

Republic Mortgage Insurance Company

Winston-Salem, North Carolina

Report on Examination

As of December 31, 2016

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November 3, 2017

Honorable Mike Causey
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

Republic Mortgage Insurance Company

(hereinafter referred to as the “Company”), at its main administrative and statutory home office located at 101 North Cherry Street, Suite 101, Winston-Salem, North Carolina 27101. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2013 to December 31, 2016, 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, 2012.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

This was a multi-state coordinated financial examination of twenty three (23) insurance company subsidiaries of Old Republic International Corporation (ORI). North Carolina served as the Facilitating State for the Mortgage Insurance Subgroup, which includes the Company and three other subsidiaries domiciled in Florida, North Carolina, and Vermont. Pennsylvania served as the Lead State for this coordinated examination and Florida was the only Participating State within the Mortgage Insurance Subgroup as the insurance subsidiary domiciled in Vermont was not included in the scope of this examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial

condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Premiums
Claims Handling and Reserving
Reinsurance
Ceding and Assuming
Related Parties
Investments
Capital and Surplus

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

This examination report includes significant findings of fact, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). KPMG of Chicago, Illinois, 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, 2016.

The statutory reserves and related items for 2016 were reviewed and certified by the Company's Appointed Actuary, J. Paul Cochran, FCAS, MAAA, Vice President Actuarial Services (retired) of Old Republic General Services, ("ORGS").

REPORT ACRONYMS

“GS”	General Statutes of North Carolina
“Department”	North Carolina Department of Insurance
“Company”	Republic Mortgage Insurance Company
“ORI”	Old Republic International Corporation
“NAIC”	National Association of Insurance Commissioners
“Handbook”	Financial Condition Examiners Handbook
“FCAS”	Fellow of the Casualty Actuarial Society
“MAAA”	Member of the American Academy of Actuaries
“ORGS”	Old Republic General Services
“RMIC Corp”	RMIC Corporation
“ORMGG”	Old Republic Mortgage Guaranty Group, Inc.
“RFIG”	Republic Financial Indemnity Group, Inc.
“RMICC”	RMIC Companies, Inc.
“RMICNC”	Republic Mortgage Insurance Company of North Carolina
“RMICFL”	Republic Mortgage Insurance Company of Florida
“DPO”	Deferred Payment Obligations
“Board”	Board of Directors
“ESSOP”	Employee Savings and Stock Ownership Plan
“ORAM”	Old Republic Asset Management Corporation
“MI”	Mortgage Insurance
“GMRC”	Group Mortgage Insurance Company
“ORGIG”	Old Republic General Insurance Group

COMPANY HISTORY

The Company was incorporated on December 7, 1972, under the laws of the State of North Carolina as a stock insurance company. The Company commenced business on March 26, 1973, with 500,000 shares of \$10 par value capital common stock authorized. To begin business, the Company issued 100,000 shares of its common stock to RMIC Corporation (“RMIC Corp”), at \$20 per share, providing the Company with an initial capital and gross paid-in and contributed surplus of \$1.0 million each.

On February 14, 1980, control of the Company was acquired by Old Republic Mortgage Guaranty Group, Inc. (“ORMGG”), an insurance holding company owned by ORI. At the time of acquisition, the Company had 139,750 shares outstanding, all of which were owned by RMIC Corp. On September 27, 1984, the Company issued an additional 60,250 shares at par value to ORMGG, increasing its shares outstanding to 200,000 and paid-in capital to \$2.0 million.

On March 21, 2012, ORI announced it was combining its Consumer Credit Indemnity division with its Mortgage Guaranty segment. The two operations offered similar insurance coverages, shared the same senior management leadership, and had been operating in run-off mode since 2008 and 2011, respectively. With this action, ORMGG was re-named Republic Financial Indemnity Group, Inc. (“RFIG”) and, in 2013, RFIG contributed the stock of the Company and RMIC Corp to RMIC Companies, Inc. (“RMICC”), an insurance holding company domiciled in Delaware. RFIG wholly owns RMICC.

RMICC wholly owns the Company, Republic Mortgage Insurance Company of North Carolina (“RMICNC”) Republic Mortgage Insurance Company of Florida (“RMICFL”) and RMIC Corp.

The Company owns Group Mortgage Reinsurance Company (“GMRC”), a group captive reinsurance subsidiary domiciled in Vermont. The Company funded the initial capital and provides accounting functions for GMRC. At December 31, 2016, the Company owns 25 shares of the Class AA common stock valued at \$848,142 and 1 share of GMRC’s Class Z common stock valued at \$100.

REGULATORY ACTIONS

The Company has been in Administrative Supervision by the Department since 2012 as disclosed in the 2012 Report on Examination.

On April 16, 2014, the Company submitted a petition for an Amended and Corrective Plan that included a proposal for an infusion of \$125 million of surplus in the form of \$75 million in cash and \$50 million in securities. The Amended Plan was approved by the Department on June 27, 2014 and, on June 30, 2014, the Company issued a surplus note for \$125 million to RMICC in exchange for \$75 million in cash and \$50 million in debt securities issued by an affiliate, Old Republic General Insurance Group (“ORGIG”). Any payment of principal or interest is subject to the prior written approval of the Department. There have been no principal or interest payments since the inception of the note. At December 31, 2016, the Company reported two \$50 million notes receivable from ORGIG. The notes have maturity dates of December 31, 2038 and December 19, 2043 and interest is paid to the Company on a quarterly basis. ORI executed a guaranty of interest and principal payments to the Company for the notes receivable in the event that ORGIG is unable to fulfill its obligations.

Under the Amended Plan, the Company was authorized to pay 100% of their Deferred Payment Obligations (“DPO”) accrued as of June 30, 2014, and to settle all subsequent valid claims entirely in cash without establishing any DPOs. In July 2014, the Company processed payments for substantially all of their accumulated DPO balances. The Company reported DPO due and payable totaling \$17,389 and \$740,269 at December 31, 2016 and 2015, respectively.

CAPITAL STOCK

As of December 31, 2016, the Company’s capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	500,000
Number of shares issued and outstanding	250,000
Total common capital stock	\$2,500,000
Par value per share	\$10.00

No additional shares were issued during the period under examination. As of December 31, 2016, all outstanding shares are owned by RMICC. The Company had gross paid-in and contributed surplus of approximately \$112.3 million, \$125 million in surplus notes and a negative balance in unassigned funds totaling approximately (\$188.6) million at December 31, 2016.

DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of Directors (“Board”) of the Company. Under the insurance regulations of North Carolina, the maximum amount of dividends which the Company may pay to shareholders is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. The Company paid no dividends in 2016 and 2015.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Board of Directors

The business of the Company is conducted by its management team and subject to review by the Board. The bylaws specify that the number of directors shall be at least five but no more than nine. Directors are elected at the annual meeting of shareholders for a term of one year and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors at December 31, 2016:

Name	Location	Principal Occupation
Aldo C. Zucaro	Sarasota, FL	Board Chairman and Chief Executive Officer - ORI
Richard Scott Rager	Oak Brook, IL	President & Senior Vice President - ORI
Spencer LeRoy, III	LaGrange, IL	Senior Vice President & General Counsel (retired) - ORI
Jimmy A. Dew	Bermuda Run, NC	Director (retired) – ORI, RMIC, RMICNC and RMICFL
Kevin J. Henry	Lewisville, NC	President & Chief Operating Officer – RMIC, RMICNC and RMICFL

The Board has the authority to establish committees including, but not limited to, an executive committee, an audit committee, and a compensation committee. The Board has appointed ORI's Audit Committee to act on behalf of the Company.

The following individuals served on the Audit Committee at December 31, 2016:

Fredricka Taubitz, Chair
James Hellauer
Charles Titterton
Dennis Van Mieghem
Steven Walker

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 until their successors are elected and qualified. The same person may hold any two offices, unless the certificate of incorporation or the bylaws otherwise provide.

The following individuals served as officers of the Company at December 31, 2016:

Name	Title
Kevin J. Henry	President & Chief Operating Officer
David C. Cash	Vice President & Chief Financial Officer
Steven R. Buckland	Vice President & Chief Information Officer
Crystal E. Martin	Secretary & Assistant Vice President
Cynthia L. Lowe	Assistant Secretary
Gloria G. Huntsman	Treasurer & Financial Operations Manager
Michele D. Nuckles	Vice President of Claims

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has established a policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed that the Company acted in accordance with its policy and procedures for disclosure of conflicts of interest.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its 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 directors approved these transactions and events.

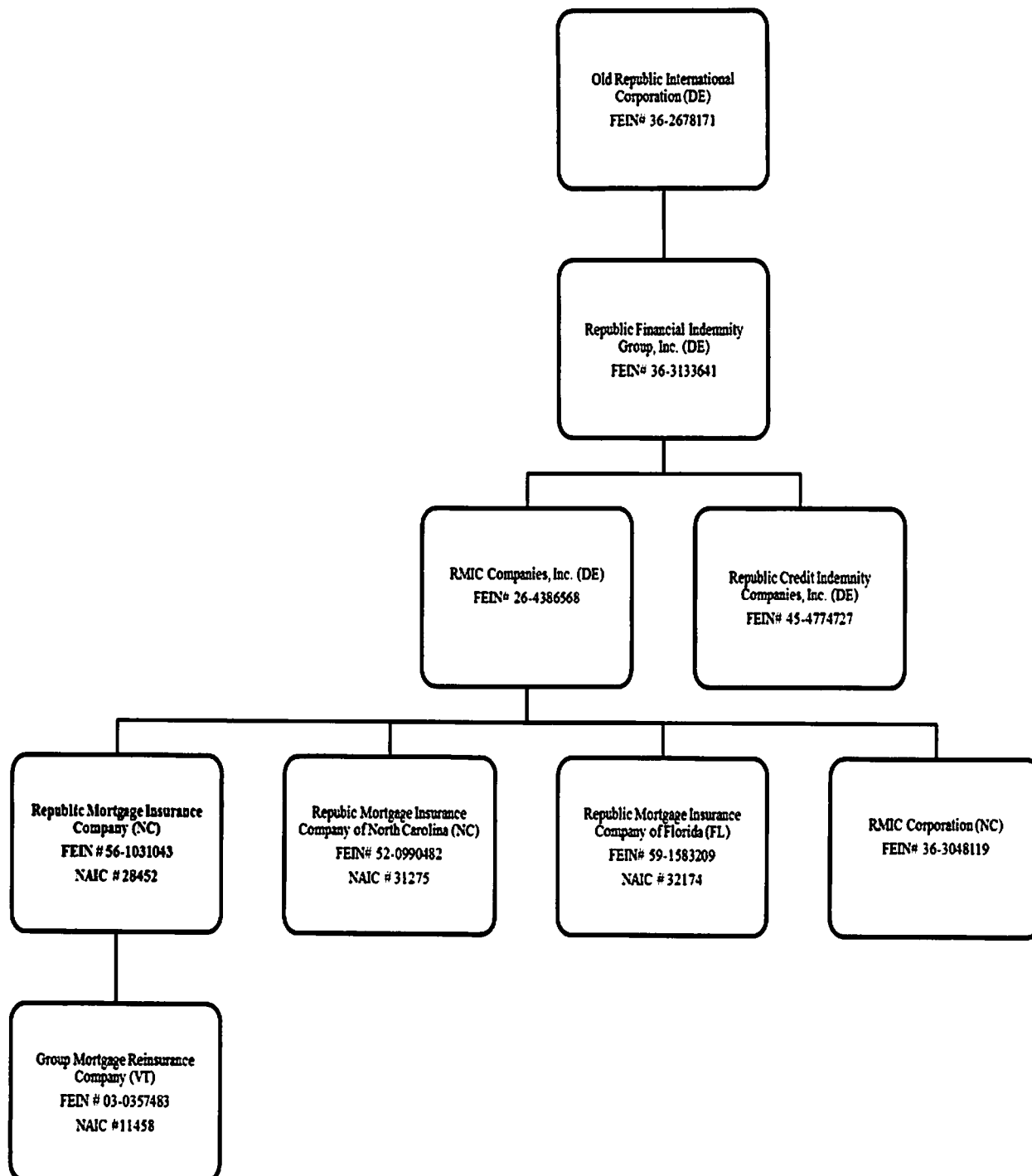
The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. There have been no changes to the Articles of Incorporation or Bylaws since the Department's 2012 examination.

CORPORATE ORGANIZATION

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is a wholly-owned subsidiary of RMICC, an insurance holding company owned by RFIG. ORI is the ultimate parent.

ORGANIZATIONAL CHART

The Company's 2016 Annual Statement Schedule Y contains a complete organization chart for ORI. The following is a summarized organizational chart including the Company's ultimate parent and the entities under RFIG:



STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2016 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state.

ACCOUNTS AND RECORDS

The Company's books and records are maintained at the main administrative office at 101 North Cherry Street, Winston-Salem, North Carolina 27101.

The Company's policy management and claims systems were developed internally and are maintained internally at the Company's main administrative office in Winston Salem, North Carolina. Business Objects and SQL report server are used for Data Warehouse and internal reporting. Multiview is used for financial reporting. The applications used for data warehousing and internal reporting are vendor supported, but are processed in-house.

FIDELITY BONDS AND OTHER INSURANCE

The Company is a named insured under a fidelity bond issued to ORI with coverage totaling \$40 million in aggregate and \$20 million per occurrence. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for ORI on a consolidated basis.

In addition, the Company is a named insured on various corporate property and liability policies issued to ORI, which appeared to be adequate to cover risks in the normal course of business.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has no employees, and company operations are conducted by RMIC Corp pursuant to a related party management services agreement. With the exception of the Republic Mortgage Insurance and Affiliates Profit Sharing Plan which the Company sponsors and administers, employee benefit plans are administered through the Company's ultimate parent, ORI.

RELATED PARTY AGREEMENTS

The Company, RMICNC and RMICFL have a management services agreement with RMIC Corp, effective January 1, 2001, under which certain management services are provided, including executive management, marketing, treasury, personnel, legal, accounting, finance, regulatory compliance, and other administrative support services. Expenses are allocated among the affiliated companies based on estimated time and usage and intercompany balances are to be settled on a quarterly basis. Under this agreement, the expenses allocated from RMIC Corporation were \$16,801,618 and \$16,219,380 in 2016 and 2015, respectively.

The Company has an investment counsel services agreement with Old Republic Asset Management Corporation ("ORAM"), effective July 1, 2012, whereby ORAM has the authority to manage, purchase, and sell securities in certain accounts in accordance with the Company's investment policy. The Company pays ORAM an annual fee in quarterly installments based on the market value of all securities under

ORAM's supervision. The Company paid fees totaling \$156,351 and \$171,034 in 2016 and 2015, respectively, to ORAM for investment management services under this agreement.

The Company is included in consolidated income tax returns in accordance with tax sharing agreements with ORI, effective December 31, 2004. The provisions for federal income tax are computed as if the Company were filing separate income tax returns. 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 provisions. Intercompany tax balances are to be settled within 45 days after filing of the consolidated tax returns.

The Company has a mortgage services agreement with RMIC Corp, effective January 1, 1998, whereby the Company outsources underwriting, quality control review, support, and staffing services to RMIC Corp. The contract underwriting revenues received by RMIC Corp are to be remitted to the Company on a monthly basis. In 2015 and 2016, there was no activity under this agreement.

The Company is provided certain legal and advisory services from an affiliated company, ORGS, in support of on-going claim litigation and run-off support. The Company incurred \$18,648 and \$45,014 in expenses for these services in 2016 and 2015, respectively.

TERRITORY AND PLAN OF OPERATION

At December 31, 2016, the Company was licensed in the District of Columbia and all states except New York. The Company's license was restricted to No New Business Written or Assumed effective September 1, 2011, and entered into a Voluntary Settlement Agreement on October 12, 2011, consenting to cease writing.

The Company operates as a mono-line company providing only mortgage guaranty insurance on first lien mortgages primarily on residential properties incorporating one-to-four family dwelling units. Mortgage guaranty insurance protects mortgage lenders and investors from default-related losses on residential mortgage loans made primarily to homebuyers who make down payments of less than 20% of the home's purchase price. Master policies are issued to lenders and applications for coverage on individual loans submitted to the Company. The Company issues certificates of insurance under the terms of the master policy.

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the four year period ended 2016:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2016	\$652,423,358	\$51,206,417	\$151,975,811	\$128,988,914	\$86,992,744
2015	\$731,840,190	\$23,371,461	\$193,504,098	\$163,087,249	\$74,952,852
2014	\$803,216,099	\$32,468,769	\$226,665,646	\$188,472,358	\$109,757,988
2013	\$1,932,845,070	\$369,388,975	\$284,713,940	\$237,322,961	\$104,523,989

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 statutory reserves and related items for 2016 were reviewed and certified by the Company's Appointed Actuary, J. Paul Cochran, FCAS, MAAA, (retired) Vice President of Actuarial Services at ORGS. Actuarial opinions regarding the Company's reserves for losses 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 reserves. According to the actuarial opinions, the Company's reserves on the 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 PROGRAM OVERVIEW

The Company's reinsurance program consists of various assumed and ceded reinsurance contracts that have remained unchanged since the Department's most recent prior examination as of December 31, 2012. The Company assumes substantially all of the business written by its affiliate, RMICNC, and cedes business to RMICNC, RMICFL, and lender captives.

REINSURANCE CEDED

Excess of Loss Coverage

In accordance with the laws and regulations of certain states in which it insures business, the Company retains, after consideration of the quota share reinsurance noted below, no more than 25% of the loan amount of loans insured on a direct or assumed basis, with the excess over 25% ceded to RMICNC under

an excess of loss agreement effective July 1, 2009. In 2016 and 2015, the Company ceded premiums of approximately \$5.5 million and \$6.8 million, respectively, to RMICNC under this agreement.

Quota Share Coverage

The Company has a quota share contract with RMICFL, whereby the Company cedes 1.5% of the unexpired net retained liability on all policies written on or after July 1, 1994. The Company ceded premiums totaling approximately \$2.1 million and \$2.7 million, in 2016 and 2015, respectively, to RMICFL under this contract.

The Company has a quota share contract with RMICNC effective January 1, 2008, whereby the Company cedes 43.5% of its direct pool business written. The Company ceded premiums totaling approximately \$337,000 and \$1.2 million, in 2016 and 2015, respectively, to RMICNC under this contract.

The Company also has a quota share contract with RMICNC effective July 1, 2009, whereby the Company cedes 11.5% of the unexpired net retained liability on all policies written and assumed. In 2016 and 2015, the Company ceded premiums totaling approximately \$16.2 million and \$20.4 million, respectively, to RMICNC under this contract.

Lender Captives

The Company was party to various quota share and excess of loss agreements with lender captive reinsurers. Captive reinsurance arrangements are vehicles for lenders to self-insure mortgage-insurance (“MI”) risk on mortgages they originate. In such an arrangement, the lender establishes a reinsurance company subsidiary (“captive”). The captive assumes MI risk written by a direct mortgage insurance company (“direct writer”) on loans originated by the lender. As consideration for the risk transfer, the direct writer cedes a portion of the MI premium to the captive. In 2016 and 2015, the Company ceded premiums of approximately \$2.9 million and \$5.1 million, respectively, under various captive reinsurance agreements.

Lender captive agreements are primarily aggregate excess of loss reinsurance contracts that are established by a book year and are typically for a ten-year term. The Company is indemnified against all losses exceeding either a first loss percentage or a specified loss ratio. Generally, the Company’s retention under the excess agreements is 5% of the aggregate risk insured in each book year and provides reinsurance up to 10% of the aggregate risk insured in each book year. The reinsurance premiums range from 25%-40% of the gross written premiums. Effective January 1, 2009, the Company ceased reinsuring new business under excess of loss agreements and, therefore, all mortgage loans insured prior to December 31, 2008, were placed into run-off and will remain covered until pay-off, cancellation or expiration of the ten-year term.

The captives are required to maintain trust accounts for the benefit of the Company. The adequacy of the various trust accounts is determined on a quarterly basis by the Company. The captive has a specified amount of time to deposit funds to the account in the event of fund inadequacies. The Company has the right, at any time and from time to time, to withdraw from the trust accounts, upon notice to the Trustee. The trust fund cross-collateralizes all book years. On December 31, 2016 and 2015, the Company reported trust balances with various captives of approximately \$54.1 million and \$114.4 million respectively.

The Company has excess of loss contracts with GMRC, a Vermont domiciled group captive reinsurance company formed by the Company in 1998 to insure the risk of lenders who elected not to form their own

captive reinsurer, but instead own shares of GMRC. Based on the terms specified in the reinsurance agreements, the Company cedes a portion of the insured risk on mortgage loans originated by these lenders and insured by the Company. In 2016 and 2015, the Company ceded premiums of approximately \$34,000 and \$57,000, respectively, to GMRC under these agreements.

REINSURANCE ASSUMED

Quota Share Coverage

Under a quota share contract effective since July 1, 2009, the Company assumes substantially all of the direct business written by RMICNC. In 2016 and 2015, the Company assumed premiums of approximately \$4.2 million and \$5.2 million, respectively, from RMICNC under this contract.

The Company has two facultative reinsurance agreements with Mortgage Guaranty Insurance Company ("MGIC") to assume certain portions of pool insurance policies issued by MGIC. Under the first agreement effective April 1, 1997, the Company assumes the risk on loans from specified lenders in the pool for which either the Company or an affiliate carries the primary coverage. Under the second agreement, effective July 1, 1997, the Company assumes the risk on a portion of the policies based on the total amount of loans included in the pool. The Company assumed \$0 premiums under these agreements in 2015 and 2016.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2016. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2015, are unexamined and are presented for comparative purposes only.

Republic Mortgage Insurance Company
Statutory Statement of Admitted Assets
December 31,

	2016	2015 <i>(unexamined)</i>
Bonds	\$572,814,353	\$631,970,665
Common stocks	37,857,816	30,195,486
Cash and short-term investments	15,085,609	28,906,180
Total cash and invested assets	625,757,778	691,072,331
Investment income due and accrued	5,214,351	5,931,635
Premiums and agents' balances in course of collection	7,454,648	10,342,217
Reinsurance recoverable	11,050,242	14,099,177
Federal income tax recoverable	997,056	5,454,829
Net deferred tax asset	1,082,158	2,996,376
Receivable from parent, subsidiaries and affiliates	586,904	785,606
Account receivable	280,221	1,158,019
Total admitted assets	\$652,423,358	\$731,840,190

Republic Mortgage Insurance Company
Statutory Statement of Liabilities, Capital and Surplus
December 31,

	2016	2015 <i>(unexamined)</i>
Losses	\$287,374,128	\$398,630,920
Reinsurance payable on paid losses and loss adjustment expenses	2,383,124	3,612,630
Loss adjustment expenses	11,981,148	62,122,291
Other expenses	2,651,054	4,725,191
Taxes, licenses and fees	526,519	742,109
Unearned premiums	7,063,283	11,232,576
Ceded reinsurance premiums payable	5,069,948	7,125,482
Remittances and items not allocated	1,039,956	411,313
Payable to parent, subsidiaries and affiliates	1,221,910	1,420,161
Statutory contingency reserve	281,345,408	216,850,951
Unclaimed checks	543,074	854,836
Deferred claim obligations due and payable	17,389	740,269
Total Liabilities	601,216,941	708,468,729
Common capital stock	2,500,000	2,500,000
Surplus notes	125,000,000	125,000,000
Gross paid in and contributed surplus	112,327,430	112,327,430
Unassigned funds	(188,621,013)	(216,455,969)
Surplus as regards to policyholders	51,206,417	23,371,461
Total Liabilities, Capital and Surplus	\$652,423,358	\$731,840,190

Republic Mortgage Insurance Company
Statutory Statement of Operations
December 31,

	2016	2015 <i>(unexamined)</i>
Underwriting Income		
Premiums Earned	\$128,988,914	\$163,087,249
Deductions		
Losses incurred	55,481,270	34,924,597
Loss adjustment expenses incurred	(10,991,488)	61,357,040
Other underwriting expenses incurred	13,096,080	12,186,545
Total underwriting deductions	<u>57,585,862</u>	<u>108,468,182</u>
Net underwriting gain	<u>71,403,052</u>	<u>54,619,067</u>
Investment Income		
Net investment income earned	18,078,976	19,960,258
Net realized capital (losses)gains	(142,339)	536,448
Net investment gain	<u>17,936,637</u>	<u>20,496,706</u>
Net income, after dividends to policyholders	<u>89,339,689</u>	<u>75,115,773</u>
Federal income taxes incurred	<u>(2,346,945)</u>	<u>(162,921)</u>
Net Income	<u>\$86,992,744</u>	<u>\$74,952,852</u>

Republic Mortgage Insurance Company
Statutory Statement of Capital and Surplus
December 31,

	2016	2015 <i>(unexamined)</i>
Capital and surplus, beginning of year	\$23,371,461	\$32,468,769
Capital and surplus increases(decreases):		
Net Income	86,992,744	74,952,852
Change in net unrealized capital gains(losses)	4,569,839	(1,957,495)
Change in net deferred income tax	(1,544,858)	(1,720,644)
Change in non-admitted assets	2,311,688	1,171,604
Statutory contingency reserve of 50% of earned premium	(64,494,457)	(81,543,625)
Change in surplus as regards policyholders for the year	27,834,956	(9,097,308)
Capital and surplus, end of year	\$51,206,417	\$23,371,461

Republic Mortgage Insurance Company
Statutory Statement of Cash Flow
December 31,

	2016	2015 <i>(unexamined)</i>
Cash (Used By) Operations		
Premiums collected net of reinsurance	\$125,651,656	\$154,113,042
Net investment income	23,209,125	25,594,641
Total	<u>148,860,781</u>	<u>179,707,683</u>
Benefit and loss related payments	164,918,633	208,237,588
Commissions, expenses paid and aggregate write-ins	54,535,462	25,831,195
Federal income taxes paid	(2,178,294)	5,776,794
Total	<u>217,275,801</u>	<u>239,845,577</u>
Net (cash used) by operations	(68,415,020)	(60,137,894)
Cash From Investments		
Proceeds from investments sold, matured, or repaid	77,413,493	79,264,694
Cost of investments acquired	23,499,135	26,133,254
Net cash from investments	<u>53,914,358</u>	<u>53,131,440</u>
Cash From Financing and Miscellaneous Sources		
Other cash provided	680,091	126,447
Net cash from financing and miscellaneous sources	<u>680,091</u>	<u>126,447</u>
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	(13,820,571)	(6,880,007)
Cash and short-term investments, beginning of year	28,906,180	35,786,187
Cash and short-term investments, end of year	<u>\$15,085,609</u>	<u>\$28,906,180</u>

COMMENTS ON FINANCIAL STATEMENTS

There were no changes to the Company's financial statements and there were no proposed adjustments to surplus as a result of this examination.

Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

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.

Common stocks: Carried at fair value except investments in stock of subsidiaries, which are carried at a value determined under the equity method.

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.

Non-admitted assets: Certain assets, such as furniture, equipment and prepaid expenses, are "non-admitted" and are charged against surplus.

Unpaid losses & loss adjustment expenses: Liabilities for estimated losses determined from case estimates based on the number of reported loan defaults and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

Analysis of Assets

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

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$572,814,353	-	\$572,814,353
Common stocks	37,857,816	-	37,857,816
Cash and short-term investments	15,085,609	-	15,085,609
Total cash and invested assets	625,757,778	-	625,757,778
Investment income due and accrued	5,214,351	-	5,214,351
Premiums and agents' balances in course of collection	7,454,648	-	7,454,648
Reinsurance recoverable	11,050,042	-	11,050,242
Current federal income tax recoverable	997,056	-	997,056
Net deferred tax asset	1,082,158	-	1,082,158
Furniture and equipment	1,134,572	1,134,572	-
Receivable from parent, subsidiaries and affiliates	586,904	-	586,904
Prepaid expenses	112,118	112,118	-
Account receivables	280,221	-	280,221
Total admitted assets	\$653,670,048	\$1,246,690	652,423,358

Reinsurance Activity:

The Company has excess of loss, quota share and bulk share contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company.

Direct, assumed, and ceded premiums written and earned are as follows:

	2016	2015
Direct and assumed written	\$151,975,811	\$193,504,098
Ceded written	(27,156,190)	(36,266,835)
Net written	124,819,621	157,237,263
Direct and assumed earned	156,947,575	200,838,350
Ceded earned	(27,958,661)	(37,751,101)
Net earned	\$128,988,914	\$163,087,249

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described under the Reinsurance Program Overview on page 10.

Summary of Reserves:

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	2016	2015
Reserve for losses and loss adjustment expenses, beginning of year	\$ 460,753,211	\$595,148,571
Add:		
Provision for losses and loss adjustment expenses, current year	91,817,497	196,672,971
Change in estimated losses and loss adjustment expenses, prior years	(47,327,715)	(100,391,334)
Total incurred	44,489,782	96,281,637
Deduct:		
Losses and loss adjustment expenses paid, current year	7,864,480	16,818,873
Losses and loss adjustment expenses paid, prior year	198,023,237	213,858,124
Total paid	205,887,717	230,676,997
Reserve for losses and loss adjustment expenses, end of year	299,355,276	460,753,211
Decrease in reserve for losses and loss adjustment expenses	(\$161,397,935)	(\$134,395,360)

The Company reduced reserves by anticipated salvage and subrogation of approximately \$ 2.1 million at December 31, 2016 and 2015.

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2016 and 2015, the liability for losses and loss adjustment expenses was reduced by \$78,652,304 and \$117,390,244 respectively, for amounts to be recovered from reinsurers.

Capital and Surplus:

The following, in conjunction with the Statutory Statement of Capital and Surplus (see page 16), represents the changes in the Company's capital and surplus since the Department's last examination as of December 31, 2012:

	2014	2013
Capital and surplus, beginning of year	\$369,388,975	\$113,542,721
Capital and surplus increases (decreases):		
Net income	109,757,988	104,523,989
Change in net unrealized capital (loss)gain	(694,975)	55,780
Change in net deferred income tax	5,406,625	33,989
Change in non-admitted assets	(2,778,555)	221,801
Change in surplus notes	125,000,000	-
Statutory contingency reserve of 50% of earned premium	(94,236,179)	(118,661,481)
Release of statutory contingency reserve	13,700,000	63,890,333
Funds retained for claims payments	(553,245,590)	251,938,355
Deferred reinsurance balances recoverable	60,170,480	(46,156,512)
Change in surplus as regards policyholders for the year	(336,920,206)	255,846,254
Capital and surplus, end of year	\$32,468,769	\$369,388,975

Contingencies and Commitments:

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company.

The Company disclosed various contingencies in its 2016 Annual Statement Notes to Financial Statements and accrues an estimated loss only if the loss is probable and reasonably estimable. The Company does not believe it probable that any of the actions disclosed will have a material adverse effect on its financial condition, results of operations, or cash flows. The effect, if any, of the Company's run-off operations and limited capital in the legal actions filed against it is uncertain.

SUBSEQUENT EVENTS

The Company commuted four captive reinsurance agreements in 2017.

On October 17, 2017, a Notice of Hearing was issued by the Department to consider the Company's Petition to Allow Discretionary Payment of Investment Income to Policyholders in Regards to Previously Outstanding Deferred Payment Obligations ("Petition"). The hearing was conducted on November 2, 2017, and the Petition was approved by a final order dated November 9, 2017. The Company subsequently issued

payments totaling approximately \$19.3 million to its policyholders which will be charged to loss adjustment costs and, accordingly, decrease policyholders' surplus in the fourth quarter of 2017.

Republic Mortgage Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2016

Cindie Lowe, Assistant Secretary
Republic Mortgage Insurance Company
101 N. Cherry Street, Suite 101
Winston Salem, North Carolina 27101

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company compiles 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 \$1,250,000.

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

Respectfully submitted,



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

November 3, 2017

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Bill Keely, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: Bill Keely Date: 11/3/17
Bill Keely

Sworn and subscribed before me this 3 day of November, 2017.

Notary Public Signature: [Signature] Notary Public Seal:

