STATE OF NEBRSKA
DEPARTMENT OF INSURANCE

JUN 25 2018

FILED

CERTIFICATION

June 25, 2018

I, Bruce R. Ramge, 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, 2016

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.

Bruce R. Ramge

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

ABILITY INSURANCE COMPANY

dated as of December 31, 2016 verified under oath by the examiner-in-charge on May 29, 2018 and received by the company on May 30, 2018, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 14th day of June 2018.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

ABILITY INSURANCE COMPANY

as of

December 31, 2016

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Pleasantville, New York
May 22, 2018

Honorable Bruce R. Ramge
Director of Insurance
Nebraska Department of Insurance
1135 M Street, Suite 300
PO Box 82089
Lincoln, Nebraska 68501-2089

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 1202 S
Omaha, Nebraska 68102

with its Principal Executive Office located at

415 Bedford Street
Pleasantville, New York 10570

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

INTRODUCTION

The Company was last examined as of December 31, 2013 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2016, and includes 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 (Atlantic Coast), FoxTrot Re, LLC (Foxtrot), HayMarket Insurance Company (Haymarket), and Sentinel Security Life Insurance Company (Sentinel Security).

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, as the coordinating state, the South Carolina Department of Insurance, and the Utah Insurance Department. The companies examined under this approach benefit to a 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 Moss Adams, LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2015 and 2016. 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. This purchase was approved by the Nebraska Department of Insurance (Department) 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, Ability Resources, Inc. transferred ownership of the Company via a dividend to a newly created holding company, Ability Resources Holdings, Inc. 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 December 12, 2012, the Department placed the Company under an Order of Supervision (Order). The Order was issued based upon the Department's examination of the Company's financial statements. The examination noted the Company's operating losses incurred during the most recent twelve month period, as a percentage of surplus, exceeded Department regulations. The Department concluded that the Company's financial condition rendered the continuance of its business hazardous to its policyholders and the general public as defined by Nebraska Insurance Regulations. Effective July 2, 2014, the Order, filed on December 12, 2012, was terminated, as the Company met all requirements to abate supervision.

On August 10, 2012, Ability Resources Holdings, Inc. 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.

On December 10, 2014, the Company formed Foxtrot as a special purpose financial captive. The Company's plan was to retrocede ordinary annuities to Foxtrot on a funds withheld basis. The block of ordinary annuities was initially assumed by the Company from Sentinel. Foxtrot was 100% owned by the Company initially. In January, 2016, the Company sold Foxtrot to Haymarket for $250,000, the price of the initial investment.

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 2016 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
  - Advantage Capital Partners, LLC (87%)
    - Advantage Capital Holdings, LLC
      - Ability Insurance Company
        - Lough Shore Road, LLC
          - Lough Shore Road, Ltd. (85%)
        - PrimeHealth Group, LLC (40%)
          - PrimeHealth of Illinois, LLC
          - PrimeHealth of Indiana, LLC
          - PrimeHealth of Kentucky, LLC
          - PrimeHealth of Michigan, LLC
          - PrimeHealth of Ohio, LLC
        - RPM Indianapolis (98%)
      - Advantage Capital Management, LLC (60%)
      - Advantage South LLC (51%)
        - Atlantic Coast Life Insurance Company
          - Atlantic Coast Burial Association
          - Atlantic Coast General Agency
      - Advantage West, LLC
        - Secure Administrative Solutions, LLC
        - Secure Marketing Partners, LLC (75%)
          - Secure Financial Solutions, LLC
        - Sentinel Security Life Insurance Company
      - CMV Funding, LLC (89%)
      - HayMarket Holdings I, LLC (33.34%)
        - HayMarket Insurance Company
          - FoxTrot Re, LLC
      - PrimeHealth Group, LLC (60%)

PrimeHealth of Kentucky, LLC
PrimeHealth of Illinois, LLC
PrimeHealth of Indiana, LLC
PrimeHealth of Michigan, LLC
PrimeHealth of Ohio, LLC

Shareholder

Article IV of the Company's Articles of Incorporation state that, "the aggregate number of shares which the Corporation shall have the authority to issue three million shares of common stock, and the par value of each said share is to be one dollar." As of December 31, 2016, 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 Department pursuant to Neb. Rev. Stat. Section 44-221. As of March 30, 2017, Atlantic Coast, an affiliate and SQN Fund IV purchased the note jointly from Alpha Re. None of the terms changed as a result of Atlantic

Coast and SQN Fund IV's acquisition of the note from Alpha Re. Although the note has matured, it has not yet been repaid or extended.

Board of Directors

Article III, Section 1 of the By-Laws states that, "the business affairs of the Corporation shall be managed by its Board of Directors." Article III, Section 2 states that, "the number of the Directors of the Corporation shall not be less than five, nor more than nine" and "shall be elected by the Shareholders at the annual meeting of the Shareholders of the Corporation."

The following persons were serving as Directors at December 31, 2016:

Name and Residence	**Principal Occupation**
Daniel B. Cathcart Avon, Connecticut	Chief Executive Officer, Atlantic Coast Life Insurance Company
John P. Grant Omaha, Nebraska	Attorney, Owner Grant Law Offices, P.C.
Ian Kilpatrick Travelers Rest, South Carolina	Vice President – Captive Insurance Development, Advantage Capital Holdings, LLC
Kenneth King Pleasantville, New York	President and Chief Executive Officer, Ability Insurance Company
Munish Sood* Robbinsville, New Jersey	Chief Executive Officer, Princeton Advisory Group, Inc.

*Munish Sood was removed from the Board of Directors in October of 2017. He was replaced by Jason Block in January, 2018.

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, 2016:

Name	**Office**
Kenneth King	President and Chief Executive Officer
Anna M. Elliot	Secretary
David G. Charsky	Treasurer

As noted in prior exams, the Company is not in compliance with its own By-Laws as to the election of its Officers. It is 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.

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, 2016:

Anthony Contessa	Kenneth King
Mike Saliba	Munish Sood*
Yuan Zhou	

*Munish Sood was removed from the Credit Committee subsequent to the examination date and has been replaced by Yuan Zhou.

The following persons were serving on the Reinsurance Committee of A-CAP at December 31, 2016:

Dan Acker	Dan Cathcart
Anna Elliott	Douglas George
Kenneth King	Yuan Zhou

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 2016 was $3,008,661.

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 1.0% 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.

TERRITORY AND PLAN OF OPERATION

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.

Subsequent to the sale of the Company by Medico Insurance Company on September 28, 2007, the Company has been in the business of acquiring and administrating closed blocks of long-term care insurance policies. In 2014, the Company implemented a diversification strategy and began assuming and ceding annuity and deposit-type products in order to reduce its risk in the long-term care industry.

In 2015, the Company launched the Seniorsure program in partnership with PrimeSource Healthcare Systems, Inc. This program provides limited benefit health coverage for vision, hearing, dental, and podiatric services to residents of nursing or senior living facilities. Currently the program is being marketed in six states.

The Company's business operations are administered by TriPlus Services, Inc., which is the new name adopted by Ability Resources, Inc

On July 2, 2014 the Department lifted its Order of Supervision. As a result Alaska, Kentucky, and Nevada, have since reinstated the Certificate of Authority for the Company. In 2015, Michigan granted the Company a restricted Certificate of Authority for the Seniorsure program.

REINSURANCE

Assumed

Immediately prior to the stock sale transaction of the Company to Ability Resources, Inc., the Company entered into a definitive agreement dated September 28, 2007 to buy 100% of the long-term care business from Medico. During the exam period all policies pursuant to this agreement have been novated, a process begun in 2009 under the ownership of Ability Resources, Inc.

Effective July 1, 2010, the Company entered into a reinsurance agreement with American Family Life Insurance Company (AMFAM), whereby the Company assumes 100% of the long-term care liabilities AMFAM assumes from the direct writer, American Family Mutual Life Insurance Company. This reinsurance agreement is structured as modified coinsurance, which requires the investments and reserves remain on the books of AMFAM, with investment income and reserve changes accruing to the Company. The Company then cedes 74.9% of assumed business to its former affiliate, Ability Reinsurance (Bermuda), Ltd. (Ability Bermuda), which is also structure as a modified coinsurance agreement.

On July 5, 2011, the Company entered into a reinsurance agreement with National Insurance Company of Wisconsin, Inc. (NICW). Under this agreement, the Company assumes 100% of the risk on new long-term care insurance policies issued after February 1, 2011, and subsequent renewals on those policies. NICW has ceased writing business.

In July, 2011, the Company entered into a quota share reinsurance agreement with The Guardian Life Insurance Company of America (Guardian), whereby the Company assumes 100% of the risk on business assumed. This agreement covers business on a block of long-term care business retroactive to January 1, 2011.

Effective July 1, 2014, the Company entered into a quota share reinsurance agreement with current affiliate, Sentinel Security. At the origination of this agreement, Sentinel Security was not affiliated. This agreement reinsures 70% of certain fixed annuities and deposit-type products, on a funds withheld basis.

Ceded

Immediately prior to the stock sale transaction of the Company to Ability Resources, Inc., the Company entered into a definitive agreement dated September 28, 2007 to sell 100% of its non-Long Term Care business to Medico.

Effective January 1, 2007, the Company and Medico entered into several recapture agreements with various participating reinsurers under this agreement, with the exception of two reinsurers. These agreements released the reinsurers of all liabilities an obligations under the reinsurance agreement in return for agreed upon considerations. If any state approves a rate increase in excess of 10% that is effective before July 31, 2011 on any policies for the liability which was reinsured under the reinsurance agreement, the Company shall make a one-time payment equal to the effective rate increase percentage approved by each state, less 10%, multiplied by the reinsurers pro-rat share of the annualized premium for the policies in-force for which the rate increase was approved.

Concurrent with the closing of the sale of the Company to A-Cap, the Company entered into a series of transactions, including the commutation of a 74.9% quota share reinsurance agreement with Ability Bermuda, an affiliate of the Company's former parent. Under the terms of this agreement, the Company cedes 100% of its long-term care claims liability related to the block of former Medico policies on a funds withheld basis. On November 3, 2012, Ability Bermuda was purchased by Front Street Re (Cayman), Ltd. (Front Street), a subsidiary of New York Stock Exchange-listed Harbinger Group Inc. Front Street assumed the Company's reinsurance agreement with Ability Bermuda through its merger with Ability Bermuda.

Effective December 31, 2012, the Company entered into a quota share agreement with Alpha Re, effective December 31, 2012. Under terms of this agreement, the Company cedes 20% of policy reserves pertaining to former Medico policies.

Effective December 21, 2014, the Company entered a reinsurance agreement with Seniorsure Health Plans, Inc. (Seniorsure Health), a captive insurance company domiciled in Oklahoma. Under this agreement the Company cedes 100% of the policies subject to the reinsurance program with PrimeSource Healthcare Systems, Inc. and PrimeSource Health Group, LLC. This reinsurance program pertains to policies covering all or a combination of dental, vision, and audiology benefits issued to residents of senior living facilities.

Effective December 31, 2014, the Company entered into a reinsurance agreement with its captive reinsurer, Foxtrot, whereby certain Sentinel Security annuity policies were ceded to Foxtrot on a funds withheld basis. Effective September 30, 2015, the Company simultaneously entered into a novation agreement with its affiliate, Haymarket, and Foxtrot and a retrocession agreement with Haymarket. The result being the transfer of all assumed Sentinel Security policies to Haymarket. The Company remained custodian of the funds withheld and Foxtrot was sold to Haymarket in January, 2016.

Effective December 31, 2016, the Company entered into a quota share reinsurance agreement with Vista Life and Casualty Reinsurance Company (Vista), whereby the Company cedes 40% of policy reserves pertaining to Medico policies.

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:

	2014	2015	2016
Bonds	$672,787,603	$ 847,382,626	$ 982,330,488
Other invested assets	109,218,467	186,262,707	246,453,075
Admitted assets	957,998,490	1,198,116,967	1,203,362,547
Aggregate reserves for life contracts	26,180,720	12,143,519	43,338,093
Aggregate reserves for accident & health contracts	479,774,579	486,951,030	279,795,175
Total liabilities	925,135,374	1,171,552,481	1,181,945,137
Capital and surplus	32,863,116	26,564,486	21,417,410
Premium income	25,589,759	(19,402,128)	(191,865,272)
Net investment income	37,837,522	49,274,608	65,751,073
Annuity benefits	123,401	772,545	615,735
Disability benefits under accident & health contracts	4,031,694	4,466,775	4,927,963
Net income	(787,255)	715,720	(2,373,117)

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, 2016. 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 STATEMENT
December 31, 2016

Assets	**Assets**	**Assets Not Admitted**	**Net Admitted Assets**
Bonds	$ 982,330,488		$ 982,330,488
Preferred stocks	2,131,440		2,131,440
Common stocks	4,682,916		4,682,916
First lien mortgage loans	95,993,040		95,993,040
Other than first lien mortgage loans	800,000		800,000
Properties held for sale	2,008,295		2,008,295
Cash, cash equivalents, and short-term investments	46,182,923		46,182,923
Other invested assets	247,728,075	$ 1,275,000	246,453,075
Receivables for securities	110,000		110,000
Subtotal, cash and invested assets	$1,381,967,177	$ 1,275,000	$1,380,692,177
Investment income due and accrued	20,540,325	625,061	19,915,264
Uncollected premiums in the course of collection	(210,512,360)		(210,512,360)
Amounts recoverable from reinsurers	11,142,894		11,142,894
Other amounts receivable under reinsurance contracts	1,501,446		1,501,446
Current federal income tax recoverable	74,227		74,227
Net deferred tax asset	25,640,637	25,640,637	
Guaranty funds receivable	404,530		404,530
Receivables from parent, subsidiaries, and affiliates	28,981		28,981
Accounts receivable	4,893	1,224	3,669
Receivable from broker dealer	111,719		111,719
Negative IMR	43,812	43,812	
Totals	$1,230,948,281	$27,585,734	$1,203,362,547

Liabilities, Surplus, and Other Funds

Aggregate reserve for life contracts	$ 43,338,093
Aggregate reserve for accident and health contracts	279,795,175
Liability for deposit-type contracts	106,664,044
Life contract claims	1,805,889
Accident and health contract claims	1,307,031
Premiums and annuity considerations received in advance	1,601,878
Other amounts payable on reinsurance assumed	38,612
Commissions to agents due or accrued on accident and health contracts	285,426
Commissions and expense allowances payable on reinsurance assumed	140,352
General expenses due or accrued	8,761,214
Taxes, licenses and fees due or accrued	225,556
Amounts held for agents' account	633
Asset valuation reserve	19,180,498
Funds held under reinsurance treaties with unauthorized reinsurers	348,059,307
Payable to parent, subsidiaries and affiliates	125,483
Funds held under coinsurance	370,377,109
Payable for securities	236,375
Accounts payable	2,460
Total liabilities	$1,181,945,137
Common capital stock	$ 2,500,000
Surplus note	2,250,000
Gross paid in and contributed surplus	48,685,716
Unassigned funds (surplus)	(32,018,306)
Total capital and surplus	$ 21,417,410
Totals	$1,203,362,547

SUMMARY OF OPERATIONS – 2016

Premiums and annuity considerations	$(191,865,272)
Net investment income	65,751,073
Amortization of interest maintenance reserve	(194,470)
Commissions and expense allowances on reinsurance ceded	10,625,382
Administration fee	242,058
Total income	$(115,441,229)
Annuity benefits	615,735
Disability benefits and benefits under accident and health contracts	4,927,963
Surrender benefits and withdrawals for life contracts	147,024
Interest and adjustments on contract or deposit-type funds	(3,695,391)
Increase in aggregate reserves for life and accident and health contracts	(175,961,279)
Subtotal	$(173,965,948)
Commissions on premiums, annuity considerations, and deposit type funds	3,984,100
Commissions and expense allowances on reinsurance assumed	8,624,531
General insurance expenses	14,820,802
Insurance taxes, licenses and fees	1,804,843
Funds withheld adjustment	34,430,996
Total losses and expenses	$(110,300,676)
Net gain from operations before net realized capital gains	(5,140,553)
Net realized capital losses	2,767,435
Net income	$ (2,373,117)

CAPITAL AND SURPLUS ACCOUNT

	2014	2015	2016
Capital and surplus, beginning	$35,166,281	$32,863,116	$26,564,486
Net income	$ (787,255)	$ 715,720	$(2,373,117)
Change in net unrealized capital gains	237,379	34,529	1,849,222
Change in net unrealized foreign exchange capital gains	(240,685)	(1,284,889)	(3,691,649)
Change in net deferred income tax	(512,848)	(784,877)	(262,612)
Change in nonadmitted assets	3,329,348	(431,470)	(2,090,141)
Change in asset valuation reserve	(3,710,002)	(5,861,485)	(4,205,544)
Change in surplus as a result of reinsurance	(619,103)	1,313,842	5,626,765
Net change for the year	$ (2,303,165)	$ (6,298,630)	$(5,147,076)
Capital and surplus, ending	$32,863,116	$26,564,486	$21,417,410

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of $(32,018,306), as reported in the Company's 2016 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 was recommended that the Company amend its By-Laws to properly reflect the Company name, and either elect Officer positions as outlined in the By-Laws, Article IV, Section 1, or amend its By-Laws to accurately reflect current practice.

Action: The Company has complied with the portion of this recommendation pertaining to the accurate Company name included in the By-Laws. The Company has not complied with this recommendation pertaining to its Officers.

Custodial Agreements – It was recommended that the Company amend its custodial agreements with Bank of New York Mellon and Convergx so that both agreements are in compliance with Nebraska Rules and Regulations, Title 210, Chapter 81. It is also recommended that the agreements reflect the Company's current name, Ability Insurance Company.

Action: The reference to Convergx does not pertain as the Company only utilizes the custodial services of Bank of New York Mellon. The Company has not complied with this recommendation and has not amended its agreement to change the Company name or include the required provisions.

Reinsurance Agreement Trust Account Assets – It was recommended that the Company establish controls to ensure that the Alpha Re Trust, which supports the Quota Share Reinsurance Agreement between the Company and Alpha Re be funded to 102% of reserves as required by the Agreement and credit for reinsurance requirements in Title 210, Chapter 65, Section 009 and 010.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Custodial Agreement

It was noted that the Company's custodial agreement with The Bank of New York Mellon was not in compliance with Nebraska Rules and Regulations, Title 210, Chapter 81. In addition, the Company's agreement also reflects the previous name of the Company, Medico Life Insurance Company. It is 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.

Actuarial Presentation to the Board

The Actuarial Specialist reviewed the Board of Director minutes for all insurers within the group and was not able to determine that a qualified actuary made an actuarial presentation regarding asset adequacy analysis of the annuity business that the Company assumes from its affiliate. 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, pursuant to NAIC Annual Statement Instructions that state, "the Appointed Actuary must report to the Board of Directors or the Audit Committee each year on the items within the scope of the Actuarial Opinion. The minutes of the Board of Directors shall indicate that the Appointed Actuary has presented such information to the Board of Directors or the Audit Committee." The presentation conducted by the Appointed Actuary should be robust and include a discussion of all relevant risks.

Reinsurance Agreement Compliance

During review of intercompany reinsurance agreement compliance, it was noted that the settlement reports related to the assumption of Sentinel Security's annuity business provided were done on a net basis that illustrated the net result of the impact of Sentinel Security's cessions to the Company and Haymarket, and the retrocessions to Haymarket, Foxtrot, and unaffiliated reinsurers. Based on the materials provided, the exam team was unable to discern that the monthly reports are provided on a contract basis as prescribed by the reinsurance agreements. Also, it was noted during the review that the statement of funding requirement or the statement of the book value of assets in the trust accounts, as required under each respective agreement, were not able to be provided. It is recommended that the Company take the necessary steps to ensure that monthly reinsurance reporting complies with underlying reinsurance agreements.

Intercompany Reinsurance Accounting

The exam team noted there are four established accounts for the Sentinel Security business ceded or retroceded to the Company, Haymarket, and Foxtrot. In order to take credit for reinsurance, Nebraska Rules and Regulations, Title 210, Chapter 57, Section 004.01(g)(i) requires assets to be legally segregated in a trust or escrow account or otherwise establish a mechanism satisfactory to the Director which legally segregates, by contract or contract provision, the underlying assets. Spreadsheets were provided identifying assets by contract using information from the investment accountants that labeled assets by entity, but did not create a legal segregation by contract. 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.

SUBSEQUENT EVENTS

American Family Life Settlement

Subsequent to the examination date, a pending settlement between AmFam and the Company was received. The Department noted that the settlement was paid directly to A-CAP. As the reinsurance agreement and arbitration was between the Company and AmFam, all monies should have been paid directly to the Company and recorded as such.

Alpha Re Termination

On January 12, 2018, the Company sent notice of recapture to Alpha Re subject to agreement and settlement with Alpha Re. Subsequent to the notice, Alpha Re proceeded with a Voluntary Liquidation on January 16, 2018 and then was placed into Involuntary Liquidation on March 2, 2018. The Funds Withheld were recaptured and transferred back to an off-balance sheet trust with Alpha Re.

The Guardian Life Insurance Company of America Reserve Monitoring

David R. Benz, FSA, MAAA, Managing Actuary for ERC Long Term Care Solutions, Inc., a subsidiary of ERAC, conducted a special development of projected cash flows for the American Long Term Care Reinsurance Group pool, of which Guardian is a participant. The Company assumes Long Term Care reinsurance from Guardian as noted above in the "Reinsurance – Assumed" section. The findings included in the report included an update to the morbidity assumption with significant impact on the projected claims. The Long-Term Care claim projections almost doubled between August, 2017 and January, 2018.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

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.

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.

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.

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

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.

ACKNOWLEDGMENT

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

In addition to the undersigned, Kimmea Stevenson, CFE and Nicole Drake, Financial Examiners; Gary Evans, CISA, AES, CFE, Information Systems Specialist; Jill Gleason, CFE, Holding Company Specialist; and Rhonda Ahrens, FSA, MAAA and Derek Wallman, Actuarial Examiners; all with the Nebraska Department of Insurance and Financial Examiners, and Actuarial Examiners contracted by the South Carolina and Utah Departments of Insurance; participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

Isaak Russell, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Isaak Russell, 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, HayMarket Insurace Company, and FoxTrot Re, LLC.

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 reports, and the examination of the Ability Insurance Company, HayMarket Insurace Company, and FoxTrot Re, LLC 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 Isaak Russell on this 29 day of May, 2018.

(SEAL) GENERAL NOTARY - State of Nebraska
BRANDIS J. COURSER
My Comm. Exp. July 25, 2018

Brandis J. Courser
Notary Public

My commission expires July 25, 2018 [date].