

**Key Risk Insurance Company**

Greensboro, North Carolina

**Report on Examination**

As of December 31, 2013

# Key Risk Insurance Company

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# Key Risk Insurance Company

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## REPORT ON EXAMINATION OF FINANCIAL CONDITION

Honorable Wayne Goodwin  
Commissioner of Insurance  
State of North Carolina  
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

### Key Risk Insurance Company

(hereinafter referred to as the “Company”), at its main administrative office located at 7823 National Service Road, Greensboro, NC 27409. The Company’s statutory home office is located at the same address. The following report on examination is respectfully submitted.

### SCOPE OF EXAMINATION

This examination covers the period from January 1, 2009 to December 31, 2013, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was as of December 31, 2008.

This examination was conducted in accordance with auditing standards established by the Department, procedures established by the National Association of Insurance Commissioners (“NAIC”), and in coordination with the Delaware Department of Insurance. We examined the Company to evaluate the financial condition and identify prospective risks by obtaining information regarding its corporate governance structure, identifying and assessing inherent risks, and evaluating system controls and other procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management’s compliance with GS Chapter 58.

This examination was risk-focused and consisted of a seven-phase process used to identify and assess risk, assess the adequacy and effectiveness of strategies and controls used to mitigate risk, and assist in determining the extent and nature of testing procedures to review the Company’s key activities. This process included a determination of the quality and reliability of the Company’s corporate governance structure and risk management programs, as well as, verification of specific portions of the financial statement. All accounts and activities of the Company were considered; however, the examination focused on areas of high risk and fewer tests were performed on the accounts identified as having a low risk of misstatement.

Our examination was directed specifically to the quality, value and integrity of the admitted assets and liabilities reported by the Company in its 2013 Annual Statement, as those balances are critical to determining financial solvency.

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The Delaware Department of Insurance, acting as the lead State, retained the services of INS Consultants, Inc. to review the adequacy of the actuarially determined reserve liabilities for each affiliated insurer of W.R. Berkley Group participating in this examination. In addition, an assessment of the Information Technology ("IT") General Controls and related IT control environment for the W.R. Berkley Group of affiliated insurers was performed by INS Services, Inc.

### **COMPANY HISTORY**

The Company was incorporated on December 10, 1997, under the laws of the State of North Carolina as a stock insurance company. The Company was established to write property and casualty insurance policies. The first policies were issued effective July 1, 1998, for workers compensation. The Company commenced business on January 22, 1998, with 4.0 million shares of \$1 par value capital common stock authorized. On December 31, 1997, the Company issued 1.8 million shares of its \$1 par value common stock to its ultimate parent, W.R. Berkley Corporation ("WRBC"). This provided the Company with an initial capital of \$1.8 million and gross paid-in and contributed surplus of \$2.7 million. On August 1, 2000, WRBC transferred the Company's shares of capital common stock to an affiliate, Signet Star Reinsurance Co., which was subsequently renamed Berkley Insurance Company ("BIC"), the direct parent of the Company.

An amendment to the Company's Articles of Incorporation was approved by the Department on June 24, 2011, and filed by the Secretary of State on June 28, 2011. The result of this amendment was an increase in the par value of common stock from \$1.8 million to \$4.5 million and a reduction of gross paid in capital of \$2.7 million.

The Company paid stockholder dividends of \$2.5 million and \$2.3 million during 2012 and 2010, respectively. The Company had 1.8 million shares of \$2.50 par value common stock authorized, issued and outstanding, gross paid-in and contributed surplus of \$20.8 million, and \$3.3 million in unassigned funds at December 31, 2013.

### **CORPORATE RECORDS**

The Department reviewed the minutes of the meetings of the board of directors ("Board") and committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the Board approved these transactions and events.

The Company's Bylaws were reviewed for any amendments during the period under examination. There were no amendments made to the Bylaws.

### **MANAGEMENT AND CONTROL**

#### **Board of Directors**

The business of the Company is managed by its management team and subject to review by the Board, which is comprised of five members. A majority of the Board constitutes a quorum for the transaction of business.

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The following individuals were serving as directors at December 31, 2013:

| <u>Name</u>        | <u>Address</u>  | <u>Principal Business Affiliation</u>   |
|--------------------|-----------------|---|
| Ira S. Lederman    | Greenwich, CT.  | WRBC Senior Vice President and Legal Counsel  |
| Robert R. D. Stone | Greenwich, CT.  | WRBC - Senior Vice President  |
| Eugene G. Ballard  | Greenwich, CT.  | WRBC – Senior Vice President, Chief Financial Officer   |
| Robert W. Standen  | Greensboro, NC. | Key Risk Insurance Company President  |
| Rebecca H. Karr    | Greensboro, NC. | Key Risk Insurance Company Chief Operating Officer, Chief Financial Officer and Secretary/Treasurer |

### Committees

The Board has the authority to establish committees including, but not limited to, an executive committee, consisting of at least two members of the Board. These committees have the powers and duties deemed appropriate by the Board, however, their power may not exceed the power of the Board.

### Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer and any other officers deemed necessary by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices, not inconsistent with each other, may be held by the same person.

The following individuals served as officers as of December 31, 2013:

| <u>Name</u>       | <u>Title</u>   |
|-------------------|--|
| Robert W. Standen | President  |
| Rebecca H. Karr   | Chief Operating Officer, Chief Financial Officer and Secretary/Treasurer |
| Joe C. Brooks II  | Senior Vice President  |
| Joseph J. Abriola | Senior Vice President  |
| Michael H. Marcus | Vice President   |
| Gregory S. Tardy  | Vice President   |

### AFFILIATED COMPANIES

#### Holding Company

The Company is part of an Insurance Holding Company System as defined in GS 58-19. BIC, the Company's direct parent, is an insurance company domiciled in the state of Delaware. The Company's December 31, 2013, Annual Statement ("AS") Schedule Y contains a complete organization chart.

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## **Affiliated Transactions**

The Company and BIC, as part of an intercompany reinsurance pooling agreement effective January 1, 2013, agreed that BIC shall act as the Company's manager to "do all things necessary and incidental to conduct the business of the Company pursuant to the agreement including appointing BIC to administer and perform, or cause to be administered or performed, the duties required to manage said business and to perform all duties necessary and incidental to the operation and management of the business of the Company." BIC shall have the right to subcontract any of the duties and obligations required under the agreement to affiliates or unrelated third parties. The agreement shall remain in effect until canceled by either party by giving the other party not less than 12 months' prior notice. Amendment No. 1 to the agreement clarified that the business and affairs of the Company shall be managed by its Board, and, to the extent delegated by such Board, by its appropriately designated officers.

The Company has an investment advisory agreement with Berkley Dean & Company, Inc., effective April 28, 1998, whereby the Company is provided investment management and advisory services. Under this agreement, the Company incurred fees totaling \$64,593 and \$74,240 in 2013 and 2012, respectively.

The Company is included in a consolidated income tax return in accordance with a tax sharing agreement with WRBC, effective December 10, 1997. The provision for federal income taxes is computed on a quarterly basis as if the Company were filing a separate income tax return. Benefits, which arise from tax credits and net operating losses, are allocated to the company producing such results to the extent they are utilized in the consolidated income tax provision. Any balances due are settled within 45 days after the end of each quarter.

The Company had a management agreement with Key Risk Management Services ("KRMS"), effective March 26, 1998, under which the Company was provided various management and administrative services, including underwriting, claims processing, marketing and financial reporting. KRMS furnished the Company with all personnel, office space, and equipment required to carry on its business. The Company was billed on a monthly basis and the balance due was to be settled within 30 days upon receipt of the billing statement. Under this agreement, the Company incurred management fees totaling \$1.7 million in 2012, which was settled in 2013. This agreement was terminated by mutual consent of the parties effective January 1, 2013.

The Company has administrative services agreements with Berkley Risk Administrators Company, LLC ("BRAC"), whereby the Company appoints BRAC to carry out and discharge obligations under its servicing carrier agreements with the assigned risk plans. For the plans in North Carolina, effective January 1, 2008, and in South Carolina, effective May 1, 2007, the Company assigns BRAC certain functions while retaining others and divides the related compensation in accordance with the administrative services agreements. For the Georgia plan, effective January 1, 2003, the Company assigns BRAC to perform all servicing carrier duties and remits to BRAC all compensation allowable to the Company under its agreement with National Council on Compensation Insurance, Inc. BRAC pays all related expenses and reimburses the Company for any direct or indirect expenses incurred. While performing services for the plans, BRAC is under the direction and control of the Company's Board with respect to all matters related to the agreements. The Company's participation terminated in the Georgia plan on December 31, 2005, in the South Carolina plan on December 31, 2009, and in the North Carolina plan on December 31, 2010. The Company's agreements with BRAC are still in force for the purposes of handling the run-off claims and residual issues from the plan periods.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company is insured under a blanket fidelity bond issued to WRBC and its subsidiaries. The bond provides coverage in the amount of \$15.0 million for a single loss and a \$15.0 million aggregate limit. The coverage exceeds the NAIC's recommended minimum amount of fidelity bond coverage for the Company.

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The Company does not maintain any other insurance coverage since it has no employees nor does it own any assets other than investments. All operations are performed by affiliates for which the Company reimburses by the payment of management fees.

### BENEFIT PLANS

The Company has no direct employees as most of the individuals who perform functions related to the administration of the Company's business are employed by BIC, with the expenses allocated to the Company through the previously described administrative services agreement.

### TERRITORY AND PLAN OF OPERATION

The Company writes workers' compensation policies. The Company utilizes independent licensed agents for the distribution of its product and solicitation of business. Most policies are issued annually and the majority of policyholders elect to pay on an installment basis. During 2009, the Company received approval from the Department to expand its lines of authority to include additional lines of business. To date, the Company has not written any premiums in these new lines and continues to write only workers' compensation policies

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

|              |                  |                      |             |                  |
|--------------|------------------|----------------------|-------------|------------------|
| Alabama *    | Alaska           | Arizona              | Arkansas    | Colorado         |
| Connecticut  | Delaware         | District of Columbia | Florida *   | Georgia *        |
| Hawaii       | Idaho            | Illinois             | Indiana     | Iowa             |
| Kansas       | Kentucky *       | Maine                | Maryland *  | Massachusetts    |
| Michigan     | Minnesota        | Mississippi          | Missouri    | Montana          |
| Nebraska     | Nevada           | New Hampshire        | New Jersey  | North Carolina * |
| North Dakota | Ohio             | Oklahoma             | Oregon      | Pennsylvania *   |
| Rhode Island | South Carolina * | South Dakota         | Tennessee * | Texas            |
| Utah         | Vermont          | Virginia *           | Washington  | West Virginia    |
| Wisconsin    | Wyoming          |                      |             |                  |

\* Indicates those states in which the Company is currently writing business.

### TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department and from the last report on examination, illustrates the trends of the Company for the five year period ended December 31, 2013:

|             | <b>Net Admitted</b> | <b>Capital and</b> | <b>Direct</b>   | <b>Net</b>    |
|-------------|---------------------|--------------------|-----------------|---------------|
| <b>Year</b> | <b>Assets</b>       | <b>Surplus</b>     | <b>Premiums</b> | <b>Income</b> |
|             | <b>Written</b>      |                    |                 |               |
| 2013        | \$51,244,788        | \$28,514,241       | \$75,772,490    | \$1,427,071   |
| 2012        | 57,374,476          | 27,849,151         | 87,137,639      | 1,193,639     |
| 2011        | 57,405,716          | 28,465,139         | 90,319,122      | 929,982       |
| 2010        | 59,986,562          | 27,599,819         | 99,091,549      | 1,071,015     |
| 2009        | 71,891,233          | 28,785,578         | 121,901,612     | 1,633,886     |

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### **ACTUARIAL OPINION**

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155. The NAIC Annual Statement Instructions require a statement from the appointed actuary setting forth an opinion relating to claim reserves and any other actuarial items included on or attached to the annual statement.

The statutory reserves and related items for 2013 were reviewed and certified by the Company's Appointed Actuary, Paul J. Hancock, FCAS, MAAA of WRBC. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserve. According to the actuarial opinions, the Company's reserve for loss and loss adjustment expenses met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss expense obligations of the Company.

### **REINSURANCE**

Effective January 1, 2013, BIC entered into an intercompany reinsurance pooling agreement ("Pooling Agreement") with nineteen of its U.S. property casualty insurance company subsidiaries ("Pool Affiliates"), including the Company. Under this agreement, the Pool Affiliates agreed to cede and transfer to BIC, and BIC agreed to assume and accept as its own obligation: (1) 100% of the Pool Affiliates' net liabilities on all insurance policies and all assumed reinsurance contracts that were in force as of January 1, 2013, or that had expired or had been terminated or non-renewed as of January 1, 2013; and (2) 100% of the Pool Affiliates' liabilities on all insurance policies and all assumed reinsurance contracts issued subsequent to January 1, 2013. The Company's net amount of reinsurance recoverable under this agreement totaled \$206.2 million at December 31, 2013.

### **ACCOUNTS AND RECORDS**

The Company's main administrative office is located in Greensboro, North Carolina. All policy and claim functions for business processed in Greensboro, as well as most financial, administrative and information system services, are performed at the Company's main administrative office location. Centralized corporate activities including: centralized capital, investment and reinsurance management, and corporate actuarial, financial, enterprise risk management, internal audit, and legal staff support are located at the WRBC corporate office in Greenwich, Connecticut.

#### **Independent Auditor**

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). KPMG, LLC of New York, NY, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2013.

#### **Information System**

The Company utilizes several information system platforms and/or applications in the processing of the Company's business. All companies within the WRBC holding company system use a common, integrated general ledger application which can produce financial statements on a consolidated, legal entity or profit



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center basis. Several of the information systems utilized by the Company fully integrate with the current general ledger application and require minimal manual calculation and data entry.

### **STATUTORY DEPOSITS**

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2013 Annual Statement Schedule E Part 3 contains a complete description and listing, by state, of the Company's statutory deposits. As of December 31, 2013, the statutory deposits were sufficient to meet the capital deposit requirements for the states where the Company is doing business.

### **FINANCIAL STATEMENT**

The accompanying financial statement presents the Company's statutory financial position as of December 31, 2013, and statutory results of operations for the period then ended as reported by the Company to the Department in its 2013 Annual Statement and adjusted, as necessary, based on the results of our examination. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the GS. The financial statement and supporting schedules as of December 31, 2012, are unexamined and are presented for comparative purposes only.

**Key Risk Insurance Company**  
Statutory Statement of Admitted Assets

|   | December 31,  |                     |
|---|---------------|---------------------|
|   | 2013          | 2012                |
|   |               | <i>(unexamined)</i> |
| <b><u>Admitted Assets</u></b>                                     |               |                     |
| Bonds   | \$ 30,922,349 | 26,241,280          |
| Cash and short-term investments                                   | 453,472       | 4,981,742           |
| Receivable for securities   | 27,500        | 37,963              |
| Total cash and invested assets                                    | 31,403,321    | 31,260,985          |
| Investment income due and accrued                                 | 373,567       | 365,792             |
| Premiums and agents' balances in course of collection             | 2,214,327     | 1,726,431           |
| Premiums and agents' balances booked but deferred and not yet due | 16,250,887    | 21,380,549          |
| Reinsurance recoverable   |               | 14,569              |
| Accrued retrospective premiums                                    | 22,735        | (2,246)             |
| Current federal income tax recoverable                            | 2,911         | 11,286              |
| Net deferred tax asset  | 654,710       | 1,248,027           |
| Guaranty funds receivable or on deposit                           | (537,535)     | (284,215)           |
| Receivable from parent, subsidiaries and affiliates               | 820,029       | 1,563,127           |
| Accounts receivable-other   | 39,836        | 90,171              |
| Total admitted assets   | \$ 51,244,788 | 57,374,476          |

See accompanying notes to the statutory financial statement

**Key Risk Insurance Company**  
Statutory Statement of Liabilities, Capital and Surplus

|   | December 31,         |                   |
|---|----------------------|-------------------|
|   | 2013                 | 2012              |
|   | <i>(unexamined)</i>  |                   |
| <b><u>Liabilities</u></b>   |                      |                   |
| Reinsurance payable on paid losses and loss adjustment expenses       | 1,538,266            | 1,594,435         |
| Commissions payable, contingent commissions and other similar charges | 2,413,025            | 2,215,594         |
| Other expenses  | 1,127,972            | 1,138,087         |
| Taxes, licenses and fees  | 6,694,056            | 7,137,149         |
| Advance premium   | 587,700              | 440,695           |
| Policyholders dividends declared and unpaid                           | 2,233,239            | 1,860,750         |
| Funds held by Company under reinsurance contracts                     | 7,887,096            | 12,964,332        |
| Payable to parent, subsidiaries and affiliates                        | 17,348               | 1,699,727         |
| Deferred servicing carrier revenue                                    |                      | 454,293           |
| Deferred intercompany gain  | 231,845              | 20,264            |
|   | <b>22,730,547</b>    | <b>29,525,326</b> |
| Total liabilities   |                      |                   |
| <b><u>Capital and Surplus</u></b>                                     |                      |                   |
| Common capital stock  | 4,500,000            | 4,500,000         |
| Gross paid in and contributed surplus                                 | 20,750,000           | 20,750,000        |
| Unassigned funds  | 3,264,241            | 2,599,151         |
|   | <b>28,514,241</b>    | <b>27,849,151</b> |
| Total capital and surplus   |                      |                   |
|   | <b>\$ 51,244,788</b> | <b>57,374,477</b> |
| Total liabilities, capital and surplus                                |                      |                   |

See accompanying notes to the statutory financial statement

# Key Risk Insurance Company

## Statutory Statement of Operations

|   | Year Ended December 31, |                  |
|---|-------------------------|------------------|
|   | 2013                    | 2012             |
|   |                         | (unexamined)     |
| <b><u>Underwriting Income</u></b>                     |                         |                  |
| Other underwriting expenses incurred                  |                         | <u>(643,486)</u> |
| Net underwriting gain                                 |                         | <u>643,486</u>   |
| <b><u>Investment Income</u></b>                       |                         |                  |
| Net investment income earned                          | 917,646                 | 978,876          |
| Net realized capital gains                            | 311,974                 | 282,476          |
| Net investment gain                                   | <u>1,229,620</u>        | <u>1,261,352</u> |
| <b><u>Other Income</u></b>                            |                         |                  |
| Net loss from agents' or premium balances charged off |                         | (146,638)        |
| Finance and service charges not included in premiums  |                         | 40,581           |
| Assigned Risk Carrier Revenue                         |                         | <u>360,066</u>   |
| Total other income                                    |                         | <u>254,009</u>   |
| Dividends to policyholders                            |                         | 897,494          |
| Federal income tax incurred                           | <u>(197,451)</u>        | <u>67,714</u>    |
| Net income  | <u>1,427,071</u>        | <u>1,193,639</u> |

See accompanying notes to the statutory financial statement

**Key Risk Insurance Company**  
**Statutory Statement of Capital and Surplus**

|   | <b>December 31,</b>  |                     |
|---|----------------------|---------------------|
|   | <b>2013</b>          | <b>2012</b>         |
|   |                      | <i>(unexamined)</i> |
| Capital and surplus, beginning of year                                    | <b>\$ 27,849,151</b> | 28,465,139          |
| Capital and surplus increases (decreases):                                |                      |                     |
| Net income  | 1,427,071            | 1,193,639           |
| Change in net unrealized capital gains (losses)                           | 20,398               | (45,493)            |
| Change in net deferred income tax   | (582,808)            | (183,798)           |
| Change in non-admitted assets   | 12,013               | 939,928             |
| Dividends to stockholders   |                      | (2,500,000)         |
| Aggregate write-ins for gains & losses in surplus (Deferred Intercompany) | (211,582)            | (20,264)            |
| Change in surplus as regards policyholders for the year                   | <b>665,092</b>       | (615,988)           |
| Capital and surplus, end of year  | <b>\$ 28,514,243</b> | 27,849,151          |

See accompanying notes to the statutory financial statement

## Key Risk Insurance Company

### Statutory Statement of Cash Flow

|  | Year ended December 31, |                     |
|--|-------------------------|---------------------|
|  | 2013                    | 2012                |
| <b>Cash From Operations</b>  |                         |                     |
|  |                         | <i>(unexamined)</i> |
| Premiums collected net of reinsurance                                      | \$ (272,996)            | 2,043,524           |
| Net investment income  | 1,224,402               | 1,252,398           |
| Miscellaneous income   | -                       | 254,009             |
| Totals   | <u>951,406</u>          | <u>3,549,931</u>    |
| Benefit and loss related payments  | 41,604                  | (643,971)           |
| Commissions, expenses paid and aggregate write-ins for deductions          | 2,461                   | (1,561,088)         |
| Dividends paid to policyholders  | (372,489)               | 619,818             |
| Federal income taxes paid (recovered) net of tax on capital gains (losses) | (388,449)               | 77,434              |
| Totals   | <u>(716,873)</u>        | <u>(1,507,807)</u>  |
| <b>Net cash from operations</b>  | <u>1,668,280</u>        | <u>5,057,738</u>    |
| <b>Cash (Used by) From Investments</b>                                     |                         |                     |
| Proceeds from bonds sold, matured or repaid                                | 5,273,223               | 6,690,031           |
| Miscellaneous proceeds   | 10,463                  |                     |
| Cost of bonds acquired   | (10,108,563)            | (4,237,948)         |
| Miscellaneous applications   |                         | (1,512)             |
| Net cash (used by) from investments  | <u>(4,824,877)</u>      | <u>2,450,571</u>    |
| <b>Cash Used by Financing and Miscellaneous Sources</b>                    |                         |                     |
| Cash from dividends to stockholders  |                         | 2,500,000           |
| Other cash applied   | (1,371,677)             | (1,334,976)         |
| <b>Net cash used by financing and miscellaneous sources</b>                | <u>(1,371,677)</u>      | <u>(3,834,976)</u>  |
| <b>Reconciliation of Cash and Short-Term Investments</b>                   |                         |                     |
| Net change in cash and short-term investments                              | (4,528,274)             | 3,673,333           |
| Cash and short-term investments, beginning of year                         | 4,981,745               | 1,308,412           |
| <b>Cash and short-term investments, end of year</b>                        | <u>\$ 453,471</u>       | <u>4,981,745</u>    |

See accompanying notes to the statutory financial statement

**Key Risk Insurance Company**  
Notes to the Statutory Financial Statement  
December 31, 2013

**1. Basis of Presentation and Summary of Significant Accounting Policies**

The accompanying financial statement has been prepared in conformity with the accounting practices prescribed by the GS. The more significant accounting policies followed by the Company are as follows:

**Bonds:** Carried at amortized cost or fair value based on their NAIC rating.

**Cash and short-term investments:** Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

**Premiums:** Earned over the policy period and reduced for reinsurance ceded.

**Reinsurance:** Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items.

**2. Analysis of Assets**

The following represents an analysis of the Company's net admitted assets:

|   | December 31, 2013 |                        |                        |
|---|-------------------|------------------------|------------------------|
|   | Assets            | Assets not<br>Admitted | Net Admitted<br>Assets |
| Bonds   | \$ 30,922,349     |                        | 30,922,349             |
| Cash and short-term investments                       | 453,472           |                        | 453,472                |
| Receivables for securities                            | 27,500            |                        | 27,500                 |
| Total cash and invested assets                        | 31,403,321        | -                      | 31,403,321             |
| Investment income due and accrued                     | 373,567           |                        | 373,567                |
| Premiums and agents' balances in course of collection | 2,753,146         | 538,819                | 2,214,327              |
| Premiums and agents' balances booked but not yet due  | 16,320,103        | 69,216                 | 16,250,887             |
| Accrued retrospective premiums                        | 22,735            |                        | 22,735                 |
| Current federal income tax recoverable                | 2,911             |                        | 2,911                  |
| Net deferred tax assets                               | 654,710           |                        | 654,710                |
| Guaranty funds receivable or on deposit               | (537,535)         |                        | (537,535)              |
| Receivable from parent, subsidiaries and affiliates   | 820,029           |                        | 820,029                |
| Accounts receivable -other                            | 116,487           | 76,651                 | 39,836                 |
| Total admitted assets                                 | \$ 51,929,474     | 684,686                | 51,244,788             |

**Key Risk Insurance Company**  
Notes to the Statutory Financial Statement  
December 31, 2013

**3. Capital and Surplus**

The following, in conjunction with the Statutory Statement of Capital and Surplus (see page 12), represents the changes in the Company's capital and surplus since the Department's last examination:

|   | December 31,        |                     |                     |
|---|---------------------|---------------------|---------------------|
|   | 2011                | 2010                | 2009                |
|   | <i>(unexamined)</i> | <i>(unexamined)</i> | <i>(unexamined)</i> |
| Capital and surplus, beginning of year                      | \$ 27,599,819       | 28,785,580          | 23,354,893          |
| Capital and surplus increases (decreases):                  |                     |                     |                     |
| Net income  | 929,982             | 1,071,015           | 1,633,886           |
| Change in net unrealized capital gain (loss)                | 36,794              | 8,699               |                     |
| Change in net deferred income tax                           | (42,061)            | (258,614)           | (958,654)           |
| Change in nonadmitted assets                                | (59,395)            | 328,628             | 1,755,454           |
| Change in capital transferred from surplus (stock dividend) | 2,700,000           |                     |                     |
| Surplus adjustments to paid in capital                      | (2,700,000)         |                     | 3,000,000           |
| Dividends to stockholders                                   |                     | (2,335,489)         |                     |
| Change in surplus as regards policyholders for the year     | 865,320             | (1,185,761)         | 5,430,686           |
| Capital and surplus, end of year                            | \$ 28,465,139       | 27,599,819          | 28,785,580          |

**4. Contingencies and Commitments**

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. The Company is of the opinion that these proceedings will not have a material effect on the financial position of the Company.



**Key Risk Insurance Company**

Appendix A – Report Distribution

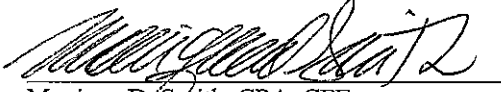
December 31, 2013

Rebecca Karr, Chief Operating Office,  
Chief Financial Officer, Secretary/Treasurer  
7823 National Service Road  
Greensboro, NC 27409

Robert Standen, President  
7823 National Service Road  
Greensboro, NC 27409

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$2,250,000.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Monique D. Smith', is written over a horizontal line.

Monique D. Smith, CPA, CFE  
Chief Financial Examiner  
North Carolina Department of Insurance

January 16, 2015