share reinsurance agreement with Ability Bermuda (AB), which, at that time, was an affiliate of the Company's former parent. Under the terms of this agreement, the Company ceded 100% of its LTC claims liability related to the block of former Medico policies on a funds withheld basis. Then, on November 3, 2012, AB was purchased by Front Street Re (Cayman), Ltd. (Front Street), a subsidiary of New York Stock Exchange-listed FGL Holding. Front Street assumed the Company's reinsurance agreement with AB through its merger with AB. As of December 31, 2019, this arrangement remains in effect and accounts for approximately \$82 million and \$244 million respectively in ceded premiums and reserve credits.

The second core block of ceded business in effect at the examination date involves an arrangement effective December 31, 2016, between the Company and Vista Life & Casualty Reinsurance Company, a Vermont domiciled protected-cell captive. Under the terms of this reinsurance the Company cedes 40% of the policy reserves pertaining to Medico policies which totaled approximately \$207 million as of December 31, 2019.

The Company had no other significant reinsurance as of the examination date.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Bonds	\$ 588,020,715	\$ 572,975,074	\$ 588,020,715
Other invested assets	52,796,680	57,163,243	51,521,680
Admitted assets	750,194,072	740,476,444	731,683,488
Aggregate reserves for accident & health contracts	392,677,618	394,399,954	392,677,618
Total liabilities	714,039,899	717,222,762	714,039,899
Capital and surplus	17,643,589	23,253,682	17,643,589
Premium income	(207,575,241)	52,045,301	(9,586,764)
Net investment income	63,639,056	70,549,333	35,316,271
Annuity benefits	1,590,346	2,344,900	
Disability benefits under accident & health contracts	6,864,426	6,838,607	7,255,413
Net income	(1,541,619)	(4,038,768)	(3,265,107)

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported

in the annual statements and should be considered an integral part of the financial statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENTS
December 31, 2019

Assets

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$ 588,020,715		\$ 588,020,715
Preferred stocks	1,901,720		1,901,720
Common stocks	554		554
First lien mortgage loans	26,764,412		26,764,412
Properties held for sale	702,249		702,249
Cash, cash equivalents and short term investments	38,281,652		38,281,652
Other invested assets	527,966,680	\$ 1,275,000	51,521,680
Receivables for securities	6,273,922		6,273,922
Subtotal, cash and invested assets	\$ 714,741,904	\$ 1,275,000	\$ 713,466,904
Investment income due and accrued	9,825,519	392,725	9,432,794
Uncollected premiums and agents' balances in the course of collection	(5,406,100)		(5,406,100)
Amounts recoverable from reinsurers	8,771,917		8,771,917
Other amounts receivable under reinsurance contracts	2,163,680		2,163,680
Current federal income tax recoverable	464,863		464,863
Net deferred tax asset	16,747,534	16,747,534	
Guarantee funds receivable	531,021		531,021
Receivable from parent, subsidiaries and affiliates	2,258,409		2,258,409
Prepaid insurance	95,325		95,235
Totals	\$ 750,194,072	\$ 18,510,584	\$ 731,683,488

Liabilities, Surplus, and Other Funds

Aggregate reserves for accident and health contracts	\$ 392,677,618
Accident and health contract claims	1,565,922
Premium and annuity considerations	1,236,835
Other amounts payable on reinsurance	15,805
Interest maintenance reserve	1,926,253
Commissions to agents due or accrued	202,059
Commissions and expense allowance payable on reinsurance	129,193
General expenses due or accrued	4,636,479
Taxes, licenses and fees due or accrued	10,866
Amounts held for agents' account	950
Asset valuation reserve	14,297,668
Funds held under reinsurance treaties	296,466,829
Derivatives	(118,218)
Payable for securities	<u>1,011,640</u>
Total liabilities	<u>\$ 714,039,899</u>
Common capital stock	\$ 2,500,000
Surplus notes	2,250,000
Gross paid in and contributed surplus	48,685,716
Unassigned funds (surplus)	<u>(35,792,127)</u>
Total capital and surplus	<u>\$ 17,643,589</u>
Totals	<u><u>\$ 731,683,488</u></u>

SUMMARY OF OPERATIONS – 2019

Premiums and annuity considerations	\$ (9,586,764)
Net investment income	35,316,271
Amortization of interest maintenance reserve	(599,946)
Commissions and expenses on reinsurance ceded	5,582,003
Income from escrow release	2,500,000
Miscellaneous income	<u>180,964</u>
Total	\$ 33,392,528
Annuity benefits	\$ 7,255,413
Increase in aggregate reserves	<u>(1,722,335)</u>
Totals	\$ 5,533,078
Commissions on premiums, annuity considerations and deposit-type contract funds	\$ 2,876,716
Commissions and expense allowances on reinsurance assumed	1,147,671
General insurance expenses	11,825,731
Insurance taxes, licenses and fees	1,294,002
Funds withheld adjustment	<u>14,424,815</u>
Totals	\$ 37,102,016
Net gain from operations before net realized capital gains	\$ (3,709,488)
Net realized capital gains	<u>444,381</u>
Net income	<u>\$ (3,265,107)</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Capital and surplus, beginning	\$ 21,417,410	\$ 22,516,695	\$ 23,253,682
Net income	\$ (1,541,619)	\$ (4,038,768)	\$ (3,265,107)
Change in net unrealized capital gains	4,296,554	(4,146,479)	2,929,375
Change in unrealized foreign exchange capital gains		3,122,895	93,570
Change in net deferred income tax	1,907,439	866,075	1,624,881
Change in nonadmitted assets	11,187,733	(847,814)	(1,264,769)
Change in liability for reinsurance in unauthorized companies	(214,584)	214,584	
Change in asset valuation reserve	(3,826,574)	7,657,691	1,051,443
Change in surplus as a result of reinsurance	<u>(1,340,237)</u>	<u>(2,091,466)</u>	<u>(920,736)</u>
Net change for the year	<u>\$ 1,099,285</u>	<u>\$ 736,988</u>	<u>\$ (5,610,093)</u>
Capital and surplus, ending	<u>\$ 22,516,695</u>	<u>\$ 23,253,682</u>	<u>\$ 17,643,589</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$(35,792,127), as reported in the Company's 2019 Annual Statement, has been accepted for examination purposes. Examination findings in the aggregate were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The recommendations appearing in the previous report of examination are reflected below together with the remedial actions taken by the Company to comply therewith:

By-Laws – It is again recommended that the Company formally elect the required Officers, or that the By-Laws be amended to appropriately include the Officers that the Company plans to elect.

Action: The Company has complied with this recommendation.

Custodial Agreements – It is again recommended that the Company amend its custodial agreement to comply with Nebraska Rules and Regulations, Title 210, Chapter 81 and reflect the current name of the Company, Ability Insurance Company.

Action: The Company has complied with this recommendation.

Actuarial Presentation to the Board - It is recommended that the Company work with its affiliated ceding reinsurer to ensure that presentations are given by the Appointed Actuary to the Board of Directors. The presentation conducted by the Appointed Actuary should be robust and include a discussion of all relevant risks.

Action: The Company has complied with this recommendation.

Reinsurance Agreement Compliance - It is recommended that the Company take the necessary steps to ensure that monthly reinsurance reporting complies with underlying reinsurance agreements.

Action: The Company has complied with this recommendation.

Intercompany Reinsurance Accounting - It is recommended that the Company work with its affiliates to establish separate custodial accounts to legally segregate the assets by reinsurance contract pursuant to Nebraska Rules and Regulations, Title 210, Chapter 57, Section 004.01(g)(i), in order to take credit for reinsurance, or simplify the existing contracts to reduce the number of custodial accounts required.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There are no comments or recommendations that have been made as a result of this examination.

SUBSEQUENT EVENTS

PROPOSED SALE OF THE COMPANY

On May 19, 2021, Mount Logan Capital, Inc. agreed to acquire 100% of the equity of the Company from A-CAP for a total consideration of \$20 million. The transaction is expected to be complete in the third quarter of 2021, subject to the parties' final approval of the definitive agreements. The completion is also subject to final approval of the NDOI. The parties have not

entered into any binding documentation for the transaction, therefore, there is no assurance that the transaction will be completed.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations that have been made as a result of this examination.

ACKNOWLEDGEMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Lori Brock, CFE, ALMI, and Chris Schutte, CFE, Financial Examiners; Jim Hattaway, CFE, CIA, CIE, AMCM, ARC, Examination Supervisor; Stefan Obereichholz-Bangert, AES, CISA, CISM, and Brad Myers, CISA, CISM, CISSP, Information Systems Specialists; all with Noble Consulting Services, Inc., participated in this examination and assisted in the preparation of this report.

Andy Rarus, ASA, MAAA; Lisa Parker, ASA, MAAA; and Tricia Matson, ASA, MAAA; of Risk & Regulatory Consulting (RRC), were appointed by the NDOI to conduct a review of statutory reserves as of December 31, 2019.

The NDOI contracted with Gordian Group to serve as the Investment Specialists on the examination and to prepare a separate report.

Respectfully submitted,



William A. O'Connell, CFE, CPA
Examiner-in-Charge
Noble Consulting Services, Inc.
Representing the
Department of Insurance
State of Nebraska



Justin C. Schrader, CFE
Chief Financial Examiner
Department of Insurance
State of Nebraska

State of Georgia,

County of Cobb,

William A. O'Connell, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Ability Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of the Ability Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

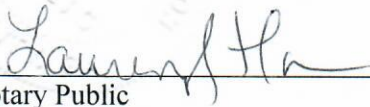
The affiant says nothing further.



Examiner-in-Charge's Signature

Subscribed and sworn before me by William A. O'Connell on this 9th day of June, 2021.

(SEAL)



Notary Public

My commission expires 1/15/2025 [date].