

United Guaranty Mortgage Insurance Group

Greensboro, North Carolina

Report on Examination

As of December 31, 2017

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION.....	1
REPORT ABBREVIATIONS.....	3
ORGANIZATIONAL STRUCTURE.....	3
Insurance Holding Company Group	3
Organizational Chart	4
INDIVIDUAL COMPANY HISTORY.....	5
Capital Stock.....	7
Dividends to Stockholders.....	9
MANAGEMENT AND CONTROL.....	10
Corporate Governance.....	10
Code of Conduct and Conflict of Interest.....	12
Corporate Records.....	12
Statutory Deposits	12
Accounts and Records	12
Information Technology Controls.....	13
Fidelity Bonds and Other Insurance.....	13
Employee Benefits and Pension Plans	13
Related Party Agreements	13
Actuarial Opinion.....	16
TERRITORY AND PLAN OF OPERATION.....	16
Company Growth.....	17
REINSURANCE PROGRAM OVERVIEW	18
Internal Reinsurance Ceded and Assumed	19
External Reinsurance Ceded and Assumed	20
Bellemeade Reinsurance	21
Captive Reinsurance.....	22
FINANCIAL STATEMENTS.....	22
COMMENTS ON FINANCIAL STATEMENTS	22
SUBSEQUENT EVENTS	35
DISTRIBUTION OF REPORT ON EXAMINATION.....	36
CONCLUSION.....	37
APPENDIX A	39
APPENDIX B.....	49

April 17, 2019

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

United Guaranty Residential Insurance Company (“UGRIC”)
United Guaranty Mortgage Indemnity Company (“UGMIND”)
United Guaranty Credit Insurance Company (“UGCIC”)
United Guaranty Residential Insurance Company of North Carolina (“UGRIC-NC”)
United Guaranty Commercial Insurance Company of North Carolina (“UGCIC-NC”)
United Guaranty Mortgage Insurance Company (“UGMIC”)
United Guaranty Mortgage Insurance Company of North Carolina (“UGMIC-NC”)
United Guaranty Insurance Company (“UGIC”)
Arch Structured Mortgage Insurance Company (“ASMIC”)

(hereinafter referred to as the “United Guaranty Mortgage Insurance Group”), at its main administrative and statutory home office located at 230 North Elm Street, Greensboro, North Carolina 27401.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the United Guaranty Mortgage Insurance Group. 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 the course of this examination. The Department’s most recent prior examination of the United Guaranty Mortgage Insurance Group was as of December 31, 2012.

The purpose of this examination is to assess the financial condition and controls of the United Guaranty Mortgage Insurance Group 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 examination was conducted concurrently with a multi-state coordinated financial examination of Arch Insurance Group, which includes seventeen insurance company subsidiaries. Missouri served as the Lead

State for the Arch Insurance Group and North Carolina served as the Facilitating State for the Mortgage Insurance Subgroup, which includes nine companies domiciled in North Carolina and three companies domiciled in Wisconsin. Wisconsin did not participate in 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 United Guaranty Mortgage Insurance Group, 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 United Guaranty Mortgage Insurance Group were considered in accordance with the risk-focused examination process and the following key functional activities were identified:

Investments
Related Parties
Capital & Surplus
Premiums & Underwriting
Reserves & Claims Handling
Reinsurance Ceded & Assumed

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.

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 United Guaranty Mortgage Insurance Group.

The United Guaranty Mortgage Insurance Group’s Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. Trial balance reconciliations of the Annual Statements were 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 ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from the United Guaranty Mortgage Insurance Group’s management.

The books and records of the United Guaranty Mortgage Insurance Group are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). PricewaterhouseCoopers of Charlotte, North Carolina, the designated independent public accountant of the United Guaranty Mortgage Insurance Group, issued an unqualified opinion on each company 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 United Guaranty Mortgage Insurance Group’s Appointed Actuary, David W. McLaughry, FCAS, MAAA.

REPORT ABBREVIATIONS

General Statutes of North Carolina	“GS”
North Carolina Department of Insurance	“Department”
Financial Condition Examiners Handbook	“Handbook”
National Association of Insurance Commissioners	“NAIC”
Board of Directors	“Board”
Information Technology General Controls	“ITGCs”
Information Technology Planning Questionnaire	“ITPQ”
United Guaranty Residential Insurance Company	“UGRIC”
United Guaranty Mortgage Indemnity Company	“UGMIND”
United Guaranty Credit Insurance Company	“UGCIC”
United Guaranty Residential Insurance Company of North Carolina	“UGRIC-NC”
United Guaranty Commercial Insurance Company of North Carolina	“UGCIC-NC”
United Guaranty Mortgage Insurance Company	“UGMIC”
United Guaranty Mortgage Insurance Company of North Carolina	“UGMIC-NC”
United Guaranty Insurance Company	“UGIC”
United Guaranty Services, Inc	“UGS”
Arch Structured Mortgage Insurance Company	“ASMIC”
United Guaranty Corporation	“UGC”
Arch Capital Group Limited	“ACGL”
Arch Capital Group U.S.	“ACG”
Arch Mortgage Insurance Group	“Arch MI Group”
Arch U.S. MI Services, Inc.	“Arch MI”
American Home Assurance Company	“AHAC”
Arch Mortgage Insurance Company	“AMIC”
National Union Fire Insurance Company	“NUFIC”
Lexington Insurance Company	“LIC”
Voluntary Settlement Agreement	“VSA”
First Mortgage Insurance Company	“FMIC”
FMIC Corporation	“FMIC Corp”

ORGANIZATIONAL STRUCTURE

INSURANCE HOLDING COMPANY GROUP

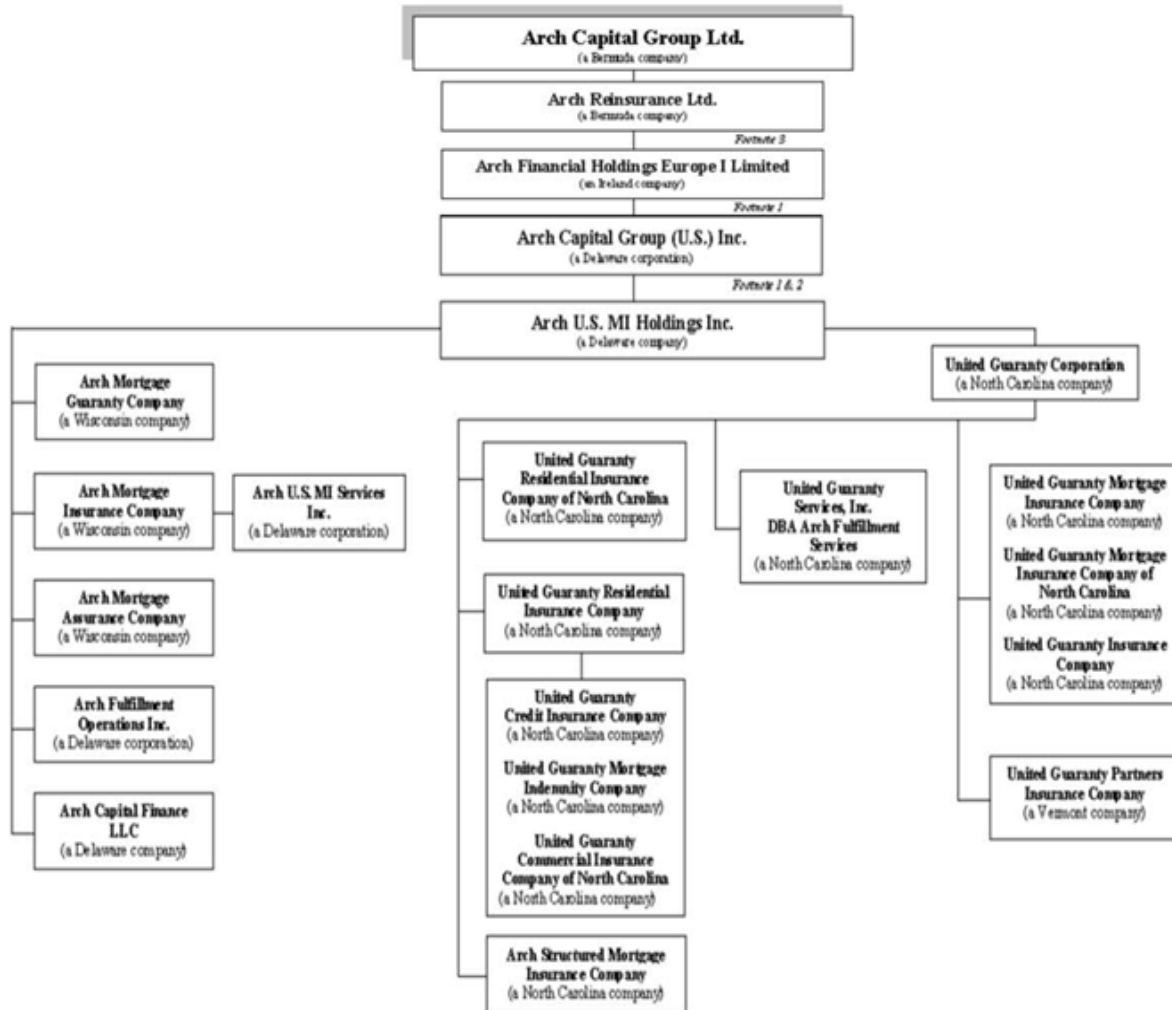
The companies within the United Guaranty Mortgage Insurance Group are part of an insurance holding company system as defined in GS § 58-19 and are wholly owned subsidiaries of United Guaranty Corporation (“UGC”), a North Carolina corporation. On August 15, 2016, American International Group Incorporated, entered into a definitive agreement to sell its 100% interest in UGC and certain related affiliates to Arch Capital Group Limited (“ACGL”) for total consideration of \$3.4 billion, consisting of \$2.2 billion of cash, \$250 million in pre-closing dividends, and approximately \$975 million of newly issued ACGL convertible non-voting common-equivalent preferred stock. Arch U.S. MI Holdings, Inc., an indirect subsidiary of ACGL, completed the acquisition of UGC on December 31, 2016.

UGC is wholly-owned by Arch U.S. MI Holdings, Inc., a Delaware corporation. Arch U.S. MI Holdings, Inc., is wholly-owned by ACGL, a Bermuda corporation. ACGL is the ultimate parent and owns all of the

companies within the United Guaranty Mortgage Insurance Group. ACGL is a publicly traded company and is the ultimate controlling entity for Arch Mortgage Insurance Group (“Arch MI Group”). ACGL shares are traded on NASDAQ.

ORGANIZATIONAL CHART

The following is an organizational chart of the United Guaranty Mortgage Insurance Group, its parent, subsidiaries and affiliated companies as of December 31, 2017:



INDIVIDUAL COMPANY HISTORY

UGC

UGC is a holding company which was established when FMIC Corporation (“FMIC Corp”) amended its charter to change its name to UGC effective December 30, 1974. UGC owns all outstanding shares of each company in the United Guaranty Mortgage Insurance Group. UGC was not reviewed and was not included in the scope of this examination, except to the extent that the companies under examination had related party transactions with UGC during the examination period.

UGRIC

UGRIC was incorporated on November 27, 1963, under the laws of the State of Iowa as Excel Mortgage Insurance Corporation and commenced business on December 18, 1963, with 50,000 shares of \$10 par value common stock authorized and issued. UGRIC increased authorized shares to 100,000 at \$12.50 par on September 8, 1965. Effective December 30, 1974, the articles of incorporation were amended to change the name to United Guaranty Residential Insurance Company of Iowa and, on March 8, 1978, authorized common capital stock increased to 500,000 shares of \$12.50 par value common stock.

On October 23, 1979, United Guaranty Residential Insurance Company of Iowa entered into a Joint Agreement and Plan of Reorganization with two affiliated companies, United Guaranty Residential Insurance Company of California and United Guaranty Residential Insurance Company of Louisiana and the companies merged on December 11, 1979.

Effective January 1, 1989, the articles of incorporation were amended to change the company name to United Guaranty Residential Insurance Company and the state of incorporation was changed to North Carolina. On October 10, 2017, internal ownership changed to 100% UGC.

UGMIND

UGMIND was incorporated on June 12, 1972, and commenced business on July 12, 1972, under the laws of the State of Iowa, as the Excel Security Company with 125,000 shares of \$10 par value common stock authorized and issued. On July 21, 1972, the company name was changed to Excel Security Insurance Company by repealing the amended articles of incorporation of Blackhawk Life Insurance Company.

Upon becoming a wholly owned subsidiary of United Guaranty Residential Insurance Company of Iowa, the articles of incorporation were amended to change the company name to United Guaranty Commercial Insurance Company of Iowa effective December 30, 1974. Effective January 1, 1989, the articles of incorporation were amended to change its name to United Guaranty Commercial Insurance Company and the company re-domesticated to North Carolina.

The articles of incorporation were amended to change the company name to United Guaranty Mortgage Indemnity Company effective June 25, 1997.

UGCIC

UGCIC was incorporated on June 9, 1981, under the laws of the State of North Carolina with 10 million shares of \$1 par value common stock authorized and 2.5 million shares issued. UGCIC commenced business on July 17, 1981.

UGRIC-NC

UGRIC-NC was incorporated on April 5, 1963, as First Mortgage Insurance Company (“FMIC”) and commenced business on May 9, 1963. FMIC began business with one million shares of \$1 par value common capital stock and subsequently increased the number of authorized shares to three million effective April 29, 1964.

Through a consent action by the Board of Directors (“Board”), FMIC entered into an Agreement and Plan of Exchange whereby the shareholders of FMIC exchanged their shares on a share-for-share basis for the stock of FMIC Corp, with FMIC becoming a subsidiary of FMIC Corp effective August 31, 1973. Charter amendments were made to change FMIC name to UGRIC-NC and FMIC Corp’s name to UGC effective December 30, 1974.

UGCIC-NC

UGCIC-NC was incorporated on May 31, 1971, under the laws of the State of North Carolina and commenced business on June 7, 1971, as First Mortgage Commercial Insurance Company with one million shares of \$1.00 par value common capital stock authorized and issued. Effective December 30, 1974, the company charter was amended to change the company name to United Guaranty Commercial Insurance Company of North Carolina.

On June 18, 1993, the Board approved restated articles of incorporation, which increased the number of authorized capital common stock to two million shares and UGCIC-NC issued the additional shares. On September 29, 2017, UGCIC-NC increased authorized shares to 2,500,000.

UGMIC

UGMIC was incorporated under the laws of the State of North Carolina on August 20, 1992, and commenced business on October 15, 1992, with ten million shares \$1 par value common capital stock authorized and two million shares issued.

UGMIC-NC

UGMIC-NC was incorporated under the laws of the State of North Carolina on August 20, 1992, and commenced business on October 15, 1992, with ten million shares of \$1 par value common capital stock authorized and two million shares issued.

UGIC

UGIC was incorporated was incorporated under the laws of the State of North Carolina on August 20, 1992, and commenced business on October 15, 1992, with ten million shares of \$1 par value common capital stock authorized and two million shares issued. UGIC ceased operations effective July 1, 2017 and was fully dissolved as of January 31, 2018.

ASMIC

ASMIC was formed on October 8, 2009, under the laws of the State of North Carolina with 5,000,000 authorized shares of \$1 par value common stock and received its license to write business on October 19, 2009. ASMIC was initially capitalized by UGRIC with a total of \$8.0 million in equity consisting of \$2.5 million in \$1 par value common capital stock and \$5.5 million of paid-in surplus. ASMIC was formerly known as AIG Structured Mortgage Insurance Company and as First Mortgage Insurance Company.

CAPITAL STOCK

As of December 31, 2017, capitalization of the United Guaranty Mortgage Insurance Group consisted of the following:

UGRIC

Description	Value
Number of authorized common capital shares	500,000
Number of shares issued and outstanding	479,784
Total common capital stock	\$5,997,300
Par value per share	\$12.50

No additional shares were issued during the period under examination. As of December 31, 2017, all outstanding shares were owned by UGC, which is wholly-owned by the Arch MI Group, an insurance holding company incorporated in Bermuda. At December 31, 2017, UGRIC reported \$579,781,388 in gross paid-in and contributed surplus and \$319,155,238 in unassigned funds.

UGMIND

Description	Value
Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	250,000
Total common capital stock	\$2,500,000
Par value per share	\$10.00

An additional 50,000 shares were issued during the period under examination to meet UGMIND's capital requirement in Texas. As of December 31, 2017, all outstanding shares were owned by UGRIC. In 2017, UGMIND repaid surplus notes in the amount of \$60,000,000 and returned capital of \$224,000,000 to UGRIC. At December 31, 2017, UGMIND reported \$37,593,900 in gross paid-in and contributed surplus and (\$24,945,877) in unassigned funds.

UGCIC

Description	Value
Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
Par value per share	\$1.00

No additional shares were issued during the period under examination. As of December 31, 2017, all outstanding shares were owned by UGRIC. At December 31, 2017, UGCIC reported \$1,500,000 in gross paid-in and contributed surplus and \$20,877,075 in unassigned funds.

UGRIC-NC

Description	Value
Number of authorized common capital shares	3,000,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
Par value per share	\$1.00

An additional 500,000 shares were issued during the period under examination to meet UGRIC-NC's capital requirement in Texas. As of December 31, 2017, all outstanding shares were owned by UGC. In 2017, UGRIC-NC repaid surplus notes in the amount of \$468,674,500 and returned capital of \$168,745,746 to UGC. At December 31, 2017, UGRIC-NC reported \$37,060,208 in unassigned funds.

UGCIC-NC

Description	Value
Number of authorized common capital shares	2,500,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
Par value per share	\$1.00

An additional 500,000 shares were issued during the period under examination to meet UGCIC-NC's capital requirement in Texas. As of December 31, 2017, all outstanding shares were owned by UGRIC. At December 31, 2017, UGCIC-NC reported \$45 million in surplus notes with UGC, \$2,698,900 in gross paid-in and contributed surplus and \$1,558,795 in unassigned funds.

UGMIC

Description	Value
Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	2,000,000
Total common capital stock	\$2,000,000
Par value per share	\$1.00

No additional shares were issued during the period under examination. As of December 31, 2017, all outstanding shares were owned by UGC. At December 31, 2017, UGMIC reported \$15,333,333 in gross paid-in and contributed surplus and \$5,549,250 in unassigned funds.

UGMIC-NC

Description	Value
Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	2,000,000
Total common capital stock	\$2,000,000
Par value per share	\$1.00

No additional shares were issued during the period under examination. As of December 31, 2017, all outstanding shares were owned by UGC. At December 31, 2017, UGMIC-NC reported \$15,333,333 in gross paid-in and contributed surplus and \$5,367,751 in unassigned funds.

UGIC

Description	Value
Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	548,254
Total common capital stock	\$548,254
Par value per share	\$1.00

No additional shares were issued during the period under examination. As of December 31, 2017, all outstanding shares were owned by UGC. In 2017, UGIC transferred common stock in the amount of \$1,451,746 and a surplus adjustment of \$13,548,254 to UGC. At December 31, 2017, UGIC reported \$1,785,080 in gross paid-in and contributed surplus and unassigned funds totaling \$2,975,883.

ASMIC

Description	Value
Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	2,500,000
Total common capital stock	\$2,500,000
Par value per share	\$1.00

No additional shares were issued during the period under examination. As of December 31, 2017, all outstanding shares were owned by UGC. ASMIC received additional paid in surplus of approximately \$2 million in 2015. At December 31, 2017, ASMIC reported \$7.5 million in gross paid-in and contributed surplus and negative unassigned funds totaling (\$1,855,118).

DIVIDENDS TO STOCKHOLDERS

Dividends on common capital stock are paid as declared by the Board of the United Guaranty Mortgage Insurance Group. Under the insurance regulations of North Carolina, the maximum amount of dividends which the United Guaranty Mortgage Insurance Group 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.

UGRIC

In 2016, UGRIC paid ordinary dividends to UGC and UGRIC-NC in the amounts of \$232,331,068 and \$77,300,850, respectively. In 2017, UGRIC paid ordinary dividends to UGC and UGRIC-NC in the amounts of \$234,858,295 and \$78,141,705, respectively.

UGMIC

UGMIC paid ordinary dividends in the amount of \$6.8 million and \$9.7 million to UGC in 2013 and 2015, respectively. In 2016, UGMIC paid \$3,079,694 in ordinary dividends and \$28,866,980 in extraordinary dividends to UGC.

UGMIC-NC

UGMIC-NC paid ordinary dividends in the amount of \$6.7 million and \$9.8 million to UGC in 2013 and 2015, respectively. In 2016, UGMIC-NC paid \$3,057,255 in ordinary dividends and \$31,176,869 in extraordinary dividends to UGC.

UGIC

UGIC paid \$6.9 million and \$9.7 million in ordinary dividends to UGC in 2013 and 2015, respectively. In 2016, UGIC paid \$3,139,211 in ordinary dividends and \$30,027,843 in extraordinary dividends to UGC. UGIC paid \$1.5 million in ordinary dividends and an extraordinary distribution of \$15 million to UGC in 2017.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

The companies within the United Guaranty Mortgage Insurance Group have the same directors and principal officers. The companies occupy the same home office and share accounting systems and personnel. All personnel are employees of Arch U.S. MI Services, Inc.

Shareholders

The United Guaranty Mortgage Insurance Group bylaws provide that an annual meeting of the shareholders be held in March of each year and any day as determined by the Board. Special meetings of the shareholders may be called at any time by the president, secretary or the Board.

Board of Directors

The business of the United Guaranty Mortgage Insurance Group 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 five or more than twenty-five. Directors are elected annually, at the annual meeting of shareholders or by the written consent of the stockholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors of the United Guaranty Mortgage Insurance Group at December 31, 2017 and were company officers unless otherwise specified below:

Name	Location	Principal Occupation
David Gansberg	Greensboro, NC	President & Chief Executive Officer
Andrew Rippert	Greensboro, NC	Chief Executive Officer of Global Mortgage Group
Thomas Jeter	Greensboro, NC	Chief Financial Officer
Cheryl Feltgen	Greensboro, NC	Chief Risk Officer
John Gaines	Greensboro, NC	Chief Credit and Pricing Officer
Dennis Brand	Greensboro, NC	Chief Administrative Officer
Mark Lyons	Greensboro, NC	Chief Financial Officer of ACGL

The Board established several committees including the Insurance Risk Committee, Operational Risk Committee, Enterprise Risk Management Committee and Model Risk Governance Advisory Committee to act on behalf of the United Guaranty Mortgage Insurance Group. The Board also operates under the oversight of the Audit Committee established by ACGL, its ultimate parent company.

The following individuals served on Board committees at December 31, 2017:

Audit Committee

Brian Posner, Chair
Laurie Goodman
Yiorgos Lillikas
Louis Paglia
Eugene Sunshine

Enterprise Risk Management Committee

Cheryl Feltgen, Chair
John Gaines
David Gansberg
Christopher Hovey
Thomas Jeter
Dave McLaughry
Sara Millard

Officers

The bylaws provide that the Board will elect the officers, which shall consist of a chairman of the Board, president, secretary, 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, but no officer may act in more than one capacity where action of two or more officers is required.

The following individuals served as officers at December 31, 2017:

Name	Title
David Gansberg	President & Chief Executive Officer
Thomas Jeter	Executive Vice President & Chief Financial Officer
Sara Millard	Executive Vice President & General Counsel & Secretary
Brian Smith	Senior Vice President & Controller
Christopher Hovey	Executive Vice President & Chief Operations Officer
John Gaines	Executive Vice President, Chief Credit & Pricing Officer

Name	Title
David McLaughry	Senior Vice President & Chief Actuary
Cheryl Feltgen	Executive Vice President & Chief Risk Officer
Christopher Clement	Executive Vice President & Chief Sales Officer
James Taylor	Vice President & Treasurer

CODE OF CONDUCT AND CONFLICT OF INTEREST

The United Guaranty Mortgage Insurance Group has an established policy and procedures to identify existing or potential conflicts of interest and to report the same to the Board. Annually, ACGL requires a signed statement from each director and officer disclosing any conflicts of interest. A review of the signed conflict of interest statements for the examination period revealed that the United Guaranty Mortgage Insurance Group 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 contained documentation on significant transactions and events related to the United Guaranty Mortgage Insurance Group, and that the directors approved these transactions and events.

The United Guaranty Mortgage Insurance Group's articles of incorporation and bylaws were reviewed for any changes during the period under examination. No changes were noted regarding the bylaws for the companies within the United Guaranty Mortgage Insurance Group. The articles of incorporations were amended in 2017 to change in the number authorized shares of common stocks for some of the companies within the United Guaranty Mortgage Insurance Group. (Refer to the Individual Company History)

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The 2017 Annual Statement Schedule E, Part 3 contains a complete description and listing of the statutory deposits by state.

ACCOUNTS AND RECORDS

The United Guaranty Mortgage Insurance Group's books and records are maintained at its main administrative office at 230 North Elm Street in Greensboro, North Carolina.

The United Guaranty Mortgage Insurance Group utilizes various systems to sell products to customers, establish service and maintain customer policies, as well as to gather and report financial data. The environment for internal controls over financial reporting is highly automated and includes application controls and system generated reports supporting its financial reporting functions. Significant applications are hosted on multiple servers at the data center located in Greensboro, North Carolina.

INFORMATION TECHNOLOGY CONTROLS

The Department performed a risk-based assessment and review of the United Guaranty Mortgage Insurance Group's Information Technology ("IT") 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 United Guaranty Mortgage Insurance Group's ITGCs was derived from the IT Planning Questionnaire and the IT Work Program (collectively referred to as the "ITPQ"). The United Guaranty Mortgage Insurance Group's 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 functioning properly.

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

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

The objectives above were achieved through a combination of reviewing the United Guaranty Mortgage Insurance Group's policies and procedures, testing in key areas related to the ITPQ, interviewing IT management, reviewing IT risk assessment processes, and leveraging relevant risk assessment procedures performed by the designated external auditors.

Based upon the risk-based assessment and review, the United Guaranty Mortgage Insurance Group's ITGCs were determined to be effective.

FIDELITY BONDS AND OTHER INSURANCE

The companies in the United Guaranty Mortgage Insurance Group are named insureds under a Financial Institution Bond ("fidelity bond") which covers ACGL and its affiliates with coverage totaling \$40 million in aggregate. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for the United Guaranty Mortgage Insurance Group on a consolidated basis.

In addition, the companies in the United Guaranty Mortgage Insurance Group are named insureds on various corporate property and liability policies issued to ACGL, which appeared to be adequate to cover risks in the normal course of business.

EMPLOYEE BENEFITS AND PENSION PLANS

The United Guaranty Mortgage Insurance Group has no employees. All employees are provided by Arch US MI Services and employee benefit plans are administered by Arch Capital Services, Inc., which are affiliates.

RELATED PARTY AGREEMENTS

UGRIC

UGRIC has an administrative services agreement with UGS, UGMIND, UGCIC, UGRIC-NC, UGCIC-NC, UGMIC, UGMIC-NC, UGIC and ASMIC effective September 1, 2010, whereby UGRIC may provide

administration, financial planning, advertising, clerical and other areas as the parties may agree upon. UGRIC did not receive any administrative fees under this agreement for 2017.

UGRIC has an administrative service agreement with UGC, Arch U.S. MI Services, Inc. (“Arch MI”), UGS, UGMIND, UGCIC and UGRIC-NC whereby UGRIC may be provided services in the areas of administration, financial planning, advertising, clerical and other areas as the parties may agree upon. UGRIC paid administrative fees totaling \$128,067,599 under this agreement for 2017.

UGMIND

UGMIND has an administrative services agreement with UGS, UGCIC-NC and UGRIC, effective September 1, 2010, and an administrative services agreement with Arch MI, effective January 1, 2017, whereby UGMIND may provide administration, financial planning, advertising, clerical and other areas as the parties may agree upon. UGMIND did not receive any administrative fees under this agreement for 2017.

UGMIND has an administrative service agreement with UGC, Arch MI, UGS and UGRIC whereby UGMIND may be provided services in the areas of administration, financial planning, advertising, clerical and other areas as the parties may agree upon. UGMIND paid administrative fees totaling \$5,331,457 under this agreement for 2017.

UGMIC

UGMIC has an administrative service agreement with Arch MI whereby UGMIC may be provided services in the areas of administration, financial planning, advertising, clerical and other areas as the parties may agree upon. UGMIC paid administrative fees totaling \$51,794 under this agreement for 2017.

UGCIC-NC

UGCIC-NC has an administrative service agreement with UGC, Arch MI, UGS, UGRIC, UGMIND and UGRIC-NC whereby UGCIC-NC may be provided services in the areas of administration, financial planning, advertising, clerical and other areas as the parties may agree upon. UGCIC-NC paid administrative fees totaling \$1.8 million under this agreement for 2017.

UGCIC-NC has an administrative service agreement with New Hampshire Insurance Company for services in the areas of administration, financial planning, advertising, clerical and other areas as the parties may agree upon. UGCIC-NC did not pay any administrative fees under this agreement for 2017.

UGRIC-NC

UGRIC-NC has an administrative services agreement with UGRIC, UGS, UGMIND, UGCIC and UGCIC-NC effective September 1, 2010, whereby UGRIC-NC may provide services in the areas of administration, financial planning, advertising, clerical and other areas as the parties may agree upon. UGRIC-NC did not receive any administrative fees under this agreement for 2017.

UGRIC-NC has an administrative service agreement with Arch MI, UGC, UGS and UGRIC whereby UGRIC-NC may be provided services in the areas of administration, financial planning, advertising, clerical and other areas as the parties may agree upon. UGRIC-NC paid administrative fees totaling \$6,067,662 under this agreement for 2017.

UGMIC-NC

UGMIC-NC has an administrative service agreement with Arch MI whereby UGMIC-NC may be provided services in the areas of administration, financial planning, advertising, clerical and other areas as the parties may agree upon. UGMIC-NC paid administrative fees totaling \$51,794 under this agreement for 2017.

UGIC

UGIC had an administrative service agreement Arch MI to have services provided in the areas of administration, financial planning, advertising, clerical and other areas as the parties may agree upon with. UGIC did not pay any administrative fees under this agreement for 2017.

UGCIC

UGCIC has an administrative services agreement with UGRIC and UGS effective September 1, 2010, whereby UGCIC may provide administration, financial planning, advertising, clerical and other areas as the parties may agree upon. UGCIC did not receive any administrative fees under this agreement for 2017.

UGCIC has an administrative service agreement with UGC, Arch MI, UGRIC, UGS and UGRIC-NC whereby UGCIC may be provided services in the areas of administration, financial planning, advertising, clerical and other areas as the parties may agree upon. UGCIC paid administrative fees totaling \$36,000 under this agreement for 2017.

ASMIC

ASMIC has administrative service agreements with several affiliated companies to receive services in the areas of administration, financial planning, advertising, clerical and other areas as the parties may agree upon. ASMIC did not pay any administrative fees under these agreements for 2017.

Tax Allocation Agreement

The United Guaranty Mortgage Insurance Group is included in a consolidated income tax return in accordance with a tax allocation agreement between Arch Capital Group U.S. (“ACG”), effective January 1, 2017. The agreement sets forth the parties’ obligations in connection with their filing as a consolidated tax filing group. Each entity shall remit to ACG any amount determined to be due in accordance with the agreement no more than 90 days after the taxes are due. Refunds received by ACG resulting from tax savings shall be remitted to the applicable entity 90 days after the tax refund was received. Refunds received by ACG 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.

Investment Advisory Agreement

The United Guaranty Mortgage Insurance Group was provided investment advisory and portfolio management services by Arch Investment Management, LLC under an investment advisory agreement effective January 1, 2017. Investment advisory fees are based on a percentage of the total market value of company investments. In 2017, the United Guaranty Mortgage Insurance Group paid investment advisory fees totaling \$7,720,726 which were allocated to each company as follows:

UGRIC	\$6,127,748
UGMIND	767,362
UGRIC-NC	69,902
UGCIC-NC	154,756
UGMIC	173,699
UGMIC-NC	173,310
UGIC	170,274
UGCIC	64,042
<u>ASMIC</u>	<u>19,633</u>
Total Fees	\$7,720,726

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 Arch MI's Appointed Actuary, David McLaughry, FCAS, MAAA. Actuarial opinions regarding the United Guaranty Mortgage Insurance Group'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 United Guaranty Mortgage Insurance Group for reasonableness and consistency of the loss and loss adjustment expense reserve. According to the actuarial opinions, the United Guaranty Mortgage Insurance Group'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 United Guaranty Mortgage Insurance Group.

TERRITORY AND PLAN OF OPERATION

UGRIC

UGRIC provides mortgage guaranty insurance to mortgage lenders, protecting them from losses on mortgage loans upon default of the borrower. UGRIC is licensed in all 50 states, the District of Columbia, and the U.S. Virgin Islands. Current business plans indicate that UGRIC will be the lead mortgage guaranty insurer of the Arch MI Group writing rate card business.

UGMIND

UGMIND provides mortgage guaranty insurance to mortgage lenders, protecting them from losses on mortgage loans upon default of the borrower. UGMIND is licensed in all 50 states, except Illinois and Wyoming, and the District of Columbia. UGMIND also has operations in Mexico, which all business was commuted in 2016.

UGCIC

UGCIC is a credit insurance company licensed in Arizona, California, Connecticut, Idaho, Illinois, Iowa, Kentucky, New York, North Carolina, Oregon, Wisconsin and the District of Columbia. UGCIC business was placed into run-off in September 2008. Under a Voluntary Settlement Agreement ("VSA") with the Department, UGCIC's license was restricted to "no new business," effective January 7, 2009.

UGRIC-NC

UGRIC-NC provides credit insurance that protects lenders from losses on second-lien mortgages. UGRIC-NC is licensed in 46 states and the District of Columbia. UGRIC-NC is not licensed in Arizona, California, New York and Wyoming. UGRIC-NC has been in run-off since 2008 and continues to service its existing policies. Under a VSA with the Department, UGRIC-NC's license was restricted to "no new business," effective January 7, 2009.

UGCIC-NC

UGCIC-NC is a credit insurance company that provides coverages to lenders that originate private educational loans for high credit quality borrowers and their co-signers. UGCIC-NC is licensed in 35 states and the District of Columbia. UGCIC-NC is not licensed in Alaska, Arkansas, Georgia, Idaho, Iowa, Louisiana, Maine, Montana, Nevada, New Hampshire, New Mexico, North Dakota, Washington, West Virginia, Wisconsin and Wyoming. UGCIC-NC has been in run-off since 2008 and continues to service its existing policies. UGCIC-NC surrendered its license in Ohio in February 2009 and, under a VSA with the Department, UGCIC-NC's license was restricted to "no new business," effective April 2, 2009.

UGMIC

UGMIC is a provider of private residential mortgage insurance and is licensed in New York and North Carolina. UGMIC was utilized as an affiliated reinsurer for UGRIC and UGMIND until July 1, 2017, when the reinsurance contract between the parties was commuted and replaced by a reinsurance contract with UGRIC and Arch Mortgage Insurance Company ("AMIC"). UGMIC has not written any direct business.

UGMIC-NC

UGMIC-NC is licensed in New York and North Carolina. UGMIC-NC was utilized as an affiliated reinsurer for UGRIC and UGMIND until July 1, 2017, when the reinsurance contract between the parties was commuted and replaced by a reinsurance contract with UGRIC and AMIC. UGMIC-NC has not written any direct business.

UGIC

UGIC was a mortgage guaranty insurance company which ceased operations effective July 1, 2017. UGIC was utilized as an affiliated reinsurer for UGRIC and UGMIND until July 1, 2017, when the reinsurance contract between the parties was commuted. UGIC did not write any direct business and was fully dissolved on January 31, 2018.

ASMIC

ASMIC is a provider of mono-line first lien mortgage guaranty insurance. ASMIC has not written any business since its inception and current business plans indicate that ASMIC will remain inactive. ASMIC is licensed in 32 states and the District of Columbia. ASMIC is not licensed in Arkansas, California, Connecticut, Florida, Idaho, Illinois, Kansas, Louisiana, Maine, Minnesota, Nebraska, New Hampshire, New York, Ohio, Rhode Island, Washington, Wisconsin and Wyoming.

COMPANY GROWTH

The data obtained from annual statements filed with the Department illustrates the growth of the companies within the United Guaranty Mortgage Insurance Group for the five-year period ended 2017 and is reflected in Appendix B.

REINSURANCE PROGRAM OVERVIEW

The following table provides a summarized overview of each company and the reinsurance contracts in effect as of December 31, 2017:

<u>UGRIC</u>		
Company Operations:	Ceded Contracts:	Assumed Contracts:
<p>Licensed in all 50 States, DC and U.S. Virgin Islands</p> <p>Lead mortgage guaranty insurer of the United Guaranty Mortgage Insurance Group</p>	<ol style="list-style-type: none"> 1. Losses on primary and pool business in excess of 25% to UGMIC and UGMIC-NC 2. Lender Captive arrangements 3. Bellemeade Re Ltd. I, II, & 2017-1 4. NUFIC 35%, AHAC 35% and LIC 30% quota share 5. 50% quota share with NUFIC, AHAC and Lexington 6. 7.5% quota share CUMIS Mortgage Reinsurance 7. 50% quota share contract with Arch Reinsurance Ltd. 8. 50% quota share with AMIC 	<ol style="list-style-type: none"> 1. 90% quota share contract with Massachusetts Housing Finance Agency 2. 100% quota share contract with UGMIND 3. 100% quota share contract with AMIC
<u>UGMIND</u>		
Company Operations:	Ceded Contracts:	Assumed Contracts:
<p>Licensed in 48 states and DC</p> <p>Provider of private residential mortgage insurance</p>	<ol style="list-style-type: none"> 1. Bellemeade Re Ltd. I, II, & 2017-1 2. NUFIC 35%, AHAC 35% and LIC 30% quota share 3. 7.5% quota share CUMIS Mortgage Reinsurance 4. 50% quota share contract with Arch Reinsurance Ltd. 5. 100% quota share with UGRIC 	<p>NONE</p>

<u>UGMIC</u>		
Company Operations: Licensed in 2 states No direct business written	Ceded Contracts: 1. Bellemeade Re Ltd. I & II 2. NUFIC 35%, AHAC 35% and LIC 30% quota share	Assumed Contracts: 1. 100% quota share contract with UGRIC & AMIC
<u>UGMIC-NC</u>		
Company Operations: Licensed in 2 states No direct business written	Ceded Contracts: 1. Bellemeade Re Ltd. I & II 2. NUFIC 35%, AHAC 35% and LIC 30% quota share	Assumed Contracts: 1. 100% quota share contract with UGRIC & AMIC
<u>UGIC</u>		
Company Operations: Licensed in 2 states No direct business written	Ceded Contracts: 1. Bellemeade Re Ltd. I & II 2. NUFIC 35%, AHAC 35% and LIC 30% quota share	Assumed Contracts: NONE

INTERNAL REINSURANCE CEDED AND ASSUMED

UGRIC

UGRIC has a 50% quota share reinsurance contract with AMIC, whereby UGRIC cedes 50% of policies with effective dates on or after July 1, 2017. Under this contract, UGRIC ceded premiums totaling \$388 million to AMIC in 2017.

UGRIC and AMIC have a 100% quota share reinsurance contract with affiliates UGMIC and UGMIC-NC, whereby UGRIC and AMIC cedes all liability for coverage exceeding 25% of the loan amount for any loan by UGRIC and AMIC. Each reinsurer assumes 50% of the risk ceded. Under this contract, UGRIC and AMIC ceded premiums totaling (\$1.5 million) and approximately (\$18,000), respectively, in 2017 under this contract.

UGRIC has excess of loss contracts with affiliates, UGMIND and AMIC, whereby UGRIC assumes 100% of policies in force at, or issued on or after July 1, 2017 of the contract. Under these contracts, UGRIC assumed premiums totaling \$83 million and \$126.5 million from UGMIND and AMIC, respectively, in 2017.

UGMIND

UGMIND has a quota share reinsurance contract with UGRIC, whereby UGMIND cedes 100% of policies with effective dates on or after July 1, 2017. Under this contract, UGMIND ceded premiums totaling \$83.2 million to UGRIC in 2017.

UGMIC and UGMIC-NC

UGMIC and UGMIC-NC have quota share contracts with affiliates UGRIC and AMIC, where by UGMIC and UGMIC-NC assume 100% of the risk that exceeds 25% of loan amounts for any loan insured by UGRIC

and AMIC. UGMIC and UGMIC-NC assume 50% of the risk ceded. Under these contracts, UGMIC and UGMIC-NC each assumed premiums totaling approximately \$782,000 from UGRIC and AMIC in 2017.

EXTERNAL REINSURANCE CEDED AND ASSUMED

UGRIC

UGRIC has a 50% quota share reinsurance contract with Arch Reinsurance Ltd., whereby UGRIC cedes 50% of policies with effective dates on or after January 1, 2017. Under this contract, UGRIC ceded premiums totaling \$64 million in 2017.

UGRIC has a 7.5% quota share reinsurance contract with CUMIS Mortgage Reinsurance Company, whereby UGRIC cedes policies with effective dates on or after January 1, 2017. Under this contract, UGRIC ceded premiums totaling approximately \$474,000 in 2017.

UGRIC has a 50% quota share reinsurance contract with American Home Assurance Company (“AHAC”), Lexington Insurance Company (“LIC”) and National Union Fire Insurance Company (“NUFIC”), whereby UGRIC cedes policies effective on January 1, 2014 through January 31, 2016. Under these contracts, UGRIC ceded premiums totaling \$166 million in 2017.

UGRIC has excess of loss contract with AHAC, LIC and NUFIC, whereby the ultimate net loss paid on or after December 31, 2016, under policies issued by UGRIC between January 1, 2009, and December 31, 2016, on a 35% quota share basis to NUFIC, 35% to AHAC and 30% to LIC. UGRIC has not paid sufficient claims to attach under this contract for 2017.

UGRIC has a quota share contract with Massachusetts Housing Finance Agency, whereby UGRIC assumes 90% of losses on policies issued on or after July 1, 2004, through June 30, 2007. Under this contract, UGRIC assumed premiums totaling approximately \$75,000 in 2017.

UGMIND

UGMIND has a 7.5% quota share reinsurance contract with CUMIS Mortgage Reinsurance Company, whereby UGMIND cedes policies with effective dates on or after January 1, 2017. Under this contract, UGMIND ceded premiums totaling \$0 in 2017.

UGMIND has excess of loss contract with AHAC, LIC and NUFIC, whereby the ultimate net loss paid on or after December 31, 2016 under policies issued by UGMIND between January 1, 2009, and December 31, 2016, on a quota share basis to NUFIC of 35%, AHAC 35% and LIC 30%. UGMIND commuted policies to UGRIC under this contract.

UGMIC

UGMIC has excess of loss contract with AHAC, LIC and NUFIC, whereby the ultimate net loss paid on or after December 31, 2016 under policies issued by UGMIC between January 1, 2009 and December 31, 2016 on a quota share basis to NUFIC of 35%, AHAC 35% and LIC 30%. UGMIC commuted policies to UGRIC under this contract.

UGMIC-NC

UGMIC-NC has excess of loss contract with AHAC, LIC and NUFIC, whereby the ultimate net loss paid on or after December 31, 2016 under policies issued by UGMIC-NC between January 1, 2009, and December 31, 2016, on a quota share basis to NUFIC of 35%, AHAC 35% and LIC 30%. UGMIC commuted policies to UGRIC under this contract.

BELLEMEADE REINSURANCE

Bellemeade Re

On July 29, 2015, the United Guaranty Mortgage Insurance Group secured approximately \$300 million of aggregate excess of loss reinsurance coverage for new delinquencies on a portfolio of in-force policies issued between January 1, 2009, and March 31, 2013, through a mortgage insurance linked note offering by Bellemeade Re, a special purpose reinsurance company domiciled in Bermuda. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$96.9 million as of December 31, 2017.

For the coverage period, the ceding insurers retain the first layer of \$129.9 million of aggregate losses and Bellemeade Re will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re for certain operating expenses. The mortgage insurance-linked notes mature and may be redeemed at the ceding insurer's option July 2020. The mortgage insurance-linked notes are also subject to mandatory and optional redemption events.

Bellemeade Re II

On May 9, 2016, the United Guaranty Mortgage Insurance Group, secured approximately \$300 million of aggregate excess of loss reinsurance coverage for new delinquencies on a portfolio of in-force policies issued in 2008 and prior years through a mortgage insurance linked note offering by Bellemeade Re II, a special purpose reinsurance company domiciled in Bermuda. The coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$146.3 million as of December 31, 2017.

For the coverage period, the ceding insurers will retain the first layer of \$646.9 million of aggregate losses and Bellemeade Re II will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re II for certain operating expenses. The mortgage insurance-linked notes mature in April 2026 and are non-redeemable.

Bellemeade Re 2017-1

On October 25, 2017, the United Guaranty Mortgage Insurance Group, secured approximately \$368 million of aggregate excess of loss reinsurance coverage for new delinquencies on a portfolio of in-force policies issued in 2017 through a mortgage insurance linked note offering by Bellemeade Re 2017-1, a special purpose reinsurance company domiciled in Bermuda. The approximate \$368 million coverage amount decreases over a ten-year period as the underlying covered mortgages amortize and was \$351.2 million as of December 31, 2017.

For the coverage period, the ceding insurers will retain the first layer of \$165.7 million of aggregate losses and Bellemeade Re 2017-1 will then provide second layer coverage up to the outstanding coverage amount. The ceding insurers will then retain losses in excess of the outstanding coverage limit. Under the terms of the transaction, the ceding insurers make risk premium payments for the applicable outstanding coverage amount and also reimburse Bellemeade Re 2017-1 for certain operating expenses. The mortgage insurance-linked notes mature in October 2027 and are non-redeemable.

Individual Company Cessions - Bellemeade

UGRIC ceded premiums totaling \$22.9 million in aggregate under the Bellemeade Re Ltd., Bellemeade Re II Ltd., and Bellemeade Re 2017-1 Ltd. reinsurance contracts for the year ended December 31, 2017.

UGMIND ceded premiums totaling \$1.2 million in aggregate under the Bellemeade Re Ltd., Bellemeade Re II Ltd., and Bellemeade Re 2017-1 Ltd. reinsurance contracts for the year ended December 31, 2017.

UGMIC, UGMIC-NC and UGIC each ceded premiums totaling approximately \$376,000 in aggregate under the Bellemeade Re Ltd. and Bellemeade Re II Ltd. reinsurance contracts for the year ended December 31, 2017.

CAPTIVE REINSURANCE

The United Guaranty Mortgage Insurance Group participates in reinsurance arrangements with mortgage lenders referred to as “Captive Reinsurance Arrangements.” Captive Reinsurance Arrangements include a trust, which is initially funded by its sponsor (typically the lending institution) with capital and subsequently funded by the United Guaranty Mortgage Insurance Group with premium. The capital within the trust is used to pay the United Guaranty Mortgage Insurance Group’s ceded losses. The United Guaranty Mortgage Insurance Group does not recognize ceded losses in excess of the trust balance. UGRIC had a total of \$167 million of funds held in trust for all Captive Reinsurance Arrangements as of December 31, 2017.

As of December 31, 2017, UGRIC’s reported ceded loss reserves to captives of \$4.2 million does not reflect allowance, as there were no recoveries for captive cessions that exceed their related trust balance.

FINANCIAL STATEMENTS

The financial statements in Appendix A are based on the statutory financial statements filed with the Department and present the financial condition of each company in the United Guaranty Mortgage Insurance Group for the period ending December 31, 2017. The supporting tables and exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statement information related to the prior year is unexamined and is presented for comparative purposes only.

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 United Guaranty Mortgage Insurance Group 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.

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

Real estate held for sale: Properties acquired in the settlement of claims and held for sale are carried at the lower of acquisition cost or fair value less estimated costs to sell the property, with the excess over fair value charged to losses incurred in the period that the claim payment is made. Upon disposal of the property, the difference between the sales proceeds and the carrying value is charged to net losses and loss adjustment expenses. (UGRIC only)

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. (UGRIC, UGMIND, UGRIC-NC, UGCIC-NC and UGMIC)

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 contracts. 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. (UGRIC, UGMIND, UGRIC-NC, UGCIC-NC and UGMIC)

Non-admitted assets: Certain assets, such as furniture and equipment, electronic data processing equipment and software and deferred taxes (not allowed due to admissibility calculations) are "non-admitted" and are charges against surplus. (UGRIC only)

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. (UGRIC, UGCIC, UGMIC-NC, UGRIC-NC, UGCIC-NC and UGMIC)

Analysis of Assets

UGRIC had the following assets which were not admitted at December 31, 2017: \$103,230,987 in deferred tax assets, \$11,433,049 in electronic data processing equipment and software, and \$425,934 in furniture and equipment.

UGRIC-NC had \$6,464,693 in deferred tax assets which were not admitted at December 31, 2017.

UGMIC-NC had \$17,958 in deferred tax assets which were not admitted at December 31, 2017.

UGMIND, UGCIC, UGCIC-NC, UGMIC, UGIC and ASMIC did not have any assets which were not admitted at December 31, 2017.

Reinsurance Activity

The companies in the United Guaranty Mortgage Insurance Group have excess of loss and quota share contracts to minimize their exposure to losses. Reinsurance contracts do not relieve the companies of their primary obligation to policyholders and failure of the reinsurers to discharge their obligations could result in losses to the companies.

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

UGRIC	2017
Direct and assumed written	\$866,869,188
Ceded written	651,817,404
Net written	215,051,784
Direct and assumed earned	936,718,022
Ceded earned	497,372,278
Net earned	\$439,345,744

UGMIND	2017
Direct and assumed written	\$93,119,657
Ceded written	88,593,583
Net written	4,526,074
Direct and assumed earned	100,669,674
Ceded earned	92,821,389
Net earned	\$7,848,285

UGCIC	2017
Direct and assumed written	\$79,019
Ceded written	-
Net written	79,019
Direct and assumed earned	78,555
Ceded earned	-
Net earned	\$78,555

UGRIC-NC	2017
Direct and assumed written	\$20,352,336
Ceded written	480,136
Net written	19,872,200
Direct and assumed earned	20,427,451
Ceded earned	480,265
Net earned	\$19,947,186

UGCIC-NC	2017
Direct and assumed written	\$-
Ceded written	-
Net written	-
Direct and assumed earned	868,014
Ceded earned	-
Net earned	\$868,014

UGMIC	2017
Direct and assumed written	(\$508,183)
Ceded written	376,370
Net written	(884,553)
Direct and assumed earned	8,797,438
Ceded earned	1,337,836
Net earned	\$7,459,602

UGMIC-NC	2017
Direct and assumed written	(\$508,183)
Ceded written	376,370
Net written	(884,553)
Direct and assumed earned	8,797,438
Ceded earned	1,337,836
Net earned	\$7,459,602

UGIC	2017
Direct and assumed written	(\$417,454)
Ceded written	376,370
Net written	(793,824)
Direct and assumed earned	8,888,172
Ceded earned	1,496,785
Net earned	\$7,391,387

ASMIC reported no reinsurance activity for December 31, 2017.

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.

Summary of Reserves

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

UGRIC

UGRIC reduced reserves by anticipated salvage and subrogation of \$2.1 million at December 31, 2017. Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under UGRIC's reinsurance contracts. At December 31, 2017, UGRIC's liability for losses and loss adjustment expenses was reduced by \$235 million for amounts to be recovered from reinsurers.

UGRIC	2017
Reserve for losses and loss adjustment expenses, beginning of year	\$375,834,028
Add:	
Provision for losses and loss adjustment expenses, current year	91,822,680
Change in estimated losses and loss adjustment expenses, prior years	(19,002,000)
Total incurred	72,820,680
Deduct:	
Losses and loss adjustment expenses paid, current year	11,451,000
Losses and loss adjustment expenses paid, prior year	220,543,093
Total paid	231,994,093
Reserve for losses and loss adjustment expenses, end of year	216,660,615
Decrease in reserve for losses and loss adjustment expenses	(\$159,173,413)

UGCIC

UGCIC	2017
Reserve for losses and loss adjustment expenses, beginning of year	\$1,363,197
Add:	
Provision for losses and loss adjustment expenses, current year	
Change in estimated losses and loss adjustment expenses, prior years	(775,058)
Total incurred	(775,058)
Deduct:	
Losses and loss adjustment expenses paid, current year	
Losses and loss adjustment expenses paid, prior year	(21,367)
Total paid	(21,367)
Reserve for losses and loss adjustment expenses, end of year	609,506
Decrease in reserve for losses and loss adjustment expenses	(\$753,691)

UGRIC-NC

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under UGRIC-NC's reinsurance contracts. At December 31, 2017, UGRIC-NC's liability for losses and loss adjustment expenses was reduced by \$1 million for amounts to be recovered from reinsurers.

UGRIC-NC	2017
Reserve for losses and loss adjustment expenses, beginning of year	\$15,460,913
Add:	
Provision for losses and loss adjustment expenses, current year	6,249,000
Change in estimated losses and loss adjustment expenses, prior years	(24,262,089)
Total incurred	(18,013,089)
Deduct:	
Losses and loss adjustment expenses paid, current year	2,285,000
Losses and loss adjustment expenses paid, prior year	(15,292,409)
Total paid	(13,007,409)
Reserve for losses and loss adjustment expenses, end of year	10,455,233
Decrease in reserve for losses and loss adjustment expenses	(\$5,005,680)

UGCIC-NC

UGCIC-NC	2017
Reserve for losses and loss adjustment expenses, beginning of year	\$8,151,523
Add:	
Provision for losses and loss adjustment expenses, current year	5,432,000
Change in estimated losses and loss adjustment expenses, prior years	(6,522,953)
Total incurred	(1,090,953)
Deduct:	
Losses and loss adjustment expenses paid, current year	1,015,000
Losses and loss adjustment expenses paid, prior year	(2,223,089)
Total paid	(1,208,089)
Reserve for losses and loss adjustment expenses, end of year	8,268,659
Increase in reserve for losses and loss adjustment expenses	\$117,136

UGMIC

UGMIC	2017
Reserve for losses and loss adjustment expenses, beginning of year	\$24,144,038
Add:	
Provision for losses and loss adjustment expenses, current year	2,641,000
Change in estimated losses and loss adjustment expenses, prior years	(3,061,356)
Total incurred	(420,356)
Deduct:	
Losses and loss adjustment expenses paid, current year	2,488,000
Losses and loss adjustment expenses paid, prior year	19,906,159
Total paid	22,394,159
Reserve for losses and loss adjustment expenses, end of year	1,329,523
Decrease in reserve for losses and loss adjustment expenses	(\$22,814,515)

UGMIC-NC

UGMIC-NC	2017
Reserve for losses and loss adjustment expenses, beginning of year	\$24,144,038
Add:	
Provision for losses and loss adjustment expenses, current year	2,641,000
Change in estimated losses and loss adjustment expenses, prior years	(3,061,356)
Total incurred	(420,356)
Deduct:	
Losses and loss adjustment expenses paid, current year	2,488,000
Losses and loss adjustment expenses paid, prior year	19,906,159
Total paid	22,394,159
Reserve for losses and loss adjustment expenses, end of year	1,329,523
Decrease in reserve for losses and loss adjustment expenses	(\$22,814,515)

Statutory Contingency Reserve

Appropriations to a Statutory Contingency Reserve (“SCR”) are required per GS § 58-10-135 in annual amounts equal to fifty percent of mortgage guaranty premiums earned. Appropriated amounts may not be withdrawn for a period of ten years, except as may be permitted if losses incurred exceed 35% of the net earned premium or by special approval from the Department.

UGRIC

In 2017, UGRIC released \$441,678,963 from its SCR to unassigned surplus due to intercompany reinsurance restructuring as approved by the Department.

The following summarizes the changes in UGRIC's SCR since the Department's last examination:

	2017	2016	2015	2014	2013
Balance at January 1	\$ 1,142,741,090	\$ 835,222,612	\$ 505,662,019	\$ 164,469,874	\$ 44,976,482
Additions	219,672,872	307,518,478	329,560,593	341,192,145	293,699,083
Withdrawals	(441,678,963)				(174,205,691)
Balance at December 31	\$ 920,734,999	\$ 1,142,741,090	\$ 835,222,612	\$ 505,662,019	\$ 164,469,874

UGMIND

In 2017, UGMIND released \$46,442,673 from its SCR to unassigned surplus due to intercompany reinsurance restructuring as approved by the Department.

The following summarizes the changes in UGMIND's SCR since the Department's last examination:

	2017	2016	2015	2014	2013
Balance at January 1	\$ 46,442,673	35,894,982	19,666,253	5,410,962	-
Additions	-	10,547,691	16,228,729	19,960,229	19,451,842
Withdrawals	(46,442,673)			(5,704,938)	(14,040,880)
Balance at December 31	\$ -	46,442,673	35,894,982	19,666,253	5,410,962

UGMIC

In 2017, UGMIC released \$37,448,087 from its SCR to unassigned surplus due to intercompany reinsurance restructuring as approved by the Department.

The following summarizes the changes in UGMIC's SCR since the Department's last examination:

	2017	2016	2015	2014	2013
Balance at January 1	\$ 37,482,194	28,395,019	17,127,154	2,917,349	-
Additions	-	9,087,175	11,267,865	14,580,649	13,188,429
Withdrawals	(37,448,087)	-	-	(370,844)	(10,271,080)
Balance at December 31	\$ 34,107	37,482,194	28,395,019	17,127,154	2,917,349

UGMIC-NC

In 2017, UGMIC-NC released \$37,448,087 from its SCR to unassigned surplus due to intercompany reinsurance restructuring as approved by the Department.

The following summarizes the changes in UGMIC-NC's SCR since the Department's last examination:

	2017	2016	2015	2014	2013
Balance at January 1	\$ 37,482,194	28,395,019	17,127,154	2,917,349	-
Additions	-	9,087,175	11,267,865	14,580,649	13,188,429
Withdrawals	(37,448,087)	-	-	(370,844)	(10,271,080)
Balance at December 31	\$ 34,107	37,482,194	28,395,019	17,127,154	2,917,349

Capital and Surplus

The following, in conjunction with the Statutory Statement of Capital and Surplus in Appendix A, represents the changes in capital and surplus since the Department's last examination:

UGRIC				
	2016	2015	2014	2013
Capital and surplus, beginning of year	\$1,351,270,653	\$1,383,831,086	\$1,465,713,353	\$1,382,974,810
Capital and surplus increases (decreases):				
Net income	335,169,888	314,597,995	254,627,207	88,356,686
Change in net unrealized capital gain (loss)	30,802,845	(7,748,458)	13,689,436	10,648,891
Change in net deferred income tax	66,016,763	124,473,484	141,487,357	33,626,024
Change in non-admitted assets	20,399,354	(134,322,861)	(150,500,628)	69,597,537
Dividends to stockholders	(309,631,918)	-	-	-
Change in provision for reinsurance	-	-	6,506	2,797
Increase in statutory contingency reserve	(307,518,478)	(329,560,593)	(341,192,145)	(293,699,083)
Decrease in statutory contingency reserve due to excess loss	-	-	-	174,205,691
Change in surplus as regards policyholders for the year	(164,761,546)	(32,560,433)	(81,882,267)	82,738,543
Capital and surplus, end of year	\$1,186,509,107	\$ 1,351,270,653	\$1,383,831,086	\$1,465,713,353

UGMIND				
	2016	2015	2014	2013
Capital and surplus, beginning of year	\$ 283,909,122	\$115,140,158	\$113,227,060	\$109,357,875
Capital and surplus increases (decreases):				
Net income	17,907,036	15,195,120	13,916,913	5,396,850
Change in net unrealized capital gain (loss)	39,390	(95,761)	15,775	22,961
Change in net deferred income tax	2,170,313	4,473,267	5,610,413	2,725,631
Change in non-admitted assets	10,066,666	(5,422,067)	(4,125,040)	1,133,894
Change in unrealized foreign exchange gain	173,264	847,134	750,327	811
Change in surplus notes	-	-	-	(70,000,000)
Surplus adjustments to paid-in capital	-	170,000,000	-	70,000,000
Increase in statutory contingency reserve	(10,547,691)	(16,228,729)	(19,960,228)	(19,451,842)
Decrease in statutory contingency reserve due to excess loss	-	-	5,704,938	14,040,880
Change in surplus as regards policyholders for the year	19,808,978	168,768,964	1,913,098	3,869,185
Capital and surplus, end of year	\$303,718,100	\$283,909,122	\$115,140,158	\$113,227,060

UGCIC				
	2016	2015	2014	2013
Capital and surplus, beginning of year	\$23,022,381	\$22,306,252	\$ 21,746,124	\$20,358,800
Capital and surplus increases (decreases):				
Net income	787,162	751,209	400,013	276,553
Change in net deferred income tax	(130,679)	(47,481)	191,387	(519,948)
Change in non-admitted assets	125,408	12,401	(31,272)	454,122
Decrease in statutory contingency reserve due to excess loss	-	-	-	1,176,597
Change in surplus as regards policyholders for the year	781,891	716,129	560,128	1,387,324
Capital and surplus, end of year	\$23,804,272	\$23,022,381	\$22,306,252	\$21,746,124

UGRIC-NC				
	2016	2015	2014	2013
Capital and surplus, beginning of year	\$449,876,364	\$432,283,498	\$377,853,575	\$319,802,134
Capital and surplus increases (decreases):				
Net income	105,272,488	23,856,037	62,600,467	39,956,007
Change in net unrealized capital gain (loss)	(41,100,906)	(8,157,801)	(20,445,752)	20,656,010
Change in net deferred income tax	575,660	6,701,382	(4,985,766)	(11,880,900)
Change in non-admitted assets	1,068,214	(4,806,752)	17,260,974	8,711,096
Change in surplus notes	(194,940,000)	-	-	-
Change in provision for reinsurance	-	-	-	609,228
Change in surplus as regards policyholders for the year	(129,124,544)	17,592,866	54,429,923	58,051,441
Capital and surplus, end of year	\$320,751,820	\$449,876,364	\$432,283,498	\$377,853,575

UGCIC-NC				
	2016	2015	2014	2013
Capital and surplus, beginning of year	\$55,954,743	\$54,459,278	\$31,563,998	\$38,547,918
Capital and surplus increases (decreases):				
Net income(loss)	5,050,153	5,827,772	8,047,683	(6,783,791)
Change in net deferred income tax	(3,242,913)	(2,652,070)	(2,236,739)	13,615,800
Change in non-admitted assets	1,044,049	(1,680,237)	17,084,336	(13,815,929)
Change in surplus as regards policyholders for the year	2,851,289	1,495,465	22,895,280	(6,983,920)
Capital and surplus, end of year	\$58,806,032	\$55,954,743	\$54,459,278	\$31,563,998

UGMIC				
	2016	2015	2014	2013
Capital and surplus, beginning of year	\$48,727,194	\$57,624,471	\$61,025,428	\$67,309,508
Capital and surplus increases (decreases):				
Net income	11,676,147	12,840,617	9,852,076	1,344,753
Change in net unrealized capital gain	-	2,439	10,254	14,925
Change in net deferred income tax	1,369,529	3,494,533	5,462,227	1,894,084
Change in non-admitted assets	(3,069,466)	(4,267,001)	(4,515,709)	179,507
Dividends to stockholders	(31,946,674)	(9,700,000)		(6,800,000)
Increase in contingency reserve	(9,087,175)	(11,267,865)	(14,580,649)	(13,188,429)
Decrease in statutory contingency reserve due to excess loss	-	-	370,844	10,271,080
Change in surplus as regards policyholders for the year	(31,057,639)	(8,897,277)	(3,400,958)	(6,284,080)
Capital and surplus, end of year	\$17,669,555	\$48,727,194	\$57,624,471	\$61,025,428

UGMIC-NC				
	2016	2015	2014	2013
Capital and surplus, beginning of year	\$50,963,224	\$60,015,459	\$63,343,423	\$69,101,420
Capital and surplus increases (decreases):				
Net income	11,530,076	12,857,255	10,001,060	1,770,668
Change in net unrealized capital gain (loss)	46,537	(44,095)	10,254	14,925
Change in net deferred income tax	1,321,378	3,497,601	5,464,607	1,984,544
Change in non-admitted assets	(2,996,250)	(4,295,131)	(4,594,080)	89,215
Dividends to stockholders	(34,234,124)	(9,800,000)	-	(6,700,000)
Increase in contingency reserve	(9,087,175)	(11,267,865)	(14,580,649)	(13,188,429)
Decrease in statutory contingency reserve due to excess loss	-	-	370,844	10,271,080
Change in surplus as regards policyholders for the year	(33,419,558)	(9,052,235)	(3,327,964)	(5,757,997)
Capital and surplus, end of year	\$17,543,666	\$50,963,224	\$60,015,459	\$63,343,423

UGIC				
	2016	2015	2014	2013
Capital and surplus, beginning of year	\$50,136,302	\$58,971,157	\$62,425,675	\$68,634,781
Capital and surplus increases (decreases):				
Net income	11,062,835	12,901,651	9,890,965	1,520,428
Change in net unrealized capital gain	-	2,440	10,254	14,925
Change in net deferred income tax	1,545,562	3,497,002	5,462,749	1,923,520
Change in non-admitted assets	(3,245,840)	(4,269,348)	(4,606,525)	149,370
Dividends to stockholders	(33,167,054)	(9,700,000)	-	(6,900,000)
Increase in statutory contingency reserve	(9,087,175)	(11,266,600)	(14,581,928)	(13,188,429)
Decrease in statutory contingency reserve due to excess loss	-	-	369,967	10,271,080
Change in surplus as regards policyholders for the year	(32,891,672)	(8,834,855)	(3,454,518)	(6,209,106)
Capital and surplus, end of year	\$17,244,630	\$50,136,302	\$58,971,157	\$62,425,675

ASMIC				
	2016	2015	2014	2013
Capital and surplus, beginning of year	\$10,022,340	\$8,183,128	\$8,067,601	\$7,998,346
Capital and surplus increases (decreases):				
Net income(loss)	(1,661,910)	(160,788)	114,836	69,946
Change in net deferred income tax	(21,362)	(240)	(205)	10,928
Change in nonadmitted assets	(119,737)	240	896	(11,619)
Surplus adjustments to paid-in capital	-	2,000,000	-	-
Change in surplus as regards policyholders for the year	(1,803,009)	1,839,212	115,527	69,255
Capital and surplus, end of year	\$8,219,331	\$10,022,340	\$8,183,128	\$8,067,601

Contingencies and Commitments

The United Guaranty Mortgage Insurance Group 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 United Guaranty Mortgage Insurance Group.

SUBSEQUENT EVENTS

Effective January 31, 2018, UGIC was dissolved and is no longer a licensed insurer in North Carolina. UGIC's statutory deposit of \$1.1 million was approved for release on March 6, 2018.

Effective February 28, 2019, UGMIC and UGMIC-NC have been approved for Articles of Dissolution.

Effective April 1, 2018, UGCIC and UGCIC-NC became direct subsidiaries of UGC, through UGRIC's transfer of 100% of its common stock shares of both UGCIC and UGCIC-NC and \$6.6 million to UGC for repayment of \$100 million in surplus notes issued by UGRIC to UGC in 2008.

On April 30, 2018, the Department issued a "no objection" letter to UGRIC for the payment of a \$300 million ordinary dividend to UGC on June 4, 2018.

On May 1, 2018, UGCIC received Department approval to pay UGC an ordinary dividend totaling \$2,487,708 and an extraordinary dividend totaling \$17,512,293 on May 31, 2018.

On May 2, 2018, UGRIC-NC received Department approval to pay a \$35 million extraordinary dividend to UGC on May 31, 2018.

On May 2, 2018, UGCIC-NC received Department approval to repay a \$45 million surplus note issued to UGC in 2008.

Effective September 30, 2018, UGMIND merged with and into UGRIC. The order was approved by the Department on July 9, 2018.

On October 11, 2018, UGC received Department approval to be dissolved and will no longer be licensed in North Carolina.

On November 8, 2018, UGRIC received Department approval to return \$300 million in capital UGC, which was paid on November 16, 2018.

Effective January 1, 2019, the Department approved the commutation of the Quota Share Reinsurance Contract between UGRIC, Arch MI, UGMIC and UGMIC-NC.

On March 1, 2019, the Arch MI Group announced the following strategic leadership changes: Andrew Rippert was named Chief Innovation and Strategic Investment Officer, David Gansberg was promoted to Chief Executive Officer of the Global Mortgage Group and Michael Schmeiser was named Chief Executive Officer of the Arch MI Group.

United Guaranty Mortgage Insurance Group
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2017

David Gansberg – President and Chief Executive Officer
230 North Elm Street
Greensboro, North Carolina 27401

Thomas Jeter – Executive Vice President and Chief Financial Officer
230 North Elm Street
Greensboro, North Carolina 27401

Sara Millard – Executive Vice President, General Counsel, and Secretary
230 North Elm Street
Greensboro, North Carolina 27401

Brian Smith – Senior Vice President and Controller
230 North Elm Street
Greensboro, North Carolina 27401

CONCLUSION

We conclude that UGRIC, UGMIND, UGMIC, UGMIC-NC, UGIC, and ASMIC are in compliance with the capital and surplus requirements of GS § 58-7-75 and the policyholder position requirements of GS § 58-10-125, for the kind of insurance that the companies have been authorized to write. The companies are required to maintain the greater of \$1,250,000 minimum capital and surplus pursuant to GS § 58-7-75 or minimum policyholder position of not less than one twenty-fifth of the insurer's aggregate insured risk outstanding pursuant to GS § 58-10-125(a) unless the Commissioner grants a waiver from requirements of GS § 58-10-125(a).

We conclude that UGCIC, UGRIC-NC, and UGCIC-NC are in compliance with the minimum capital surplus requirements of GS § 58-7-75 for the kind of insurance that the companies have been authorized to write. The requirements pursuant to that statute are a combined minimum capital and surplus of \$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,



Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

April 17, 2019

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
Name

Date:

4/17/2019

Sworn and subscribed before me this 17th day of April, 2019.

Notary Public Signature:

Jameka N Bell

Notary Public Seal:



**United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017**

Appendix A

Statutory Statement of Admitted Assets at December 31, 2017

	UGRIC	UGRIC-NC	UGMIND	UGIC	UGCIC-NC
Bonds	\$2,015,337,934	\$37,728,609	\$4,675,886	\$1,109,604	\$49,182,710
Common stocks	46,782,793	-	-	-	-
Cash and short-term investments	101,688,979	7,951,531	15,082,651	3,495,104	11,818,865
Properties held for sale	632,570	-	-	-	-
Other invested assets	45,000,000	-	-	-	-
Receivable for securities	218,061	-	-	-	-
Total cash and invested assets	2,209,660,337	45,680,140	19,758,537	4,604,708	61,001,575
Investment income due and accrued	13,081,061	151,012	34,484	17,544	243,278
Premiums and agents' balances in course of collection	146,516,696	2,555,718	4,294,775	-	-
Reinsurance recoverable	35,886,034	-	17,284,293	-	-
Federal income tax recoverable	67,268,000	-	1,218,017	741,132	17,898
Net deferred tax asset	131,078,337	5,160,026	-	-	-
Receivable from parent, subsidiaries and affiliates	1,115,566	-	6,343,798	-	42,740
State premium taxes recoverable	-	209,162	-	-	-
Miscellaneous receivables	-	-	-	-	56,012
Other assets	1,785	646	-	-	5,252
Premium tax recoverable	2,856,329	-	-	-	1,228
Total admitted assets	\$2,607,464,145	\$53,756,704	\$48,933,904	\$5,363,384	\$61,367,983

**United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017**

Statutory Statement of Admitted Assets at December 31, 2017

	UGCIC	UGMIC	UGMIC-NC	ASMIC
Bonds	\$22,454,592	\$14,143,822	\$13,951,821	\$7,271,029
Cash and short-term investments	2,759,042	5,757,167	5,729,068	833,884
Total cash and invested assets	25,213,634	19,900,989	19,680,888	8,104,913
Investment income due and accrued	104,740	66,789	125,344	51,015
Premiums and agents' balances in course of collection	7,503	-	2,323,295	-
Other amounts receivable under reinsurance contracts	-	2,323,295	-	-
Federal income tax recoverable	194,076	701,577	684,166	-
Receivable from parent, subsidiaries and affiliates	3,661	-	-	-
Other assets	(6)	-	-	-
Premium tax recoverable	529	-	-	2,650
Cash transfer	-	-	-	1,920
Total admitted assets	\$25,524,137	\$22,992,650	\$22,813,693	\$8,160,498

United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017

Statutory Statement of Liabilities, Surplus and Other Funds at December 31, 2017

	UGRIC	UGRIC-NC	UGMIND	UGIC	UGCIC-NC
Losses	\$206,917,894	\$10,405,233	\$ -	\$ -	\$6,908,659
Reinsurance payable on paid losses and loss adjustment expenses	22,770,482	-	480,769	-	-
Loss adjustment expenses	9,742,721	50,000	-	-	1,360,000
Other expenses	2,777,757	614,995	210,096	25,610	147,192
Taxes, licenses and fees	1,459,463	6,020	553,908	-	-
Federal income tax liability	-	649,939	-	-	-
Unearned premiums	209,059,241	99,970	-	-	894,893
Net deferred tax liability	-	-	-	16,572	-
Ceded reinsurance premiums payable	178,902,501	46,814	31,772,474	-	-
Payable to parent, subsidiaries and affiliates	6,510,872	1,730,856	52,525	11,985	248,212
Remittances and items not allocated	4,576,440	592,669	716,109	-	51,332
Statutory contingency reserve	920,734,999	-	-	-	-
Deferred ceded commission expense	38,885,103	-	-	-	-
Amounts payable to reinsurers	192,746	-	-	-	-
Total Liabilities	1,602,530,219	14,196,496	33,785,881	54,167	9,610,288
Common capital stock	5,997,300	2,500,000	2,500,000	548,254	2,500,000
Surplus notes	100,000,000	-	-	-	45,000,000
Gross paid in and contributed surplus	579,781,388	-	37,593,900	1,785,080	2,698,900
Unassigned funds	319,155,238	37,060,208	(24,945,877)	2,975,883	1,558,795
Total capital and surplus	1,004,933,926	39,560,208	15,148,023	5,309,217	51,757,695
Total Liabilities, Capital and Surplus	\$2,607,464,145	\$53,756,704	\$48,933,904	\$5,363,384	\$61,367,983

United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017

Statutory Statement of Liabilities, Surplus and Other Funds at December 31, 2017

	UGCIC	UGMIC	UGMIC-NC	ASMIC
Losses	\$609,506	\$1,329,523	\$1,329,523	\$ -
Reinsurance payable on paid losses and loss adjustment expenses	-	(1,324,954)	(1,299,546)	-
Other expenses	9,459	26,843	25,940	-
Federal income tax liability	-	-	-	9,110
Unearned premiums	6,543	-	-	-
Net deferred tax liability	-	23,776	-	-
Payable to parent, subsidiaries and affiliates	20,965	20,772	22,585	6,506
Remittances and items not allocated	589	-	-	-
Statutory contingency reserve	-	34,107	34,107	-
Total Liabilities	647,062	110,067	112,609	15,616
Common capital stock	2,500,000	2,000,000	2,000,000	2,500,000
Gross paid in and contributed surplus	1,500,000	15,333,333	15,333,333	7,500,000
Unassigned funds	20,877,075	5,549,250	5,367,751	(1,855,118)
Total capital and surplus	24,877,075	22,882,583	22,701,084	8,144,882
Total Liabilities, Capital and Surplus	\$25,524,137	\$22,992,650	\$22,813,693	\$8,160,498

**United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017**

Statutory Statement of Income at December 31, 2017

	UGRIC	UGRIC-NC	UGMIND	UGIC	UGCIC-NC
Underwriting Income					
Premiums Earned	\$439,345,744	\$19,947,186	\$7,848,284	\$7,391,387	\$868,014
Deductions					
Losses incurred	73,721,801	(22,160,039)	7,233,125	(169,290)	(3,123,010)
Loss adjustment expenses incurred	(901,121)	4,146,950	(3,695,207)	(245,680)	2,032,057
Other underwriting expenses incurred	128,651,411	3,879,031	(97,696)	21,318	1,896,761
Total underwriting deductions	201,472,091	(14,134,058)	3,440,222	(393,652)	805,808
Net underwriting gain	237,873,653	34,081,244	4,408,062	7,785,039	62,206
Investment Income					
Net investment income earned	62,890,612	78,490,047	7,355,267	1,496,021	945,075
Net realized capital gains	23,888,039	419,827,739	6,031,399	1,109,857	447,679
Net investment gain	86,778,651	498,317,786	13,386,666	2,605,878	1,392,754
Net income before dividends to policyholders	324,652,304	532,399,030	17,794,728	10,390,917	1,454,960
Federal income taxes incurred	(1,955,971)	7,030,319	3,951,767	2,141,190	7,931,087
Net Income (Loss)	\$326,608,275	\$525,368,711	\$13,842,961	\$8,249,727	(\$6,476,127)

United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017
Statutory Statement of Income at December 31, 2017

	UGCIC	UGMIC	UGMIC-NC	ASMIC
Underwriting Income				
Premiums Earned	\$78,555	\$7,459,602	\$7,459,602	\$ -
Deductions				
Losses incurred	(780,150)	(174,675)	(174,675)	-
Loss adjustment expenses incurred	5,092	(245,681)	(245,681)	127,284
Other underwriting expenses incurred	75,080	73,315	75,147	-
Total underwriting deductions	(699,978)	(347,041)	(345,209)	127,284
Net underwriting gain (loss)	778,533	7,806,643	7,804,811	(127,284)
Investment Income				
Net investment income earned	369,639	1,543,386	1,512,186	153,411
Net realized capital gains	(21,366)	1,560,006	1,492,860	58,668
Net investment gain	348,273	3,103,392	3,005,046	212,079
Net income before dividends to policyholders	1,126,806	10,910,035	10,809,857	84,795
Federal income taxes incurred	49,570	1,970,213	1,949,420	300,342
Net Income (Loss)	\$1,077,236	\$8,939,822	\$8,860,437	(\$215,547)

United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017

Statutory Statement of Capital and Surplus at December 31, 2017

	UGRIC	UGRIC-NC	UGMIND	UGIC	UGCIC-NC
Capital and surplus, beginning of year	\$1,186,509,107	\$320,751,821	\$303,718,100	\$17,244,630	\$58,806,032
Capital and surplus increases(decreases):					
Net Income (Loss)	326,608,275	525,368,711	13,842,961	8,249,727	(6,476,127)
Change in net unrealized capital (losses)	(10,013,378)	(121,399,994)	(60,599)	-	-
Change in net deferred income tax	(233,639,987)	(11,129,924)	(19,251,057)	(14,440,360)	(8,243,142)
Change in non-admitted assets	268,142,780	(454,222)	4,819,674	14,450,914	7,670,932
Change in surplus notes	-	(468,674,500)	(60,000,000)	-	-
Capital changes to paid-in	-	500,000	500,000	(1,451,746)	500,000
Surplus adjustments to paid-in capital	-	(168,745,746)	(224,000,000)	-	(500,000)
Transferred to capital stock dividend	-	(500,000)	(500,000)	-	-
Transferred from capital	-	-	-	(13,548,254)	-
Change in statutory contingency reserve	(219,672,871)	-	(3,921,056)	(3,695,694)	-
Dividends to stockholders	(313,000,000)	(36,155,938)	-	(1,500,000)	-
Change in capital and surplus as regards policyholders for the year	(181,575,181)	(281,191,613)	(288,570,077)	(11,935,413)	(7,048,337)
Capital and surplus, end of year	\$1,004,933,926	\$39,560,208	\$15,148,023	\$5,309,217	\$51,757,695

**United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017**

Statutory Statement of Capital and Surplus at December 31, 2017

	UGCIC	UGMIC	UGMIC-NC	ASMIC
Capital and surplus, beginning of year	\$23,804,272	\$17,669,555	\$17,543,666	\$8,219,331
Capital and surplus increases(decreases):				
Net Income(Loss)	1,077,236	8,939,822	8,860,437	(215,547)
Change in net deferred income tax	(13,226)	(14,197,143)	(14,273,775)	10,878
Change in non-admitted assets	8,793	14,200,150	14,300,557	130,220
Change in statutory contingency reserve	-	(3,729,801)	(3,729,801)	-
Change in capital and surplus as regards policyholders for the year	1,072,803	5,213,028	5,157,418	(74,449)
Capital and surplus, end of year	\$24,877,075	\$22,882,583	\$22,701,084	\$8,144,882

United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017

Statutory Statement of Cash Flow at December 31, 2017

	UGRIC	UGRIC-NC	UGMIND	UGIC	UGCIC-NC
Cash From (Used By) Operations					
Premiums collected net of reinsurance	\$216,566,351	\$18,848,877	\$28,183,573	(\$62,261)	\$ -
Net investment income	81,804,705	78,544,837	12,281,782	2,509,864	1,427,046
Total	298,371,056	97,393,714	40,465,355	2,447,603	1,427,046
Benefit and loss related payments	236,661,813	(17,374,359)	97,312,782	24,422,690	(1,880,146)
Commissions, expenses paid and aggregate write-ins	149,094,930	7,884,136	37,471	(4,242)	2,574,180
Federal income taxes paid	67,268,000	5,920,001	4,840,000	3,100,000	2,110,000
Total	453,024,743	(3,570,222)	102,190,253	27,518,448	2,804,034
Net cash from (used by) operations	(154,653,687)	100,963,936	(61,724,898)	(25,070,845)	(1,376,988)
Cash From (Used By) Investments					
Proceeds from investments sold, matured, or repaid	5,701,866,317	608,464,527	857,979,513	165,795,363	75,846,566
Cost of investments acquired	5,046,675,125	35,836,446	447,393,616	87,003,717	66,673,050
Net cash From Investments	655,191,192	572,628,081	410,585,897	78,791,646	9,173,516
Cash From (Used By) Financing and Miscellaneous Sources					
Cash from capital and paid-in surplus	-	(637,420,246)	(284,000,000)	(15,000,000)	-
Dividends to stockholders	313,000,000	36,155,938	-	1,500,000	-
Other cash (applied)provided	(172,607,595)	1,446,119	(54,004,709)	(42,009,024)	11,554
Net cash from (used by) financing and miscellaneous sources	(485,607,595)	(672,130,065)	(338,004,709)	(58,509,024)	11,554
Reconciliation of Cash and Short-Term Investment					
Net change in cash and short-term investments	14,929,910	1,461,952	10,856,290	(4,788,223)	7,808,082
Cash and short-term investments, beginning of year	86,759,069	6,489,579	4,226,361	8,283,327	4,010,783
Cash and short-term investments, end of year	\$101,688,979	\$7,951,531	\$15,082,651	\$3,495,104	\$11,818,865

**United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017**

Statutory Statement of Cash Flow at December 31, 2017

	UGCIC	UGMIC	UGMIC-NC	ASMIC
Cash From (Used By) Operations				
Premiums collected net of reinsurance	\$75,555	(\$1,005,995)	(\$1,005,997)	\$ -
Net investment income	549,117	2,676,375	2,512,201	174,467
Total	624,672	1,670,379	1,506,205	174,467
Benefit and loss related payments	(26,459)	25,724,077	25,698,667	-
Commissions, expenses paid and aggregate write-ins	105,638	46,522	49,257	127,263
Federal income taxes paid	500,000	3,140,000	3,100,000	(30,020)
Total	579,179	28,910,598	28,847,924	97,243
Net cash from (used by) operations	45,493	(27,240,219)	(27,341,719)	77,224
Cash From (Used By) Investments				
Proceeds from investments sold, matured, or repaid	24,182,006	161,934,533	164,828,021	3,691,410
Cost of investments acquired	22,353,641	92,257,632	95,063,201	3,434,293
Net cash (used by) investments	1,828,365	69,676,901	69,764,821	257,117
Cash From (Used By) Financing and Miscellaneous Sources				
Other cash (applied)provided	2,381	(42,000,358)	(41,996,112)	(140,393)
Net cash from (used by) financing and miscellaneous sources	2,381	(42,000,358)	(41,996,112)	(140,393)
Reconciliation of Cash and Short-Term Investment				
Net change in cash and short-term investments	1,876,239	436,324	426,989	193,948
Cash and short-term investments, beginning of year	882,803	5,320,843	5,302,079	639,936
Cash and short-term investments, end of year	\$2,759,042	\$5,757,167	\$5,729,068	\$833,884

**United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017**

Appendix B

Company Growth

The following data, obtained from annual statements filed with the Department, illustrates the trends of each company within the UG Group for the five-year period ended 2017:

UGRIC

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2017	\$2,607,464,145	\$1,004,933,926	\$866,869,188	\$439,345,744	\$326,608,275
2016	\$3,307,929,353	\$1,186,509,107	\$895,662,475	\$615,036,956	\$335,169,888
2015	\$3,550,416,710	\$1,351,270,653	\$1,004,366,926	\$659,121,187	\$314,597,995
2014	\$3,247,682,924	\$1,383,831,086	\$939,066,602	\$682,384,291	\$254,627,207
2103	\$3,059,260,763	\$1,465,713,353	\$976,541,235	\$587,398,165	\$88,356,686

UGRIC-NC

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2017	\$53,756,704	\$39,560,208	\$20,352,336	\$19,947,186	\$525,368,711
2016	\$338,499,772	\$320,751,819	\$28,835,707	\$27,117,243	\$105,272,489
2015	\$477,199,177	\$449,876,364	\$40,442,597	\$38,615,717	\$23,856,037
2014	\$461,106,721	\$432,283,498	\$77,565,287	\$75,873,144	\$62,600,467
2013	\$448,483,696	\$377,853,575	\$92,706,111	\$93,068,818	\$39,956,007

United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017

UGMIND

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2017	\$48,933,904	\$15,148,023	\$93,119,657	\$7,848,284	\$13,842,961
2016	\$445,222,547	\$303,718,100	\$79,900,257	\$21,095,384	\$17,907,036
2015	\$439,491,919	\$283,909,122	\$73,635,331	\$32,457,458	\$15,195,120
2014	\$284,068,307	\$115,140,158	\$87,128,427	\$39,920,458	\$13,916,913
2013	\$283,788,814	\$113,227,060	\$104,921,330	\$38,903,683	\$5,396,850

UGIC

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2017	\$5,363,384	\$5,309,217	(\$417,454)	\$7,391,387	\$8,249,727
2016	\$89,992,882	\$17,244,630	\$14,976,175	\$18,174,350	\$11,062,835
2015	\$123,773,588	\$50,136,302	\$9,973,397	\$22,533,202	\$12,901,651
2014	\$147,852,367	\$58,971,157	\$33,921,326	\$29,163,820	\$9,890,965
2013	\$140,770,649	\$62,425,676	\$35,688,053	\$26,376,860	\$1,520,428

UGCIC-NC

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(loss)
2017	\$61,367,983	\$51,757,695	\$0	\$868,014	(\$6,476,127)
2016	\$69,058,455	\$58,806,032	\$0	\$1,049,274	\$5,050,153
2015	\$67,712,967	\$55,954,743	\$0	\$1,527,088	\$5,827,772
2014	\$69,822,665	\$54,459,278	\$0	\$2,575,338	\$8,047,683
2013	\$68,228,965	\$31,563,998	\$0	\$3,756,123	(\$6,783,791)

United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017

UGCIC

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2017	\$25,524,317	\$24,877,075	\$79,019	\$78,555	\$1,077,236
2016	\$25,496,894	\$23,804,274	\$177,721	\$183,2794	\$787,162
2015	\$24,861,633	\$23,022,381	\$235,985	\$240,771	\$751,209
2014	\$24,171,827	\$22,306,252	\$239,796	\$249,490	\$400,013
2013	\$23,317,821	\$21,746,124	\$386,457	\$398,435	\$276,553

UGMIC

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2017	\$22,992,650	\$22,882,583	(\$508,183)	\$7,459,602	\$8,939,822
2016	\$90,425,915	\$17,669,555	\$14,976,173	\$18,174,350	\$11,676,147
2015	\$122,180,859	\$48,727,194	\$9,973,397	\$22,535,729	\$12,840,617
2014	\$146,325,481	\$57,624,470	\$33,921,326	\$29,161,297	\$9,852,076
2013	\$139,336,154	\$61,025,429	\$35,688,050	\$26,376,857	\$1,344,753

UGMIC-NC

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2017	\$22,813,693	\$22,701,084	(\$508,183)	\$7,459,602	\$8,860,437
2016	\$90,331,587	\$17,543,666	\$14,976,173	\$18,174,350	\$11,530,076
2015	\$124,579,292	\$50,963,224	\$9,973,397	\$22,535,729	\$12,857,255
2014	\$148,881,352	\$60,015,460	\$33,921,326	\$29,161,297	\$10,001,060
2013	\$141,742,931	\$63,343,425	\$35,688,050	\$26,376,857	\$1,770,668

United Guaranty Mortgage Insurance Group
Examination as of December 31, 2017

ASMIC

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(loss)
2017	\$8,160,498	\$8,144,882	\$0	\$0	(\$215,547)
2016	\$8,373,442	\$8,219,331	\$0	\$0	(\$1,661,910)
2015	\$10,035,779	\$10,022,340	\$0	\$0	(\$160,788)
2014	\$8,199,754	\$8,183,128	\$0	\$0	\$114,836
2013	\$8,070,295	\$8,067,601	\$0	\$0	\$69,946