

Synergy Insurance Company

Charlotte, North Carolina

Report on Examination

As of December 31, 2017

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION	1
REPORT ACRONYMS	3
COMPANY HISTORY	3
Capital Stock.....	4
Dividends to Shareholder.....	4
MANAGEMENT AND CONTROL	4
Corporate Governance	4
Code of Conduct and Conflict of Interest.....	5
Corporate Records	5
Corporate Organization.....	6
Organizational Chart.....	6
Statutory Deposits.....	7
Accounts and Records	7
Fidelity Bonds and Other Insurance	7
Employee Benefits and Pension Plans.....	8
Related Party Agreements	8
TERRITORY AND PLAN OF OPERATION	8
Trends of the Company.....	9
Actuarial Opinion	9
REINSURANCE PROGRAM OVERVIEW	9
Retroactive Reinsurance	9
Reinsurance Ceded	9
Reinsurance Assumed.....	10
FINANCIAL STATEMENTS	10
SUBSEQUENT EVENTS	20
DISTRIBUTION OF REPORT ON EXAMINATION	21
CONCLUSION	22

July 11, 2018

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

Synergy Insurance Company

(hereinafter referred to as the “Company”), at its main administrative office located at 217 S. Tryon Street, Charlotte, North Carolina. The Company’s statutory home office is located at 217 S. Tryon Street, Charlotte, North Carolina 28202. 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, 2017, including any material transactions and events occurring subsequent to the examination date and noted during 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.

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:

Pricing and Underwriting
Claims Handling
Reserving
Reinsurance Assuming
Reinsurance Ceding
Related Parties
Investing
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 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). Johnson Lambert, LLP of Raleigh, North Carolina, 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, 2017.

The statutory reserves and related items for 2017 were reviewed and certified by the Company's Appointed Actuary, Dana F. Joseph, FCAS, MAAA of Oliver Wyman Actuarial Consulting, Inc.

REPORT ACRONYMS

General Statutes of North Carolina	“GS”
National Association of Insurance Commissioners	“NAIC”
Financial Condition Examiners Handbook	“Handbook”
Synergy Insurance Company	“Company”
Synergy Holdings, LLC	“Synergy Holdings”
Synergy Coverage Solutions, LLC	“SCS”
Board of Directors	“Board”
IT General Controls	“ITGCs”
Information Technology Planning Questionnaire	“ITPQ”
Managing General Agent	“MGA”
National Workers’ Compensation Reinsurance Pool	“Pool”
General Reinsurance Corporation	“Gen Re”
North Carolina Department of Insurance	“Department”
Advantage Workers Compensation Insurance Company	“Advantage”
Synergy Reinsurance Company, LLC	“Synergy Re”
Thundering Herd Investments, LLC	“THI”
North Carolina Chamber of Commerce Self Insurer’s Fund	“Fund”

COMPANY HISTORY

The Company was incorporated on August 1, 2006, under the laws of the State of North Carolina as a workers’ compensation insurance company with 10 million shares of \$1 par value capital common stock authorized. Synergy Holdings, LLC (“Synergy Holdings”) acquired 2,500,000 shares of the Company’s common stock at \$1 per share on August 7, 2006. The Company received its certificate of authority on October 16, 2006, and commenced writing business on January 1, 2007.

On June 5, 2008, the Department approved a decrease of \$1 million in the valuation of the 2,500,000 shares of capital common stock issued and outstanding by the Company, which reduced the par value from \$1 to \$0.60.

The Company received a capital contribution of \$250,000 from Synergy Holdings in 2013. At December 31, 2017, the Company reported \$5,350,000 in gross paid-in and contributed surplus and \$21,752,360 in unassigned funds.

CAPITAL STOCK

As of December 31, 2017, the Company's capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$1,500,000
Par value per share	\$0.60

No additional shares were issued during the period under examination. As of December 31, 2017, all outstanding shares are owned by Synergy Holdings, an insurance holding company incorporated in the state of North Carolina.

DIVIDENDS TO SHAREHOLDER

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.

Since our last examination, the Company paid dividends totaling \$250,000, \$400,000, and \$1,000,000 to Synergy Holdings in 2014, 2016 and 2017, respectively.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Shareholders

The bylaws provide that an annual meeting of the shareholders be held on the second Tuesday in May of each year at 10 o'clock a.m. Special meetings may be called by the Board, the Chief Executive Officer of the Company, or the Secretary, if authorized, and any place within the State of North Carolina may be designated as the place of meeting.

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 not less than three nor more than nine. Directors are elected annually, at the annual meeting of shareholders or by the written consent of the shareholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors as of December 31, 2017:

Name	Location	Principal Occupation
Jill Bowyer	Charlotte, NC	Chief Operating Officer, Synergy Coverage Solutions, LLC
Bruce A. Flachs	Charlotte, NC	President, Synergy Holdings
Scott H. Grant	Charlotte, NC	Chief Financial Officer, Synergy Coverage Solutions, LLC
Robert L. Smee	Charlotte, NC	Investment Advisor, Brandywine Wealth Management

The Board has established three committees including an Audit Committee, an Investment Committee and an Operations Committee to act on behalf of the Company.

The following individuals served on committees as of December 31, 2017:

Audit Committee	Investment Committee	Operations Committee
Bruce A. Flachs	Bruce A. Flachs	Bruce A. Flachs
Scott H. Grant	Scott H. Grant	Jill Bowyer
	Robert L. Smee	

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 may be held by the same person.

The following individuals served as officers of the Company as of December 31, 2017:

Name	Title
Bruce A. Flachs	President
Scott H. Grant	Secretary/Treasurer

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has an established 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 the Company acted in accordance with its policy and procedure 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. Based on the review, it appears there have been no other changes to any of the articles of incorporation or bylaws for the Company during the period under examination.

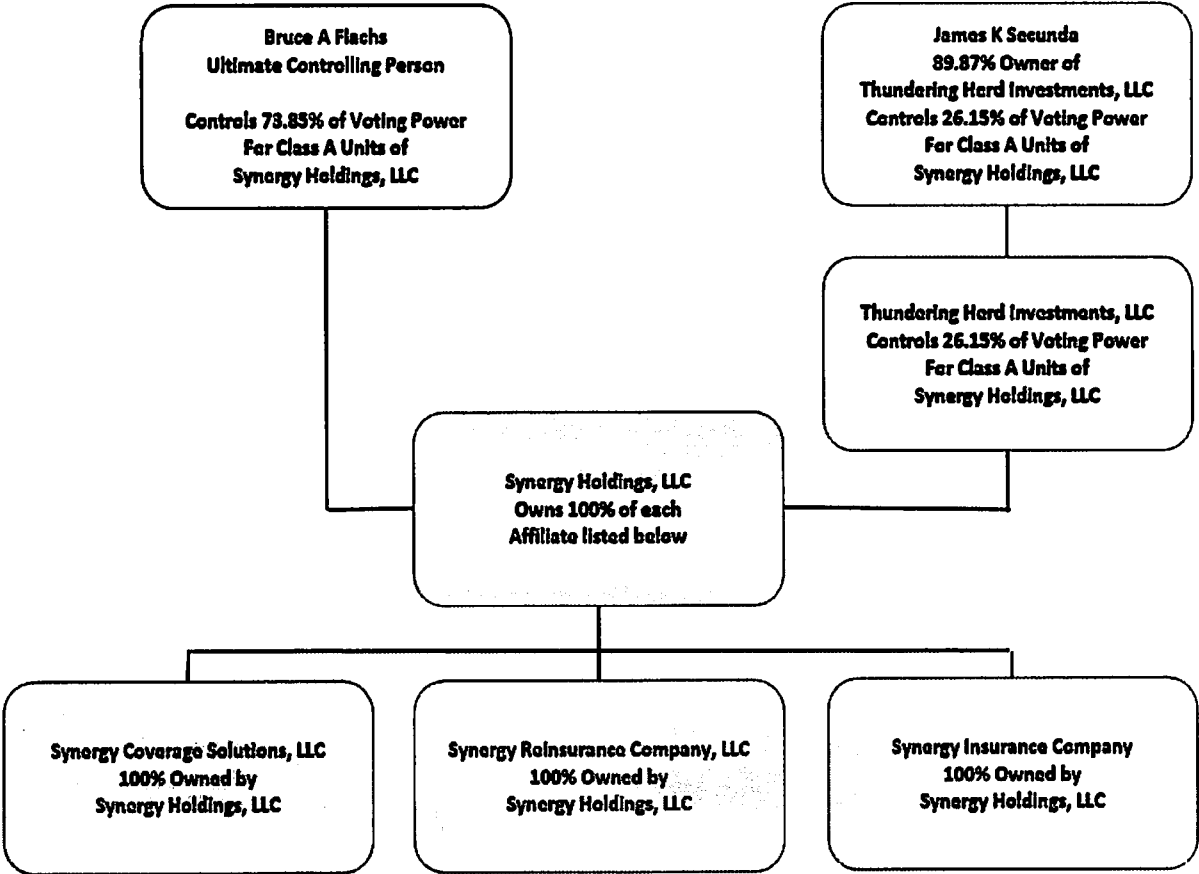
CORPORATE ORGANIZATION

The Company is part of an insurance holding company system as defined in GS § 58-19.

The Company is wholly owned by Synergy Holdings, a North Carolina limited liability company. The majority of Synergy Holdings is owned by Bruce A. Flachs, who controls 73.85% of the voting power. Thundering Herd Investments, LLC (“THI”) owns the remaining 26.15% of Synergy Holdings. James Secunda owns the majority of THI. Synergy Coverage Solutions (“SCS”) and Synergy Reinsurance Company, LLC (“Synergy Re”) are affiliates of the Company and are also wholly owned by Synergy Holdings. Bruce A. Flachs is the ultimate controlling person of the Company and its affiliates SCS and Synergy Re.

ORGANIZATIONAL CHART

The following is a summarized organizational chart of Synergy Holdings as of December 31, 2017:



STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2017 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 its main administrative office at 217 South Tryon Street, Charlotte, North Carolina 28202.

The Department performed a risk-based assessment and review of Synergy Holdings' Information Technology General Controls ("ITGCs") in accordance with the NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the ITGCs were derived from Exhibit C Part 1 – Information Technology Planning Questionnaire ("ITPQ") and Exhibit C Part 2 – Information Technology Work Program (collectively, "Exhibit C"). The responses to the ITPQ were evaluated, and certain controls within the IT control environment were tested to assess whether the selected controls were designed effectively and were functioning properly.

The Department's objectives were to obtain reasonable assurance about whether:

- a. Synergy Holdings had a process in place to effectively identify, mitigate and manage its IT risks;
- b. Synergy Holdings' control structure, policies and procedures were suitably designed to achieve the control objectives specified in Exhibit C; and
- c. Synergy Holdings was complying with those policies and procedures.

The objectives above were achieved through a combination of reviewing policies and procedures, testing in key areas related to Exhibit C, interviewing the IT manager, reviewing IT risk assessment processes, and leveraging relevant risk assessment procedures performed by Johnson Lambert, LLP.

Based upon the risk-based assessment and review, the ITGCs were determined to be effective.

FIDELITY BONDS AND OTHER INSURANCE

The Company is a named insured under a fidelity bond issued to Synergy Holdings with coverage totaling \$2,000,000. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for the Company.

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

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has no employees. The Company assigns the responsibility for conducting its daily operations to its affiliate SCS under a Managing General Agent (“MGA”) agreement.

RELATED PARTY AGREEMENTS

Managing General Agent

The Company has no employees. The Company has an MGA agreement, effective November 15, 2006, with its affiliate SCS, whereby SCS is authorized to write all the Company’s workers’ compensation business and has underwriting, premium collection, binding authority, claims adjusting, and claims payment authority. The Company incurred fees totaling \$5,513,382 and \$4,921,407 in 2017 and 2016, respectively.

The Company’s MGA agreement with SCS creates a related-party relationship based on SSAP No. 25, paragraph 3(g), which states that related parties exist when entities have common interests by contract and includes “a party which can, directly or indirectly, significantly influence the management or operating policies of the reporting entity, which may include a provider who is contracting with the reporting entity.” The agreement may be terminated in accordance with the provisions as specified in the agreement. In the event the contract is terminated for cause, the Company would become responsible for claims administration on all unsettled claims incurred during the period the agreement was in effect.

Tax Sharing Agreement

The Company is included in a consolidated income tax return in accordance with a tax allocation agreement with its parent, Synergy Holdings, effective January 1, 2006. The agreement sets forth the parties’ obligations in connection with their filing as a consolidated tax filing group. Each entity shall remit to Synergy Holdings any amount determined to be due in accordance with the agreement on a quarterly basis in each utilization year, not later than the due date for the estimated quarterly payment. Refunds received by Synergy Holdings resulting from tax savings shall be remitted to the applicable entity no more than 90 days following the calendar quarter in which that part of the tax refund was received. Refunds received by Synergy Holdings resulting from adjustments to previously filed tax returns shall be remitted to the applicable entity no more than 90 days after such payments are received.

TERRITORY AND PLAN OF OPERATION

The Company writes only workers’ compensation insurance policies for certain classes of business, including but not limited to: manufacturing, service, non-profit, retail, healthcare, office, temporary services and light construction classifications. The Company solicits business through independent agents located throughout the various states in which it’s licensed.

As of December 31, 2017, the Company was licensed in Alabama, Florida, Georgia, Illinois, Indiana, Missouri, North Carolina, Ohio, South Carolina, Tennessee, Virginia and Wisconsin. The majority of the Company’s direct written premium in 2017 was from the states of Illinois (approximately 36%) and North Carolina (approximately 32%).

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended 2017:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(loss)
2017	\$74,380,799	\$28,602,360	\$36,123,106	\$16,096,269	\$6,579,697
2016	\$62,709,608	\$23,101,017	\$34,181,601	\$17,571,353	\$6,743,577
2015	\$58,300,095	\$17,175,969	\$34,209,138	\$18,154,733	\$2,922,990
2014	\$51,524,773	\$14,557,952	\$31,625,557	\$14,856,348	\$2,638,852
2013	\$41,562,741	\$12,049,237	\$38,748,280	\$27,128,202	\$4,288,021

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 2017 were reviewed and certified by the Company's Appointed Actuary, Dana F. Joseph, FCAS, MAAA of Oliver Wyman Actuarial Consulting. 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 on the loss and loss adjustment expense 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

RETROACTIVE REINSURANCE

In 2013, the Company entered into a Loss Portfolio Transfer and Assumption Agreement with the North Carolina Chamber of Commerce Self Insurer's Fund ("Fund"). The Company assumed all the policy and claim related liabilities of the Fund and the Fund transferred its net premium to the Company.

REINSURANCE CEDED

The Company has a quota share reinsurance contract with General Reinsurance Corporation ("Gen Re"), effective January 1, 2017, whereby the Company cedes 55% of its net retained liability up to \$1,000,000 per occurrence. In 2017, the Company ceded premiums totaling \$21,194,178, under this contract.

The Company has four excess of loss contracts, effective January 1, 2017, with various participating reinsurers, which provide the Company multiple layers of coverage on all its business written on a direct basis, as well as the business assumed from Advantage Workers Compensation Insurance Company (“Advantage”). The first layer provides coverage on losses of up to \$4 million in excess of \$1 million; the second layer covers up to \$5 million in excess of \$5 million; the third layer covers up to \$10 million in excess of \$10 million; and the fourth layer covers up to \$10 million in excess of \$20 million. Under these contracts, the Company has \$29 million of total coverage on the excess layers.

The Company has facultative contracts for specific amounts to mitigate its exposure to losses not covered by its quota share contract with Gen Re.

REINSURANCE ASSUMED

Under a quota share agreement, effective April 1, 2012, the Company assumes 10% of the business written by Republic Indemnity Company of America. In 2017 and 2016, the Company assumed premiums of approximately \$344,000 and \$923,000, respectively, under this contract.

The Company participates in the National Workers’ Compensation Reinsurance Pool (“Pool”), a residual market reinsurance mechanism for servicing carriers of workers’ compensation assigned risk plans administered by the National Council on Compensation Insurance, Inc. As a participant, the Company assumes premiums, losses, and other expenses arising from coverage provided under authorized insurance plans written through a servicing carrier. The business assumed from the Pool is the Company’s proportionate share of the total voluntary market for workers compensation in the State. The Company assumed \$1,268,726 and \$1,428,692 in premiums from the Pool in 2017 and 2016, respectively.

The Company has a quota share reinsurance contract with Advantage effective May 1, 2016, whereby the Company assumes a 100% share of certain losses. Since the Company is not rated by AM Best, Advantage acts as a fronting company to provide the Company with A-Rated paper. In 2017, the Company assumed premiums of \$3,447,594 under this contract.

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, 2017. 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, 2016, are unexamined and are presented for comparative purposes only.

Synergy Insurance Company
Statutory Statement of Admitted Assets
December 31,

	2017	2016 <i>(unexamined)</i>
Bonds	\$39,264,779	\$31,914,141
Preferred stocks	267,944	157,906
Properties occupied by the company	4,551,838	4,643,071
Cash and short-term investments	6,452,591	8,480,183
Total cash and invested assets	50,537,152	45,195,301
Investment income due and accrued	312,236	246,716
Premiums and agents' balances in course of collection	2,444,420	1,526,426
Premiums and agents' balances booked but deferred and not yet due	14,793,339	11,132,700
Reinsurance recoverable	877,319	918,696
Funds held by reinsurers	1,707,699	1,481,498
Net deferred tax asset	665,426	800,516
Guaranty funds receivable or on deposit	337,536	382,480
Cash surrender value of life insurance	1,006,377	-
Deductible receivable	1,661,795	924,025
State tax credits	37,500	101,250
Total admitted assets	\$74,380,799	\$62,709,608

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

	2017	2016 <i>(unexamined)</i>
Losses	\$11,215,293	\$13,186,694
Reinsurance payable on paid losses and loss adjustment expenses	529,129	242,779
Loss adjustment expenses	2,537,098	2,715,785
Commissions payable, contingent commissions and other similar charges	1,352,681	1,000,022
Other expenses	398,274	374,107
Taxes, licenses and fees	120,616	155,348
Federal income tax liability	835,256	1,273,644
Unearned premiums	7,910,971	6,047,036
Advance premium	63,544	127,899
Ceded reinsurance premiums payable	7,628,578	5,983,477
Amounts withheld or retained by company for account of others	5,955,316	3,095,922
Payable to parent, subsidiaries and affiliates	2,834,682	2,036,204
Payable for securities lending	441,654	-
Escrow deposits	3,278,704	2,986,150
Unearned reinsurance commissions	676,643	383,522
Total Liabilities	45,778,439	39,608,591
Common capital stock	1,500,000	1,500,000
Gross paid in and contributed surplus	5,350,000	5,350,000
Unassigned funds	21,752,360	16,251,017
Total capital and surplus	28,602,360	23,101,017
Total Liabilities, Capital and Surplus	\$74,380,799	\$62,709,608

Synergy Insurance Company
Statutory Statement of Operations
December 31,

	2017	2016 <i>(unexamined)</i>
Underwriting Income		
Premiums Earned	\$16,096,269	\$17,571,353
Deductions		
Losses incurred	1,884,355	2,622,611
Loss adjustment expenses incurred	1,654,215	1,998,654
Other underwriting expenses incurred	3,877,115	3,831,587
Total underwriting deductions	7,415,685	8,452,852
Net underwriting gain	8,680,584	9,118,501
Investment Income		
Net investment income earned	990,508	644,392
Net realized capital gains	(3,564)	108,976
Net investment gain	986,944	753,367
Other Income		
Net loss from agents' or premium balances charged off	(466)	(2)
Other income	35,444	49,763
Change in cash surrender value of life insurance	6,377	-
Total Other income	41,355	49,761
Dividends to policyholders	23,229	7,759
Federal income taxes incurred	3,105,955	3,170,292
Net Income	\$6,579,697	\$6,743,577

Synergy Insurance Company
Statutory Statement of Capital and Surplus
December 31,

	2017	2016 <i>(unexamined)</i>
Capital and surplus, beginning of year	\$23,101,017	\$17,175,969
Capital and surplus increases(decreases):		
Net income	6,579,697	6,743,577
Change in net unrealized capital gains or (losses)	17,868	(51,131)
Change in net deferred income tax	(553,308)	(23,702)
Change in non-admitted assets	457,086	(343,696)
Dividend to shareholders	(1,000,000)	(400,000)
Change in capital and surplus as regards policyholders for the year	5,501,343	5,925,048
Capital and surplus, end of year	\$28,602,360	\$23,101,017

Synergy Insurance Company
Statutory Statement of Cash Flow
December 31,

	2017	2016 <i>(unexamined)</i>
Cash From (Used By) Operations		
Premiums collected net of reinsurance	\$15,289,437	\$16,515,608
Net investment income	1,365,183	932,287
Miscellaneous income	(184,847)	(173,461)
Total	<u>16,469,773</u>	<u>17,274,434</u>
Benefit and loss related payments	4,265,800	6,123,882
Commissions, expenses paid and aggregate write-ins	4,524,501	5,908,674
Dividends paid to policyholders	23,229	7,759
Federal income taxes paid	3,542,507	2,793,287
Total	<u>12,356,038</u>	<u>14,833,603</u>
Net cash from (used by) operations	<u>4,113,736</u>	<u>2,440,831</u>
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	5,698,393	10,647,920
Cost of investments acquired	13,049,041	18,352,109
Net cash (used by) investments	<u>(7,350,648)</u>	<u>(7,704,189)</u>
Cash From (Used By) Financing and Miscellaneous Sources		
Dividends to shareholders	1,000,000	400,000
Other cash provided	2,209,321	1,554,202
Net cash from financing and miscellaneous sources	<u>1,209,321</u>	<u>1,154,202</u>
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	<u>(2,027,591)</u>	<u>(4,109,157)</u>
Cash and short-term investments, beginning of year	<u>8,480,183</u>	<u>12,589,339</u>
Cash and short-term investments, end of year	<u>\$6,452,591</u>	<u>\$8,480,183</u>

COMMENTS ON FINANCIAL STATEMENTS

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 using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

Preferred stocks: Investment grade perpetual preferred stocks are stated at fair value. Investment grade redeemable preferred stocks are stated at amortized cost. Non-investment grade Preferred stocks are stated at the lower of cost or fair value.

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: Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

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. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

Non-admitted assets: Certain assets, such as premiums over 90 days past due, excess of book value over market value for securities, and prepaid expenses are "non-admitted" and are charges against surplus.

Loan-backed securities: Stated at either amortized cost or the lower of amortized cost or fair market value. The retrospective adjustment method is used to value all securities.

Unpaid loss & loss adjustment expense: Includes amounts determined from individual case estimates 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	39,264,779		39,264,779
Preferred stocks	267,944		267,944
Properties occupied by the company	4,551,838		4,551,838
Cash and short-term investments	6,452,591		6,452,591
Total cash and invested assets	50,537,152		50,537,152
Investment income due and accrued	312,236		312,236
Premiums and agents' balances in course of collection	2,599,520	155,100	2,444,420
Premiums and agents' balances booked but not yet due	14,813,591	20,252	14,793,339
Reinsurance recoverable	877,319		877,319
Funds held by or with reinsured companies	1,707,699		1,707,699
Net deferred tax assets	737,481	72,055	665,426
Guaranty funds receivable or on deposit	337,536		337,536
Cash surrender value of life insurance	1,006,377		1,006,377
Deductible receivable	1,661,796	1	1,661,795
State credits	37,500		37,500
Total admitted assets	74,628,207	247,408	74,380,799

Reinsurance Activity:

The Company has various 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. The Company utilized Guy Carpenter and Gen Re as reinsurance intermediaries to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

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

	2017	2016
Direct and assumed written	\$36,123,106	\$34,181,601
Ceded written	18,162,902	16,701,480
Net written	17,960,204	17,480,121
Direct and assumed earned	27,429,142	31,626,405
Ceded earned	11,332,873	14,055,052
Net earned	\$16,096,269	\$17,571,353

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

Summary of Reserves:

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

	2017	2016
Reserve for losses and loss adjustment expenses, beginning of year	\$15,902,479	\$19,066,950
Add:		
Provision for losses and loss adjustment expenses, current year	8,660,650	9,775,517
Change in estimated losses and loss adjustment expenses, prior years	(5,122,080)	(5,154,252)
Total incurred	3,538,570	4,621,265
Deduct:		
Losses and loss adjustment expenses paid, current year	1,919,106	1,963,393
Losses and loss adjustment expenses paid, prior year	3,769,552	5,822,343
Total paid	5,688,658	7,785,736
Reserve for losses and loss adjustment expenses, end of year	13,752,391	15,902,479
Increase in reserve for losses and loss adjustment expenses	\$(2,150,088)	\$(3,164,471)

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, 2017 and 2016, the liability for losses and loss adjustment expenses was reduced by \$15,559,478 and \$17,416,154, 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 12), represents the changes in the Company's capital and surplus since the Department's last examination as of December 31, 2012:

	2015	2014	2013
Capital and surplus, beginning of year	14,557,952	12,049,237	6,783,807
Capital and surplus increases (decreases):			
Net income	2,922,990	2,638,852	4,288,021
Change in net unrealized capital gain (loss)	(191,137)	37,332	203,988
Change in net deferred income tax	153,807	78,965	566,093
Change in nonadmitted assets	(267,644)	3,566	(42,671)
Surplus adjustments to paid-in capital	-	-	250,000
Dividends to shareholders	-	(250,000)	-
Change in surplus as regards policyholders for the year	2,618,017	2,508,715	5,265,430
Capital and surplus, end of year	17,175,969	14,557,952	12,049,237

Related Party Transactions:

In 2014, the Company purchased land and a building located at 217 South Tryon Street in Charlotte, North Carolina from its affiliate SCS for \$4.7 million. The Company entered into a thirty-seven month agreement to lease the building back to SCS beginning December 17, 2014. The Company reported rental income from SCS totaling \$248,843 and \$242,774 for December 31, 2017 and 2016, respectively.

Guaranty Fund Assessments:

The Company is subject to guaranty fund assessments by certain states in which it writes business. Guaranty fund assessments are accrued at the time of known insolvencies. The Company incurred assessments totaling \$80,731 and \$141,749 in 2017 and 2016, respectively. The assessments in 2017 were related to the guaranty funds in North Carolina, Illinois, Tennessee, Wisconsin and Alabama.

The Company is also subject to second injury fund assessments in various states that are recorded at the time that they are levied or become known. The Company incurred second injury fund assessments totaling \$157,079 and \$108,660 in 2017 and 2016, respectively.

Company Owned Life Insurance:

On August 31, 2017, the Company prepaid a policy premium of \$1 million to purchase company owned life insurance policies for thirteen employees of its affiliate SCS. The Company reported an admitted asset for the cash surrender value of these life insurance policies totaling \$1,006,377 at December 31, 2017.

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.

SUBSEQUENT EVENTS

On April 9, 2018, the Department approved the Company's request to pay a dividend of \$1 million to its parent, Synergy Holdings. The dividend payment was made on April 10, 2018.

The Company entered into a one-year lease agreement on the building with its affiliate SCS beginning January 1, 2018.

Synergy Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2017

Scott H. Grant, Secretary/Treasurer
217 South Tryon Street
Charlotte, NC 28202

CONCLUSION

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

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 \$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

July 11, 2018

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Keith Greene, Examination Supervisor, 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: Keith Greene Date: 7/11/18
Keith Greene

Sworn and subscribed before me this 11th day of July, 2018.

Notary Public Signature: Robert Terry Wade III Notary Public Seal:

My Commission Expires 11-24-2019

