STATE OF TENNESSEE

DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION

OF

MENDOTA INSURANCE COMPANY

NASHVILLE, TENNESSEE

AS OF

DECEMBER 31, 2021

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Nashville, Tennessee
June 8, 2023

Honorable Carter Lawrence
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated ("Tenn. Code Ann.") § 56-1-408, a full-scope financial examination and market conduct review, as of December 31, 2021, has been made of the condition and affairs of:

MENDOTA INSURANCE COMPANY
NAIC # 33650
NAIC Group # 4937
3343 Perimeter Hill Drive, Suite 214
Nashville, Tennessee 37211

hereinafter referred to as the "Company" or "MIC" and a report thereon is submitted as follows:

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or "Department"). The examination was conducted by duly authorized representatives of the Department. This examination was called through the National Association of Insurance Commissioners (NAIC) Financial Examination Electronic Tracking System (FEETS). Notice of intent to participate was received from Illinois, which conducted an examination of its domiciled company. The examination was conducted simultaneously with the Company's subsidiaries, Mendakota Insurance Company (MKIC), and Mendakota Casualty Company (MCC). Further description of the coordination effort between the states is discussed below under the heading "Scope of Examination."

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2016, which was performed by the Minnesota Department of Commerce. Effective October 18, 2018, the Company was sold from Kingsway America, Inc. ("Kingsway") to Premier Holdings, LLC ("Premier"), a Tennessee domiciled limited liability company. Effective June 28, 2019, the Company re-domiciled from the State of Minnesota to the State of Tennessee. This examination covers the period January 1, 2017, through December 31, 2021, and includes any material transactions and/or events occurring subsequent to the examination date, which were noted during the course of examination. The examination reviewed certain events and transactions prior to the sale from Kingsway to Premier while the Company was domiciled in Minnesota. The more material events and transactions after the Company re-domiciled to the State of Tennessee were focused on during this examination.

The Company is a member of the Premier group ("Group"), with the State of Tennessee as the Group's lead state. The following are all insurance companies and their respective domiciliary states within the Group as of December 31, 2021:

Mendota Insurance Company (MIC) (TN)
Mendakota Insurance Company (MKIC) (TN)
Mendakota Casualty Company (MCC) (IL)

The State of Illinois was a participating state in the coordinated Group examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with practices and procedures promulgated by the NAIC in the *Financial Condition Examiners Handbook* ("Handbook"), as deemed appropriate. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions.

All significant risks were considered when planning which key activities and accounts would be examined. The key activities included: Investments; Premium/Underwriting; Reserves/Claims; Related Party; Reinsurance Ceding; Reinsurance Assuming; and Capital and Surplus.

The Company's 2021 Annual Statement was compared with or reconciled to the corresponding general ledger account balances.

Independent information technology specialist services, provided by Lewis & Ellis, Inc. were utilized in the examination review of the Company's information technology general controls (ITGC).

The actuarial firm of Lewis & Ellis, Inc. was utilized in the examination review of the Company's loss and claims reserves.

The Company's certified public accountant (CPA) workpapers were reviewed for the 2021 audit and incorporated into the examination, as deemed appropriate.

A separate market conduct review was performed concurrently with the financial examination. See "Market Conduct Activities" section of this report.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

The findings and recommendations noted in the prior examination report, as of December 31, 2016, prepared by the State of Minnesota included findings that were resolved, dismissed, or remediated as a result of the sale of the Company from Kingsway to Premier.

COMPANY HISTORY

The Company was incorporated in the State of Minnesota on May 1, 1989, and commenced operations on June 1, 1989. The common stock of the Company was transferred via dividend from Northland Insurance Company ("Northland") to Jupiter Holdings, Inc. (JHI) on December 31, 1997. JHI was owned by The Northland Company, a financial holding company domiciled in the State of Minnesota. Effective October 1, 2001, the outstanding stock of The Northland Company was acquired by The Travelers Indemnity Company. In January 2007, JHI entered into an agreement to sell the Company to Kingsway. The sale was completed effective April 1, 2007.

A Form A was filed with the TDCI on July 27, 2018, for the sale of the Company from Kingsway to Premier, a holding company domiciled in the State of Tennessee, with the price equal to the statutory surplus of the Company as of June 30, 2018, adjusted pursuant to the terms of the Purchase Agreement. Pursuant to the terms of the Form A, Kingsway utilized the proceeds from the sale to assist it in acquiring the remainder of the other long-term assets that were still owned by the Company at the time of the closing.

The Form A was approved by the TDCI on October 18, 2018. Effective June 28, 2019, the Company was approved by the TDCI to change its state of domicile from Minnesota to the State of Tennessee.

As of December 31, 2021, the Company had 3,500,000 shares of common capital stock authorized and 2,442,452 shares issued and outstanding with a par value of $1.00.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

The administration and governance of the Company is vested in the Board of Directors ("Board"), consisting of no more than nine (9) and no less than three (3) directors, all of whom shall be elected by the holders of the common stock of the Company at each annual meeting thereof to serve for a term of one (1) year until their respective successors are duly elected and qualified. Unless duly waived by the Commissioner of Commerce and Insurance, at least one-third (1/3) of the directors shall be independent. Vacancies on the Board may be filled by the remaining members of the Board to serve until the next regular annual meeting of the shareholders, provided that not more than one-third (1/3) of the Board may be so filled in any one (1) year.

The following persons were serving as members of the Board, as of December 31, 2021:

Name	Principal Occupation
Joseph Russell	Chairman
James Ayers	Vice Chair
Stephen Harrison	President & CEO, MIC
Sandra Pappas	Chief Financial Officer, Secretary, Treasurer, MIC
Walter Dix	Vice President, MIC
Scott Walker	Vice President, MIC

Officers

The Company's bylaws state that the officers of the Company shall be elected by the Board. The following persons were serving as officers of the Company, as of December 31, 2021:

Name	Title
Stephen Harrison	President & Chief Executive Officer
Sandra Pappas	Chief Financial Officer, Secretary & Treasurer
Walter Dix	Vice President
Scott Walker	Vice President

Committees

The Board may, by resolution passed by a majority of the entire Board, designate one (1) or more committees, each committee to consist of one (1) or more of the directors.

On December 31, 2021, the standing committees of the Board and respective committee members were as follows:

Audit Committee

The Audit Committee assists the Board in fulfilling its oversight responsibilities for the Company for the financial reporting process, the system of internal control, the audit process, and the Company's process for monitoring compliance with laws and regulations and the code of conduct.

Joseph Russell (Chair)	Walter Dix
James Ayers	

Investment Committee

The Investment Committee is responsible for the review and management of the Company's investment portfolio and strategy and is charged with making recommendations to the Board for consideration and approval.

James Ayers (Chair)	Sandra Pappas
Stephen Harrison	

Reinsurance Committee

The Reinsurance Committee is responsible for overseeing all reinsurance matters and is charged with making recommendations to the Board for consideration and approval.

James Ayers (Chair)	Sandra Pappas
Stephen Harrison	

IT Steering Committee

The IT Steering Committee is responsible for overseeing all IT matters and is charged with making recommendations to the Board for consideration and approval.

Scott Walker (Chair)	Walter Dix
Steven Moser	

CONTROL

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(8), and as such, is subject to the Insurance Holding Company System Act of 1986, set forth in Tenn. Code Ann. §§ 56-11-101, *et seq*. The Company's direct parent is Premier, which is owned by James W. Ayers (thirty-three and thirty-four one-hundredths percent [33.34%]), Joseph V. Russell (sixteen and sixty-seven one-hundredths percent [16.67%]), and Stephen J. Harrison (sixteen and sixty-seven one-hundredths percent [16.67%]). These individuals, individually or collectively, constitute the ultimate controlling persons (UCPs), as each of them holds ten percent (10%) or more ownership interest in Premier. Premier files a holding company registration statement annually, as required by Tenn. Code Ann. § 56-11-105.

SUBSIDIARIES AND AFFILIATED COMPANIES

The Company has established or acquired subsidiaries as detailed below:

Mendakota Insurance Company (MKIC)

MKIC was incorporated under the laws of the State of Illinois on October 24, 1985, under the name Celfor Insurance Company ("Celfor"), Inc. for the purpose of transacting insurance business. Northland purchased Celfor in 1994 and, pursuant to an amendment of the Articles of Incorporation, the name was changed to Mendakota Insurance Company effective June 23, 1994. On October 18, 2018, Premier acquired the Company and effective June 28, 2019, MKIC was approved by the TDCI to change its state of domicile from Minnesota to the State of Tennessee. MKIC provides property and casualty insurance consisting primarily of private passenger auto and physical damage focusing on providing non-standard auto liability and physical damage coverage.

MKIC cedes one hundred percent (100%) of all premiums, less ceding commission; losses; and loss adjustment expenses to the Company through a one hundred percent (100%) reinsurance agreement. See "Reinsurance Agreements" later in this report.

Mendakota Casualty Company (MCC)

MCC was incorporated on January 12, 1949, as Universal Mutual Casualty Company and commenced business on January 21, 1949. On December 31, 1983, the Company changed its form of structure to that of a stock company, and the name of the Company was changed to Universal Casualty Company (UCC), after it was purchased by UCC Corporation. UCC Corporation was purchased by Kingsway Financial Services Inc. (KFSI) through Kingsway on January 13, 1998. In March 2011, UCC discontinued writing new and renewal business in all territories except Illinois and Indiana. KFSI decided to discontinue writing all new business with UCC and effectively transferred its book of business to its affiliate, MKIC. On December 31, 2012, KFSI contributed the stock of

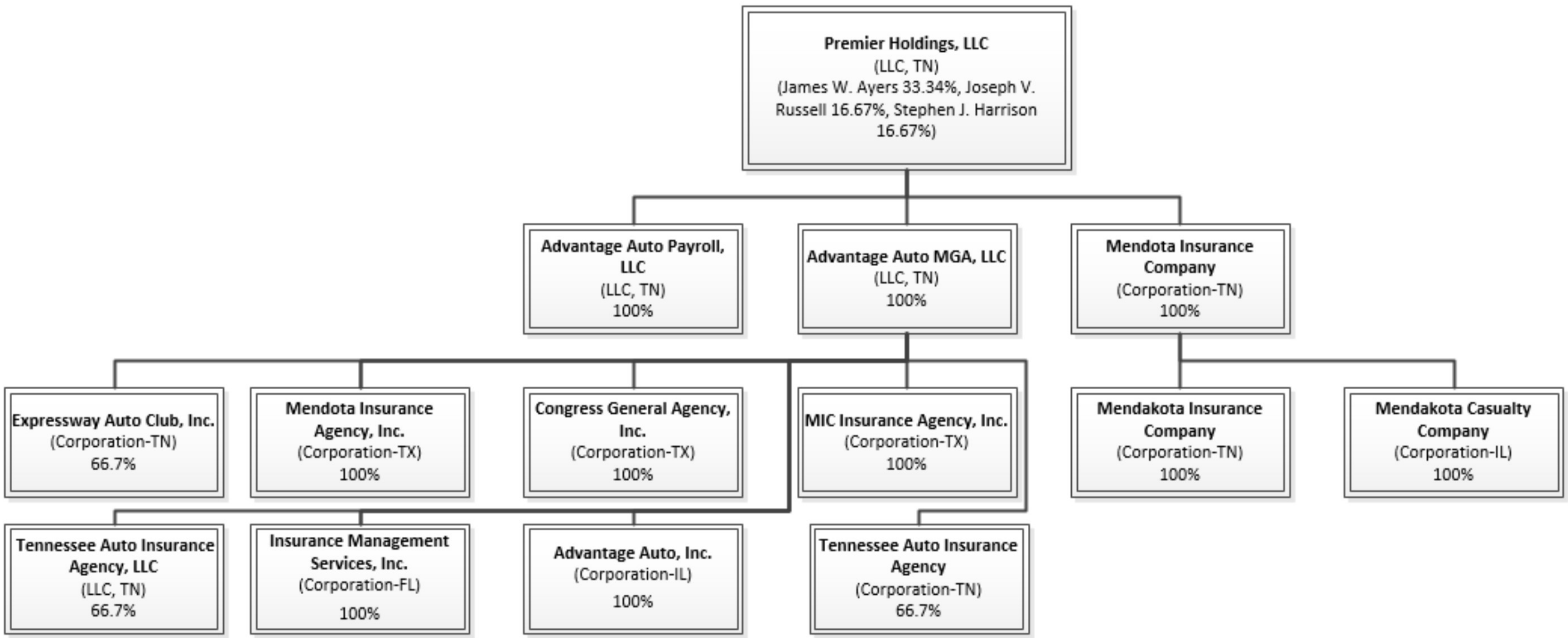
UCC, as a wholly-owned subsidiary to MIC. On January 28, 2015, UCC sent a letter of intent to the Illinois Director of Insurance to resume writing private passenger automobile policies in Illinois only. In conjunction, UCC was approved for a name change to Mendakota Casualty Company (MCC) to better align its name with that of its affiliates. On October 18, 2018, Kingsway, pursuant to a Form A filing approved by the Minnesota Department of Commerce and the Illinois Department of Insurance, sold one hundred percent (100%) of MIC, and its wholly-owned subsidiaries MCC and MKIC, to Premier Holdings, LLC.

Irongate International Reinsurance SPC Ltd. ("Irongate")

Irongate is an unrestricted Class B(iii) status reinsurer domiciled in Cayman Islands and regulated by the Cayman Islands Monetary Authority (CIMA). Irongate is wholly-owned by Reinsurance Holdings, LLC, a limited liability company domiciled in Tennessee. As of December 31, 2021, Irongate consisted of the general portfolio and one (1) segregated portfolio (SP1). SP1 assumes non-standard private passenger automobile risk on a sixty percent (60%) quota share basis from the Company and MCC.

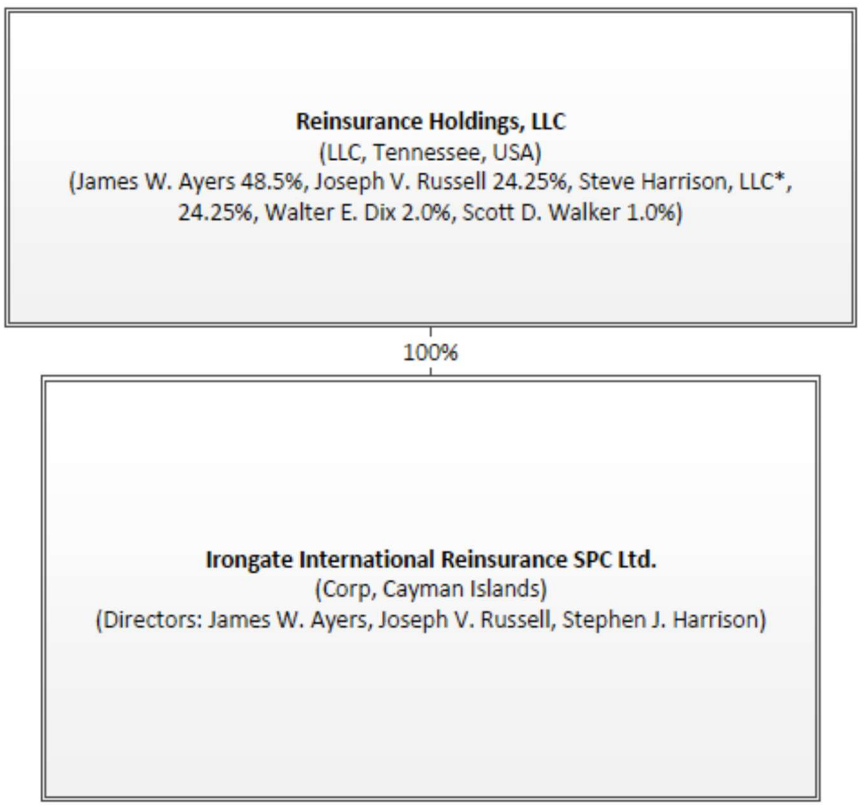
ORGANIZATIONAL CHART

The following organizational chart shows all the insurance companies and their respective domiciliary states within the Group:



Per Statements of Statutory Accounting Principles (SSAP) 25, “Related parties” are defined as entities that have common interests as a result of ownership, control, affiliation or by contract. Related parties shall include but are not limited to the following: “The principal owners of the reporting entity.” As Premier is ultimately owned by James W. Ayers, Joseph V. Russell, and Stephen J. Harrison, Irongate is considered an affiliate. Irongate’s direct parent is owned by Reinsurance Holdings which is primarily owned by James W. Ayers (forty-eight and one-half percent [48.5%]), Joseph V. Russell (twenty-four and one-fourth percent [24.25%]), and Stephen J. Harrison (twenty-four and one-fourth percent [24.25%]). These individuals, individually or collectively, constitute the UCPs of Irongate.

Irongate International Reinsurance SPC Ltd.



***Steve Harrison, LLC Ownership**

Stephen J. Harrison:	60%
April Khoury (daughter of Steve Harrison):	10%
Rachel Parker (daughter of Steve Harrison):	10%
Jessica Eiselet (daughter of Steve Harrison):	10%
Layne Parker, Hannah Parker, Emily Parker, Lyla Khoury, Nora Eislet Jane Eislet & Harrison, Eislet (grandchildren of Steve Harrison):	10%

CORPORATE RECORDS

The minutes of meetings of the Company's Board and committees were reviewed for the period under examination. The Board minutes were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

The Company's Bylaws state that the annual meeting of the stockholders shall be held for the election of directors on such date and at such time shall be designated each year by the Board. The Company was unable to provide the stockholder meeting minutes for the years 2019 and 2020. See "Comments and Recommendations" section in this report.

Charter

The Company's Charter was amended and restated as of June 28, 2019, as part of the approval by the TDCI to change its state of domicile from Minnesota to the State of Tennessee. No other amendments or restatements were made to the Company's Charter during the period of examination.

Bylaws

The Bylaws in effect as of December 31, 2021, are the Company's Amended and Restated Bylaws effective December 16, 2016. No amendments to the Bylaws were enacted during the period of examination. The Bylaws are outdated and make numerous references to the Company being a Minnesota corporation, along with other Minnesota references that are no longer applicable after the re-domestication from Minnesota to the State of Tennessee. See "Comments and Recommendations" for further discussion.

AGREEMENTS WITH PARENT, SUBSIDIARIES, AND AFFILIATES

The Company had the following significant agreements with its affiliated companies in effect, as of December 31, 2021:

Cost Allocation Agreement

Effective January 1, 2008, the Company, MKIC, and Mendota Insurance Agency, Inc. (MIA) entered into a Cost Allocation Agreement, where the Company performs, obtains services for, or incurs expenses on behalf of, MKIC or MIA.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1) which sets standards for which intercompany agreements must adhere.

MIC Insurance Agency Service Agreement

Effective February 23, 2012, the Company entered into a service agreement with MIC Insurance Agency (MICIA), whereby MICIA provides managing general agency-type services to the Company on its Texas business.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1) which sets standards for which intercompany agreements must adhere.

Mendota Insurance Agency Service Agreement

Effective February 23, 2012, the Company entered into a service agreement with MIA, whereby MIA provides managing general agency-type services to the Company on its Texas business.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1) which sets standards for which intercompany agreements must adhere.

Congress General Agency, Inc. Service Agreement

Effective June 15, 2014, MIC entered into a service agreement with Congress General Agency, Inc. ("Congress"), whereby Congress provides managing general agency-type services to the Company on its Texas business.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1) which sets standards for which intercompany agreements must adhere.

Mendakota Casualty Company Service Agreement

Effective on September 30, 2016, the Company and MCC entered into a service agreement, whereby the Company will provide MCC with the following services: claims, underwriting, customer service, technology, accounting, and other services.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1) which sets standards for which intercompany agreements must adhere.

Payroll Services Agreement

Effective January 1, 2019, the Company and Advantage Auto Payroll, LLC (AAP) entered into an agreement whereas AAP provides employees and payroll services to the Company and charges for these services based on actual costs.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1) which sets standards for which intercompany agreements must adhere.

General Agency Agreement

Effective January 1, 2019, the Company and MKIC entered into an agency agreement with Advantage Auto MGA, LLC ("Advantage Auto"), whereas Advantage Auto is authorized to act as a general agent on behalf of the Company to solicit, write, sign, and deliver polices of insurance.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1) which sets standards for which intercompany agreements must adhere.

Tax Allocation Agreement

Effective October 18, 2018, the Company, MKIC, and MCC (the "Companies") entered into a Tax Allocation Agreement, whereby the Companies will file a consolidated federal income tax return. The Companies have established a method for the allocation of federal tax liability for reimbursement and payment of such tax liabilities.

The Agreement was determined to satisfy the requirements of Tenn. Code Ann. § 56-11-106(a)(1) which sets standards for which intercompany agreements must adhere.

TERRITORY AND PLAN OF OPERATION

TERRITORY

The Company is a stock for-profit insurance company domiciled in Tennessee and licensed to transact business in thirty-eight (38) states and the District of Columbia. Certificates of Authority granted by the licensed states were reviewed and found to be in force as of December 31, 2021.

Alabama	Hawaii	Montana	South Dakota
Arizona	Idaho	Nebraska	Tennessee
Arkansas	Indiana	Nevada	Texas
California	Iowa	North Dakota	Utah
Colorado	Kansas	Ohio	Virginia
Connecticut	Kentucky	Oklahoma	West Virginia
Delaware	Maryland	Oregon	Wisconsin
District of Columbia	Minnesota	Pennsylvania	Washington
Florida	Mississippi	Rhode Island	Wyoming
Georgia	Missouri	South Carolina	

Premium tax records were reviewed for the Company, and no exceptions were noted.

PLAN OF OPERATION

The Company focuses on providing non-standard auto liability and physical damage coverage to those who cannot obtain coverage from standard insurers and coverage is marketed to individuals through a network of independent insurance agencies.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to the examination, according to its annual statements, as filed with the TDCI:

Year	Admitted Assets	Liabilities	Capital and Surplus	Premiums Earned	Net Income
2021	$82,528,747	$59,193,563	$23,335,184	$43,642,357	($1,897,947)
2020	$78,284,004	$54,154,915	$24,129,089	$46,643,589	($804,057)
2019	$81,002,344	$54,541,227	$26,461,117	$46,082,424	$616,869
2018	$94,291,827	$68,629,498	$25,662,330	$76,000,413	$7,646,374
2017	$118,571,613	$92,349,793	$26,221,821	$115,276,380	($12,300,353)

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements, the ratios of losses incurred to direct premiums earned, for the period subject to the examination were as follows:

Year	Losses Incurred	LAE Incurred	Premiums Earned	Loss Ratio
2021	$34,810,449	$8,171,725	$43,642,357	98.5%
2020	$31,180,281	$10,894,237	$46,643,589	90.2%
2019	$20,625,036	$15,927,031	$46,082,424	79.3%
2018	$57,951,948	$7,400,233	$76,000,413	86.0%
2017	$94,390,326	$14,411,624	$115,276,380	94.4%

LOSS RESERVE REVIEW

The Company reported "Losses" and "Loss adjustment expenses" reserves (collectively referred to as "Loss reserves") totaling $16,939,076 and $4,827,065, respectively. These amounts are shown net of estimated amounts recoverable from reinsurers under the Company's reinsurance agreements. If the reinsurers are not able to meet their obligations under these agreements, the Company would be liable for any defaulted amounts.

The aforementioned reserves represented management's best estimate of the cost of settling all known and unknown claims that have been incurred, but still unpaid, as of December 31, 2021. The actuarial methodologies and assumptions utilized by the Company to compute these reserves were reviewed by the consulting actuary appointed by the Company's Board.

As part of this examination, the Department's examination actuary performed a review of the Company's "Losses" and "Loss adjustment expenses" reserves as of December 31, 2021. The examination actuary's conclusions are based on information provided by the Company and the Company's appointed actuary, including the 2021 and 2022 annual statements, and the related 2021 and 2022 Statement of Actuarial Opinion with underlying actuarial work papers.

Subsequent to the examination period, the Company appointed a new actuarial firm, Paradigm Actuaries, and appointed an actuary to render the December 31, 2022, actuarial opinion. The examination actuary performed a review of the Company's one (1) year development and noted that the Company experienced adverse development on its stated reserves, as of December 31, 2021. Although the Company had experienced adverse development and the earned premium was higher in 2022 compared to 2021, the Company's new appointed actuary estimated a net reserve lower than the reserve that was carried as of year-end 2021, and further, the Company booked an amount six percent (6%) lower than the actuary's estimate. The current actuarial central estimate, which is lower than the examination actuary's estimate, includes some of the changing factors identified by the Company that could lower the ultimate reserves.

	Gross Reserves *(In 0000's)*	***Net Reserves*** *(In 0000's)*
2021 Actuary Estimate	47,609	25,161
2021 Company Carried	41,155	21,766
2022 Development	7,542	2,867
2021 Should Have Carried	48,697	24,633
2021 Redundancy/(Deficiency)	(7,542)	(2,867)
2022 Actuary Estimate	48,406	21,745
2022 Company Carried	45,653	20,444

See the "Comments and Recommendations" section later in this report for the recommendations related to the Company's reserves.

Premium Deficiency Reserve

The 2021 accident year net loss ratio for the Company was ninety-eight and one-half percent (98.5%). Statement of Statutory Account Principals (SSAP) 53 states that "When the anticipated losses, loss adjustment expenses, commissions and other acquisition costs; and when maintenance costs exceed the recorded unearned premium reserve, and any future installment premiums on existing policies, a Premium Deficiency Reserve (PDR) shall be recognized by recording an additional liability for the deficiency, with a corresponding charge to operations." It is expected that an insurance company will consider a PDR when the latest accident year loss ratio indicates that a PDR is possible. As part of the examination review, the examination actuary reviewed the Company's processes and calculations performed to determine if a PDR is warranted. The Company was not able to provide such a calculation for accident year 2021 and did not record a PDR as of December 31, 2021.

See the "Comments and Recommendations" section later in this report for the recommendations related to the Company's PDR process.

REINSURANCE AGREEMENTS

Reinsurance Assumed

Effective January 1, 2008, the Company entered into a one hundred percent (100%) reinsurance arrangement with its subsidiary, MKIC, whereby the Company assumes one hundred percent (100%) of all premiums, less ceding commission; losses; and loss adjustment expenses. The ceding commission is equal to the sum of all acquisition expense, premium taxes, and fees. Premiums include service fees, less uncollected premiums charged off.

The Company also assumes one hundred percent (100%) of the business from Home State County Mutual Insurance Company (Texas) that is written through an affiliated Managing General Agent, pursuant to a one hundred percent (100%) quota share agreement.

Reinsurance Ceded

Effective February 1, 2018, the Company entered into a fifty percent (50%) quota share reinsurance arrangement with Harco National Insurance Company, whereby the Company ceded fifty percent (50%) of premiums, less ceding commission; losses; and loss adjustment expenses for its business in all states except California. The ceding commission is equal to the sum of all acquisition expense, premium taxes, and fees. This contract was not renewed when it expired on March 31, 2021. Effective April 1, 2021, the Company entered into a new sixty percent (60%) quota share reinsurance agreement with its affiliate Irongate.

ACCOUNTS AND RECORDS

During the course of the examination, certain balances were tested, and amounts were traced from the Company's trial balance to the annual statement. Minor differences were noted in the Company's financial statements attributable to rounding. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed. These test checks and reviews revealed no material discrepancies.

The Company's books and records are located in Nashville, Tennessee.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2021, in conjunction with the examination. The following items were addressed:

Operations and Management Standards

Company antifraud initiatives were examined and found to outline all specific procedures required per Tenn. Code Ann. § 56-53-111. Company procedures and policies relating to privacy were reviewed to determine compliance with Tenn. Code Ann. § 56-8-104(19) and Tennessee Compilation of Rules and Regulations ("Tenn. Comp. R. & Regs.") 0780-01-72-.07. No issues were noted.

Complaint Handling Practices

During the examination, both the Company's complaint handling procedures and the complaints it received were reviewed. The complaints received were reviewed to ensure the Company takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language. No issues were noted.

Marketing and Sales Standards

Advertising, sales, and training materials used by the Company were examined for compliance with Tenn. Code Ann. § 56-8-104 (1, 2, and 3) and the NAIC *Market Regulation Handbook* ("Market Handbook"), and were found to be in compliance.

Producer Licensing Standards

Tenn. Code Ann. §§ 56-6-101, *et seq*., requires the Company to sell its products and services through producers who are properly licensed and appointed by the Company. In the examination of producer licensing, a random sample of producers was selected, and their state-issued licensure and appointment by the Company were verified. Tenn. Code Ann. § 56-6-115(a) states that the insurance producer shall not act as an agent of an insurer unless the insurance producer becomes an appointed agent of that insurer. Tenn. Code Ann. § 56-6-115(c) requires a notice of appointment within fifteen (15) days from the date the agency contract is executed, or the first insurance application is submitted. Tenn. Code Ann. § 56-6-117 requires the insurer to notify the Commissioner within thirty (30) days following the effective date of the termination of a producer, and the insurer shall mail a copy of the notification to the producer at the producer's last known address.

In the sample of producers examined, there were instances found where the Company appointed a producer without filing a notice of appointment in a timely manner. There were also instances found where the Company terminated a producer and the Company failed to notify the Commissioner within thirty (30) days following the effective date of the termination. See “Comments and Recommendations” section later in this report.

Policyholder Services Standards

The Company’s timeliness of policy issuance, premium billing, response to policyholder requests, provision of adequate disclosures, and compliance with applicable statutes and rules were examined. The Company was found to be in compliance with the relevant market conduct standards set forth within the NAIC Market Handbook and Tenn. Code Ann. § 56-8-104.

Underwriting and Rating Standards

In the examination of the Company’s underwriting procedures and policy administration, a sample of policies in-force were reviewed for compliance with Tenn. Code Ann. § 56-8-104(7), Tenn. Comp. R. & Regs. 0780-01-34, and established Company guidelines. No instances of unfair methods of competition, or unfair or deceptive acts were found in the examination of these policies.

Claims Handling Standards

In the examination of claims handling practices, the Company’s efficiency of claim handling, accuracy of payment, adherence to contract provisions, and compliance with applicable statutes and rules were examined. In conducting the examination, random samples were selected from claims approved and claims resisted by the Company. No exceptions were identified regarding prompt settlements, upon receipt of proper evidence of the Company’s liability.

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed.

See the “Loss Reserves Review” section of this report for additional information regarding the Company’s reserving activities.

Other than the Company’s reserves, no events were noted that required additional disclosure in the examination report.

Management stated in its Letter of Representation that they were not aware of any events subsequent to December 31, 2021, that could have a material effect on the Company’s financial condition. Our review confirmed the Company’s disclosures in its 2021 Annual Statement and in its Letter of Representation.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, surplus, and other funds, and a statement of income, as of December 31, 2021, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2021 Annual Statement.

ASSETS

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$31,528,231	$622,906	$30,905,325
Stocks			
Common Stocks	21,552,023		21,552,023
Cash, cash equivalents, and short-term investments	88,791		88,791
Investment income due or accrued	94,455		94,455
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	4,784,616	24,216	4,760,400
Deferred premiums, agents' balances and installments booked but deferred and not yet due	12,069,065		12,069,065
Amounts recoverable from reinsurers	4,634,279		4,634,279
Net deferred tax asset	565,621		565,621
EDP equipment and software	258,372	258,372	0
Furniture and equipment	34,045	34,045	0
Receivables from parent, subsidiaries, and affiliates	7,855,864		7,855,864
Aggregate write-ins for other than invested assets	219,859	216,935	2,924
Totals	$83,685,220	$1,156,473	$82,528,747

LIABILITIES, CAPITAL, AND SURPLUS

Losses	$16,939,076
Reinsurance payable on paid losses and loss adjustment expenses	1,055,321
Loss adjustment expenses	4,827,065
Commissions payable, contingent commissions and other similar charges	736,842
Other expenses (excluding taxes, licenses, and fees)	541,712
Taxes, licenses, and fees (excluding federal and foreign income taxes)	253,417
Unearned premiums	9,534,942
Ceded reinsurance premiums payable	13,833,923
Funds held by company under reinsurance treaties	9,117,847
Amounts withheld or retained by company for account of others	93,900
Payable to parent, subsidiaries, and affiliates	671,759
Aggregate write-ins for other liabilities	1,587,759
Total Liabilities	59,193,563
Common capital stock	2,442,452
Gross paid in and contributed surplus	26,499,704
Unassigned funds (surplus)	(5,606,972)
Total Capital and Surplus	23,335,184
Totals	$82,528,747

STATEMENT OF REVENUE AND EXPENSES

Underwriting Income		
Premiums earned		$43,642,357
Losses incurred	$34,810,449	
Loss adjustment expenses incurred	8,171,725	
Other underwriting expenses incurred	4,728,193	
Total underwriting deductions		47,710,367
Net underwriting gain/(loss)		(4,068,010)
Investment Income		
Net investment income earned	353,193	
Net realized capital gains (losses) less capital gains tax	28,980	
Net investment gain (loss)		382,173
Other Income		
Net gain (loss) from agents' or premium balances charged off	(221,528)	
Aggregate write-ins for miscellaneous income	2,001,713	
Total other income		1,780,185
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		(1,905,651)
Dividends to policyholders		0
Net income after dividend to policyholders, after capital gains tax and before all other federal and foreign income taxes		(1,905,651)
Federal and foreign income taxes incurred		(7,704)
Net Income (Loss)		($1,897,947)

SURPLUS ACCOUNT

	2021	2020	2019	2018	2017
Capital and surplus, December 31, previous year	$24,129,089	$26,461,117	$25,662,328	$26,221,821	$41,329,810
Net income or (loss)	(1,897,947)	(804,057)	616,869	7,646,374	(12,300,353)
Change in net unrealized capital gains or (losses)	(445,138)	(1,298,391)	(226,874)	(4,823,264)	(3,078,385)
Change in net deferred income tax	(87,253)	(41,770)	694,644	(723,083)	(1,080,767)
Change in non-admitted assets	143,725	(187,810)	(285,850)	(333,464)	(158,055)
Provision for reinsurance	0	0	0	0	1,055
Surplus adjustments:					
Paid in	0	0	(921,366)	(21,240,733)	1,508,516
Transferred from capital	0	0	921,366	40,096,701	0
Dividends to stockholders	0	0	0	(21,182,022)	0
Aggregate write-ins for gains and losses in surplus	1,492,709	0	0	0	0
Net change in capital and surplus for the year	(793,905)	(2,332,028)	798,789	(559,493)	(15,107,989)
Capital and surplus, December 31, current year	$23,335,184	$24,129,089	$26,461,117	$25,662,328	$26,221,821

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus	$23,335,184

Total capital and surplus, as established by this examination, is the same as reported by the Company in its 2021 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2021.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments

1. The Company's Bylaws have not been updated after the approval of the TDCI to change the state of domicile from Minnesota to the State of Tennessee. The Bylaws contain numerous references to Minnesota and define the Company as a Minnesota corporation.

   The Company is encouraged to review, update, and amend its Bylaws to reflect current and relevant information, as permitted by Tenn. Code Ann. § 48-20-201.

Recommendations

1. Tenn. Code Ann. § 56-6-117 requires the insurer to notify the Commissioner within thirty (30) days following the effective date of the termination of a producer. In the sample of producers examined, there were instances found where the Company terminated a producer, but the Commissioner was not notified in a timely manner.

   It is recommended that the Company notify the Commissioner of all producer terminations in accordance with Tenn. Code Ann. § 56-6-117.

2. Tenn. Code Ann. § 56-6-115(c) requires a notice of appointment within fifteen (15) days from the date the agency contract is executed, or the first insurance application is submitted, in a format approved by the Commissioner. In the sample of producers examined, there were instances found where the Company appointed a producer without filing a notice of appointment in a timely manner. In accordance with Tenn. Code Ann. § 56-6-115(c), the Company should provide a notice of appointment.

It is recommended that the Company notify the Commissioner of producer appointments in accordance with Tenn. Code Ann. § 56-6-115(c). The Company should provide a notice of appointment, in a format approved by the Commissioner, within fifteen (15) days from the date the agency contract is executed, or the first insurance application is submitted.

3. At December 31, 2021, the Company booked reserves thirteen and one-half percent (13.5%) below its opining actuary's midpoint. As of year-end 2022, that amount has developed adversely, based on the review of the 2022 Annual Statement. Based on the information as of December 31, 2021, the explanation provided by management for booking reserves below the opining actuary's midpoint may have been reasonable at that time, given all the operational change the Company underwent in recent years. However, the subsequent adverse development that occurred during 2022 showed that management's rationale for selecting reserves lower than the actuary's point estimate, did not produce a reasonable reserve.

   It is recommended that the Company reserve to the actuary's central estimate unless a separate analysis of the reasonableness of claim or loss and loss/claim adjustment expense reserve estimates is performed in accordance with SSAP 55 which requires inclusion of an analysis of the amount of variability in the estimate.

4. NAIC SSAP 53 states that "When the anticipated losses, loss adjustment expenses, commissions and other acquisition costs, and maintenance costs exceed the recorded unearned premium reserve and any future installment premiums on existing policies, a premium deficiency reserve shall be recognized by recording an additional liability for the deficiency, with a corresponding charge to operations." The Company was not able to provide such a calculation for accident year 2021, and did not record a PDR as of December 31, 2021.

   It is recommended that the Company have its appointed actuary estimate the need for a PDR whenever the most recent accident year loss ratio is greater than eighty percent (80%), and in compliance with SSAP 53. It is further recommended that if the appointed actuary determines that a PDR is indicated, the Company shall book the amount recommended by the appointed actuary.

5. The Company's Bylaws state that an annual meeting of the stockholders shall be conducted. The Company was unable to provide the minutes of the stockholder meetings from 2019 and 2020.

It is recommended that the Company conduct its annual meeting of stockholders in accordance with Tenn. Code Ann. § 48-17-101 and maintain documentation of the minutes of the stockholder meetings in accordance with Tenn. Code Ann. § 48-26-101.

CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee and guidance from the NAIC Handbook, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Mendota Insurance Company.

In such manner, it was found that as of December 31, 2021, the Company had admitted assets of $82,528,747 and liabilities, exclusive of capital and surplus, of $59,193,563. Thus, there existed for the protection of the policyholders, the amount of $23,335,184 in the form of common capital stock, gross paid in and contributed surplus, and unassigned funds. Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum capital of $1,000,000 and minimum surplus of $1,000,000. For this examination, as of December 31, 2021, the Company maintains capital and surplus sufficient to satisfy those requirements.

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

In addition to the undersigned, Rhonda Bowling-Black, CFE, ARe, MCM, Insurance Examiner from the State of Tennessee; Peter Rao, CFE; Mel Heaps, CFE; Lindsey Pittman, CFE, CISA, AES, CPA, MCM, Insurance Examiners of the firm Lewis & Ellis, Inc.; Greg Wilson, FCAS, MAAA and Mike Mayberry, FSA, MAAA, Examination Actuaries of the firm Lewis & Ellis, Inc., participated in the work of this examination.

Respectfully submitted,

Ryne Davison, CFE
Examiner-in-Charge
Lewis & Ellis, Inc.
Representing the State of Tennessee

A. Jay Uselton, CFE
Department Designee
Tennessee Department of Commerce and Insurance

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Mendota Insurance Company located in Nashville, Tennessee, dated June 8, 2023, and made as of December 31, 2021, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.

Ryne Davison, CFE
Examiner-in-Charge
Lewis & Ellis, Inc.
Representing the State of Tennessee

State MS

County Madison

Subscribed to and sworn before me

this 23 day of June, 2023

Laurie Sanders
(NOTARY)

My Commission Expires: 8/26/25

STATE OF MISSISSIPPI
NOTARY PUBLIC
ID # 292540
LAURIE SANDERS
Commission Expires
Aug. 26, 2025
MADISON COUNTY

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Mendota Insurance Company located in Nashville, Tennessee, dated June 8, 2023, and made as of December 31, 2021, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.

A. Jay Uselton, CFE
Department Designee
State of Tennessee

State of Tennessee

County of Davidson

Subscribed to and sworn before me

this 23rd day of June, 2023

(NOTARY)

MANDY JOHNSON
STATE OF TENNESSEE
NOTARY
PUBLIC
DAVIDSON COUNTY
MY COMMISSION EXPIRES 7-7-2025

My Commission Expires: 7-7-2025

EXHIBIT B

Mendota
INSURANCE

June 26, 2023

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1135

RE: **Report of Examination – Mendota Insurance Company**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Mendota Insurance Company, made as of December 31, 2021.

By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

Stephen J. Harrison
President