

CERTIFICATION

February 19, 2014

I, Bruce R. Ramage, 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, 2013

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.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

FEB 19 2015

FILED

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NSURANCE



Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

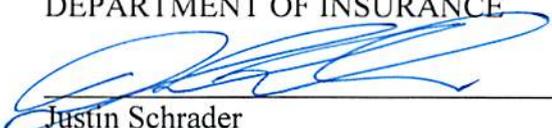
Take notice that the proposed report of the financial examination of

ABILITY INSURANCE COMPANY

dated as of December 31, 2013, verified under oath by the examiner-in-charge on January 23, 2015 and received by the company on January 26, 2015, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 9 day of February, 2015.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE


Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

Ability Insurance Company

as of

December 31, 2013

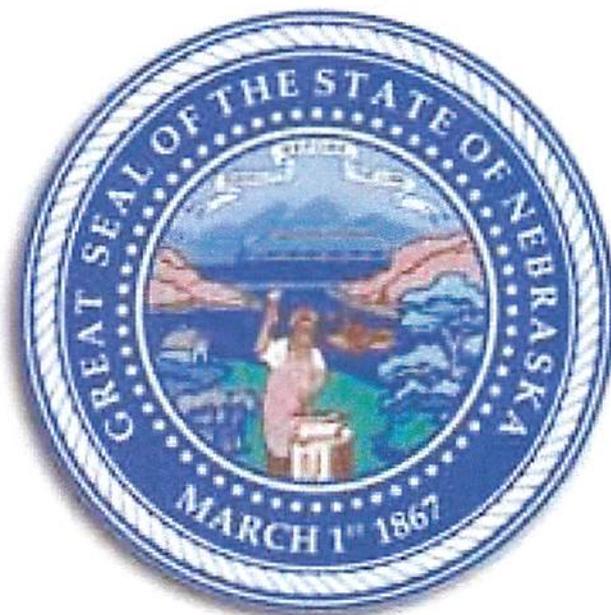


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Omaha, Nebraska
December 10, 2014

Honorable Joseph Torti, III
Chairman, Financial Condition (E) Committee, NAIC
Deputy Director and Superintendent of Insurance
Rhode Island Division of Insurance
1511 Pontiac Avenue, Bldg #69-2
Cranston, Rhode Island 02920

Honorable John M. Huff
Chair, Midwestern Zone, NAIC
Director of Insurance
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Honorable Bruce R. Ramge
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Sirs:

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

**413 Bedford Road
Pleasantville, NY 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, 2010 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2013, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

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.

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, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. 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 Ernst and Young, LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2012 and 2013. 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 accident and health insurance.

The Company was wholly-owned by Medico Insurance Company, 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 because 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 if 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 the 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 Delaware limited liability company. Advantage Capital Holdings, LLC, 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.

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 2013 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Advantage Capital Partners, LLC
- Advantage Capital Holdings, LLC (87.3%)
- Ability Insurance Company (FKA Medico Life)

Shareholder

The Articles of Incorporation state that, “the aggregate number of shares which the Corporation shall have the authority to issue Three Million shares of common capital stock, and the par value of each said share is to be One Dollar”. As of December 31, 2013, Company records indicated that 2,500,000 were issued and outstanding and all shares were owned by Advantage Capital Holdings, LLC.

Concurrent with the closing of the sale of the Company from Ability Resources Holdings Inc. to Advantage Capital Holdings, LLC, \$5,750,000 was transferred to the Company as additional surplus. This additional surplus is comprised of \$3,500,000 in cash from Advantage Capital Holdings, LLC., and \$2,250,000 in the form of a surplus note issued by Alpha Re Limited, a Cayman Island reinsurer.

The first annual meeting of the shareholder, under the new ownership structure occurred on March 13, 2014, in New York, NY.

Surplus Note

On December 31, 2012, a surplus note in the amount of \$2,250,000 was issued to Alpha Re Limited, 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 then being paid only with the prior approval of the Director of the Department pursuant to Neb. Rev. Stat. Section 44-221.

Board of Directors

Article III, Section 1 of the restated 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. Each Director shall hold office until the next annual meeting of the Shareholders and until his successor shall have been elected and qualified. Not less than one-third of the Directors shall be persons who are not Officers or employees of such insurer or any entity controlling, controlled by, or under common control with such insurer and who are not beneficial owners of a controlling interest in the voting stock of such insurer or any such entity.”

The following persons were serving as Directors at December 31, 2013:

<u>Name and Residence</u>	<u>Principal Occupation</u>
John Paul Grant Omaha, NE	Attorney, Owner Grant Law Offices, PC.
Ian Kilpatrick Travelers Rest, SC	Retired, Former Owner of Advantage Life Re
Kenneth King Pleasantville, NY	President & Chief Executive Officer of Ability Insurance Company
Daniel Bret Cathcart Avon, CT	Senior Vice President & Chief Marketing Officer of Ability Resources
William Austin Lewis IV New York, NY	President & Owner of Lewis Asset Management

Officers

Article IV, Section 1, of the restated 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.” As indicated below, it was noted that the Company was not in compliance with its own By-Laws as to the election of Officers, as outlined in the Article IV, Section 1 of the restated By-Laws. It is recommended that the Company either formally elect

these Officers at subsequent meetings of the Board of Directors, or that the By-laws are amended to appropriately include the Officers the Company intends to elect. In addition, it was noted that Company's previous name, Medico Life Insurance Company, is still being used and should also be amended.

The following is a listing of Officers elected and serving the Company at December 31, 2013:

<u>Name and Residence</u>	<u>Office</u>
Kenneth King	President & Chief Executive Officer
Stephen Robert La Pierre	Secretary
David Gerard Charsky	Treasurer

TRANSACTIONS WITH AFFILIATES

Management and Consulting Agreement

Effective January 1, 2013, the Company entered into a Management and Consulting Agreement with its immediate parent Advantage Capital Holdings, LLC (ACH). Under the terms of this agreement, ACH will provide management and consulting services to the Company. These services include providing overall management and leadership of the Company, defined as implementing an annual budget and business plan, negotiating third party agreements, implementing investment strategies, and managing the relationship and relationships with third party administrator Ability Resources, Inc. (Administrative Services Agreement). The Company will reimburse ACH for actual expenses incurred in providing services, proportionate share of the cost directly allocable to the Company. The amount reimbursed by the Company to ACH during 2013 was \$694,266.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in the following states; Alabama, Arizona, Arkansas, California, Colorado, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

During 2013, several states suspended the Company's Certificate of Authority due to the Department's Order. These include Alaska, Kentucky, and Nevada. The Company also chose to withdrawal its application for a Certificate of Authority in Michigan. It was also noted that the Company neglected to change its annual statement to reflect that the Company was no longer licensed in these states.

Subsequent to the sale of the Company by Medico Insurance Company to Ability Resources, Inc., on September 28, 2007, the Company has been in the business of acquiring and administrating closed blocks of Long-Term Care insurance policies. While administering the Company's current closed blocks, pursuant to the stock purchase agreement as of February 25, 2013, and transfer of immediate ownership of the Company to ACH, the Company intends to diversify into other lines of business.

REINSURANCE

Assumed

Immediately prior to the stock sale transaction of the Company (FKA Medico Life Insurance Company) to Ability Resources, Inc., the Company entered into a definitive agreement dated September 28, 2007 to buy 100% of its Long-Term Care business from Medico Insurance

Company (Medico). As part of this agreement, the Company and Medico have undertaken a joint novation program to novate all long-term care policies from Medico, to the Company. This novation process was expected to occur over a period of two years, but is still ongoing as of the date of this report, and has been suspended while the Company is under the Order. In conjunction with this agreement, the Company and Medico entered into a 100% quota share reinsurance agreement, also effective September 28, 2007. This purpose of this agreement is for the Company to assume all of the liability for policies which have not been novated, and to ensure the liability related to policyholders who decline to novate their policies is transferred to the Company.

Effective July 1, 2010, the Company entered into a reinsurance agreement with American Family Life Insurance Company (AFLIC), whereby the Company assumes 100% of the Long-Term Care liabilities AFLIC 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 AFLIC, 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., which is also structured as a modified coinsurance agreement. As a part of this agreement, American Family Mutual Life Insurance Company policies will be novated to the Company upon the Company's achievement of an AM Best rating of A- or better.

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 quota share reinsurance with The Guardian Life Insurance Company of America (Guardian), whereby the Company assumes 100% of the risk on business assumed. Policy and claim reserves totaling approximately \$41 Million were assumed by the Company. The agreement covers business on this block retroactive to January 1, 2011.

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. As part of this agreement, the Company and Medico have undertaken a joint novation program to novate all non-Long-Term Care policies from the Company to Medico. This novation process was expected to occur over a period of two years, but is still ongoing as of the date of this report, and has been temporarily suspended while the Company has been under the Order. In conjunction with this agreement, the Company and Medico entered into a 100% quota share reinsurance agreement, also effective September 28, 2007. This purpose of this agreement is for Medico to assume 100% of the liability for policies which have not been novated, and to ensure the liability related to policyholders who decline to novate their policies is transferred 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 and 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-rata 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 Advantage Capital Holdings, LLC, the Company entered into a series of transactions, including the commutation of a 74.9% quota share reinsurance agreement with Ability Reinsurance Bermuda, Ltd. (Ability Bermuda), an affiliate of the Company's former parent. This was followed by entry into a new Guaranteed Morbidity Reinsurance Agreement with Ability Bermuda, which became effective as of December 31, 2012. 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. The funds withheld account was established, and is maintained by the Company for the purpose of supporting Ability Bermuda's obligations under the agreement. At the end of every quarter, while the agreement is in effect, the book value of funds withheld assets must be maintained at 110% of reinsured reserves. In addition to regulatory intervention (liquidation, etc.), the reinsurers failure to provide full statutory credit, or extinguishment of the Company's obligations under the reinsured policies, this agreement may be terminated by mutual, written consent of the reinsurer and the ceding company.

Concurrent with the closing of the Company by Advantage Capital Holdings, LLC, the Company also entered into a quota share agreement with Alpha Re Limited, effective December 31, 2012. Under terms of this agreement, the Company cedes 20% of policy reserves pertaining to the former Medico policies. On that date, reserves totaling approximately \$102,719,111 were ceded to the reinsurer.

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>2011</u>	<u>2012</u>	<u>2013</u>
Bonds	\$807,116,424	\$825,789,969	\$622,976,340
Admitted assets	840,080,873	805,255,932	827,104,848
Aggregate reserves for accident & health contracts	220,974,611	459,153,531	472,946,878
Total liabilities	792,886,448	756,233,369	791,938,566
Capital and surplus	47,194,426	49,032,563	35,166,281
Premiums earned	67,331,340	247,438,739	4,610,786
Net investment income	20,557,341	38,410,985	28,577,499
Disability benefits and benefits under accident and health contracts	29,296,752	23,079,207	3,748,359
Increase in aggregate reserves for life and accident and health contracts	52,839,980	238,178,920	13,793,348
Net income	2,532,958	(15,676,144)	(9,551,169)

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2013 and its transactions during the year 2013 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2013

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$622,976,340		\$622,976,340
Preferred stocks	8,512,500		8,512,500
Common stocks	10,029,287		10,029,287
Mortgage loans on real estate	18,612,006		18,612,006
Cash and short-term investments	99,768,567		99,768,567
Other invested assets	<u>53,911,054</u>		<u>53,911,054</u>
Subtotal, cash and invested assets	\$813,809,754		\$813,809,754
Investment income due and accrued	8,032,428		8,032,428
Uncollected premiums and agents' balances	(5,658,014)		(5,658,014)
Deferred premiums and agents' balances booked and not yet due	10,329,422		10,329,422
Other amounts receivable under reinsurance contracts	436,680		436,680
Federal income tax recoverable	133,903		133,903
Net deferred tax asset	25,533,812	\$25,533,812	
Guaranty funds receivable	18,780		18,780
Accounts receivable	2,819	924	1895
Negative IMR	<u>2,858,735</u>	<u>2,858,735</u>	
Totals	<u>\$855,498,319</u>	<u>\$28,393,471</u>	<u>\$827,104,848</u>

Liabilities, Surplus, and Other Funds

Aggregate reserve for accident and health contracts	\$472,946,878
Accident and health contract claims	1,251,265
Premium received in advance	2,238,601
Other amounts payable on reinsurance	26,668
Commissions to agents due and accrued	471,037
Commissions and expense allowances payable on reinsurance assumed	97,877
General expenses due and accrued	7,440,571
Taxes, licenses and fees due and accrued	506,687
Amounts held for agents' account	326
Asset valuation reserve	5,403,468
Funds held under reinsurance treaties with unauthorized and certified reinsurers	291,601,062
Derivatives	559,068
Accounts payable	4,344
Payable to broker dealer	<u>9,390,715</u>
Total liabilities	<u>\$791,938,566</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>(18,269,435)</u>
Total capital and surplus	<u>\$ 35,666,281</u>
Totals	<u>\$827,104,848</u>

SUMMARY OF OPERATIONS – 2013

Premium and annuity considerations	\$ 4,610,786
Net investment income	28,577,499
Amortization of interest maintenance reserve	108,937
Commissions and expense allowances on reinsurance ceded	<u>5,149,231</u>
Totals	\$ 38,446,453
Disability benefits and benefits under accident and health contracts	\$ 3,748,359
Increase in aggregate reserves for life and accident and health contracts	<u>13,793,348</u>
Totals	<u>\$ 17,541,707</u>
Commissions on premiums	\$ 6,286,711
Commission and expense allowances on reinsurance	1,634,996
General insurance expenses	10,880,028
Increase in loading on deferred and uncollected premiums	784,966
Modco adjustment	1,196,803
Funds withheld adjustment	<u>33,218,373</u>
Totals	<u>\$ 71,543,615</u>
Net gain from operations before federal income taxes and net realized capital gains	\$(33,097,161)
Federal income taxes incurred	116,097
Net realized capital losses	<u>23,662,089</u>
Net income	<u>\$ (9,551,169)</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus, beginning	\$32,962,450	\$ 47,194,426	\$49,032,563
Net income	\$ 2,532,958	\$(15,676,144)	\$(9,551,169)
Change in net unrealized capital gains		757,769	
Change in net deferred income tax	(4,686,983)	8,371,769	(1,362,755)
Change in nonadmitted assets	(2,770,598)	(709,800)	(3,390)
Change in asset valuation reserve	(751,790)	(842,964)	(3,436,218)
Change in surplus notes		2,250,000	
Paid in surplus		3,500,000	
Change in surplus as a result of reinsurance	<u>19,908,390</u>	<u>4,945,275</u>	<u>(270,518)</u>
Net change for the year	<u>\$14,231,976</u>	<u>\$ 1,838,137</u>	<u>\$(13,866,282)</u>
Capital and surplus, ending	<u>\$47,194,426</u>	<u>\$49,032,563</u>	<u>\$ 35,166,281</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$35,166,281, as reported in the Company's 2013 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, and target examination as of December 31, 2012, are reflected below together with the remedial actions taken by the Company to comply therewith:

Custodial Agreement – Amend Custodial Agreements to be in Compliance with Title 210, Chapter 81 of the Nebraska Department of Insurance Rules and Regulations.

Action: The Company has not complied with this recommendation. This recommendation will be repeated under the caption "Commentary on Current Examination Findings" in this report.

Investment Policy – The Board of Directors should review and approve the investment policy on at least an annual basis in accordance with Nebraska Insurance Code Chapter 44-5105.

Action: The Company has complied with this recommendation.

Inadequate Trust Assets – The Company should ensure that trust assets maintained by its reinsurer Ability Reinsurance Bermuda are maintained at the percentage of ceded reserves required by the contract.

Action: This reinsurance contract has been terminated.

Return of Premium Rider Payments – The Company should evaluate and correct the process for calculating and paying Return of premium rider payments as examiners noted several which were calculated erroneously.

Action: The Company has complied with this recommendation.

New Gross Premium Valuation System – The Company should establish a new Gross Premium Valuation System so as to be able to evaluate reasonableness of reserves as of December 31, 2012f.

Action: The Company has complied with this recommendation.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Custodial Agreements

It was noted in the review of the Company's custodial agreements with Bank of New York Mellon and Convergx, that neither agreement was compliance with with Nebraska Rules and Regulations, Title 210, Chapter 81. In addition, the Company's agreement with Bank of New York Mellon was noted to reflect the Company's previous name Medico Life Insurance Company. It is 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. In addition it is recommended that the agreements reflect the Company's current name, Ability Insurance Company.

Reinsurance Agreement Trust Account Assets

Required reserve amounts and trust account statements pursuant to the Company's quota share reinsurance agreement with Alpha Re were obtained from Company and reviewed by examiners to ensure sufficient assets were held based upon market value of trust assets (102% required). Based upon required reserve amounts and bank statements provided for December 2013 and March 2013, the Alpha Re trust was found to not be funded to 102% of reserves as required by credit for reinsurance standards of Title 210, Chapter 65, Section 009 and 010. It is therefore recommended that the Company establish controls to ensure that the Alpha Re Trust supporting 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.

SUBSEQUENT EVENTS

RELEASE FROM SUPERVISION

Effective July 2, 2014, it was ordered that the Order, filed on December 12, 2012, be terminated. Given the extensive monitoring, and regular discussions with the Company's owners and management, and Department oversight, the Order was terminated as the Company has met all the requirements to abate supervision as required in the Order.

GUARANTEED MORBIDITY REINSURANCE AGREEMENT

Effective November 3, 2014, Ability Bermuda was acquired by and merged into Front Street Re (Cayman) Ltd. (Front Street), an exempted company incorporated with limited liability and licensed as an insurance company under the laws of the Cayman Islands. As a result of the merger, the Guaranteed Morbidity Reinsurance Agreement between the Company and Ability

Bermuda was amended and restated to reflect the new counterparty and the negotiated terms as a result of such merger. The majority of the reinsurance agreement terms remained unchanged, however the collateral requirements were reduced from 110% to 105% of reinsured reserves so long as Front Street's capital and surplus remains above \$100 Million. Further, additional termination provisions were built into the reinsurance agreement to protect the Company in the event Front Street is unable to meet the collateral requirements. The transaction was subject to the review and approval of both the Cayman Islands Monetary Authority and Bermuda Monetary Authority, and the Amended and Restated Reinsurance Agreement and related agreements were reviewed and non-disapproved by the Department prior to execution.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

By-Laws – It is 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 it's By-Laws to accurately reflect current practice.

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

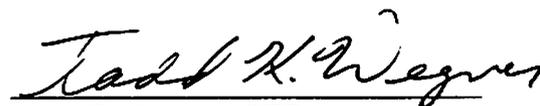
Reinsurance Agreement Trust Account Assets - It is recommended that the Company establish controls to ensure that the Alpha Re Trust, which supports the Quota Share Reinsurance Agreement between the Company and Alpha Re be funded to 102% of reserves as required by the Agreement and credit for reinsurance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

ACKNOWLEDGEMENT

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

In addition to the undersigned, Skyler Lawyer, CFE, Derek Petersen, CFE, Financial Examiners; Linda Scholl, CFE, information Systems Specialist; Rhonda Ahrens, FSA, Life and Health Actuarial Examiner; and Lindsay Crawford, CFE, Reinsurance Specialist, all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Tadd K. Wegner, CFE
Supervisory Examiner
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Tadd K. Wegner, 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. 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 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.

Tadd K. Wegner
Examiner-in-Charge's Signature

Subscribed and sworn before me by Tadd K. Wegner on this 23 day of January, 2015.

(SEAL)

LeW A Keller
Notary Public

My commission expires 12-24-2017 [date].