

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**OKLAHOMA SCHOOLS PROPERTY
AND CASUALTY COOPERATIVE**

SEPTEMBER 30, 2015 and 2014

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Shores, Tagman, Butler & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Oklahoma Schools Property and Casualty Cooperative

We have audited the accompanying financial statements of the Oklahoma Schools Property and Casualty Cooperative (the "Cooperative") which comprise the Statements of Financial Position as of September 30, 2015 and 2014, and the related Statements of Operations and Changes in Fund Balance and of Cash Flows for the years then ended, and the related Notes to Financial Statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITORS' REPORT - CONTINUED

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

Certain supplemental information, including the Schedule of Historical Claims Development, is unavailable due to the failure of the prior claims administrator, CCMSI, to provide sufficient claims history.

Qualified Opinion

In our opinion, except for the omission of the supplemental information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Schools Property and Casualty Cooperative as of September 30, 2015 and 2014, and the results of its operations and changes in fund balance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the Notes to Financial Statements, certain errors in the financial statements as of and for the year ended September 30, 2013, were discovered during the prior year. Accordingly, an adjustment has been made to fund balance as of September 30, 2013 to correct the errors.

As discussed in the Notes to Financial Statements, the liability for unpaid losses and loss adjustment expenses in the accompanying financial statements is based upon an evaluation by the Cooperative's independent actuary for the year ended September 30, 2015 and by an independent claims auditor for the year ended September 30, 2014. Management believes that these estimates are reasonable. However, these estimates are subject to change and the changes can be material in relation to the financial statements taken as a whole. No assurance can be given that the actual losses will not be more or less than the current estimates.

INDEPENDENT AUDITORS' REPORT - CONTINUED

Going Concern

The accompanying financial statements have been prepared assuming the Cooperative will continue as a going concern. As discussed in the Notes to Financial Statements, the Cooperative has ceased writing policies after May 15, 2014 and will continue only in the capacity of running off all claims incurred on or before May 15, 2014, until all claims have been paid. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Reconciliation of Claims Liability by Type of Contract is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Shore, Terman, Butler & Company, P.A.

January 22, 2016

Oklahoma Schools Property and Casualty Cooperative

STATEMENTS OF FINANCIAL POSITION

ASSETS

	September 30,	
	2015	2014
Cash and cash equivalents	\$ <u>374,524</u>	\$ <u>172,007</u>
Total cash and cash equivalents	<u>374,524</u>	<u>172,007</u>
Supplemental contributions receivable	317,431	927,170
Accounts receivable	<u>19,957</u>	<u>11,381</u>
	\$ <u><u>711,912</u></u>	\$ <u><u>1,110,558</u></u>

LIABILITIES AND FUND BALANCE

Unpaid losses and loss adjustment expenses		
Gross	\$ 374,737	\$ 762,131
Reinsurance recoverable on unpaid losses	<u>--</u>	<u>(13,463)</u>
Net	<u>374,737</u>	<u>748,668</u>
Miscellaneous liabilities	5,003	4,464
Accrued collection expenses	<u>171,637</u>	<u>175,000</u>
	<u>176,640</u>	<u>179,464</u>
Fund balance	<u>160,535</u>	<u>182,426</u>
	\$ <u><u>711,912</u></u>	\$ <u><u>1,110,558</u></u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Property and Casualty Cooperative

STATEMENTS OF OPERATIONS AND CHANGES IN FUND BALANCE

	Years Ended September 30,	
	2015	2014
	<u> </u>	<u> </u>
REVENUES		
Member contributions, net of reinsurance premiums of \$--0-- and \$563,015, respectively	\$ --	\$ 620,558
Other income	<u>79,114</u>	<u>74,898</u>
	<u>79,114</u>	<u>695,456</u>
 EXPENSES		
Losses and loss adjustment expenses	(26,975)	631,198
Program administration fees	24,000	84,795
Royalty expenses	--	15,852
Other expenses	24,866	21,538
Collection expense	<u>--</u>	<u>175,000</u>
	<u>21,891</u>	<u>928,383</u>
 NET INCOME (LOSS) BEFORE SUPPLEMENTAL CONTRIBUTIONS	57,223	(232,927)
 SUPPLEMENTAL CONTRIBUTIONS	<u>(79,114)</u>	<u>1,209,792</u>
 NET (LOSS) INCOME AFTER SUPPLEMENTAL CONTRIBUTIONS	(21,891)	976,865
 (Deficit in) fund balance - beginning of year	<u>182,426</u>	<u>(794,439)</u>
 FUND BALANCE - END OF YEAR	\$ <u>160,535</u>	\$ <u>182,426</u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Property and Casualty Cooperative

STATEMENTS OF CASH FLOWS

	Years Ended September 30,	
	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (21,891)	\$ 976,865
Changes in operating assets and liabilities		
(Increase) decrease in assets:		
Supplemental contributions receivable	609,739	(927,170)
Accounts receivable	(8,576)	114,769
Reinsurance recoverable on paid losses	--	143,456
Prepaid expenses	--	751,355
Increase (decrease) in liabilities:		
Unpaid losses and loss adjustment expenses	(373,931)	4,392
Unearned contributions	--	(1,462,639)
Miscellaneous liabilities	539	4,464
Accrued collection expenses	(3,363)	175,000
NET CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES	<u>202,517</u>	<u>(219,508)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH		
EQUIVALENTS	 202,517	 (219,508)
 Cash and cash equivalents at beginning of year	 <u>172,007</u>	 <u>391,515</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 \$ <u>374,524</u>	 \$ <u>172,007</u>

The accompanying notes are an integral part of these statements.

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS

September 30, 2015 and 2014

NOTE 1 - ORGANIZATION OF TRUST

Oklahoma Schools Property and Casualty Cooperative (the “Cooperative”) was formed and received a letter of approval from the Office of the Attorney General, State of Oklahoma April 1, 2010. The Cooperative is classified as an Interlocal Cooperation Entity.

The Cooperative primarily provides property and general liability coverage to school districts in the State of Oklahoma. For the year ended September 30, 2014, there were 44 school districts participating and all policies were cancelled as of May 15, 2014. See further discussion in Note 9.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting and reporting policies of the Cooperative conform to accounting principles generally accepted in the United States of America and prevailing practices within the insurance industry. Except as otherwise noted, the Cooperative carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, cash and cash equivalents include only cash in checking, savings or money market accounts, and other depository instruments with maturities of three months or less at the time of acquisition.

Accounts Receivable

Contributions receivable are stated at net invoice amounts. Collectibility of balances are reviewed periodically. Any amounts deemed to be uncollectible are written off at that time. Management has determined amounts are collectible and no allowance for doubtful accounts is required.

Contributions

Contributions are earned on a straight-line basis over the coverage period.

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses includes the estimated costs of investigating and settling all claims incurred as of the balance sheet date as well as an estimate for claims that occurred as of the balance sheet date but have not been reported. Such amounts are determined on the basis of an evaluation of the Cooperative's losses as prepared by an independent actuary for the year ended September 30, 2015 and by an independent claims auditor for the year ended September 30, 2014. The liability for unpaid losses and loss adjustment expenses has not been discounted for the time value of money.

Income Tax Exemption

The Oklahoma Schools Property and Casualty Cooperative is a governmental entity and, thus, is exempt from Federal income taxes under Internal Revenue Code Section 115.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the Statements of Financial Position and Statements of Operations and Changes in Fund Balance, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

NOTE 3 - REINSURANCE

The Cooperative used reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance contracts do not relieve the Cooperative from its obligations to members. Failure of the reinsurance carriers to honor their obligations could result in losses to the Cooperative. Accordingly, the Cooperative evaluates the financial condition of their reinsurance carriers to minimize its exposure to significant losses from reinsurer insolvency.

As of September 30, 2015, reinsurance recoverable on unpaid losses of approximately \$0 is outstanding with a single reinsurance carrier.

As of September 30, 2014, reinsurance recoverable on unpaid losses of approximately \$13,000 is outstanding with a single reinsurance carrier.

Property reinsurance coverage exists that covers losses in excess of \$150,000 and up to \$150,000,000 for each occurrence per member for the 2010 through 2014 program years.

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

NOTE 3 - REINSURANCE - CONTINUED

Liability reinsurance coverage exists that covers losses in excess of \$250,000 and up to \$750,000 for each occurrence per member for the 2010 through 2014 program years.

NOTE 4 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Unpaid losses and loss adjustment expenses are based upon an evaluation of the Cooperative's losses as prepared by the Cooperative's independent actuary for the year ended September 30, 2015 and by an independent claims auditor for the year ended September 30, 2014. These evaluations of the Cooperative's losses are significant estimates which are subject to change and the change can be material in relation to the financial statements taken as a whole. These estimates includes an estimated provision for incurred but not reported losses (IBNR) as well as reported losses. The IBNR provision totaled approximately \$250,000 at September 30, 2015 and 2014, respectively. The recorded IBNR provision for September 30, 2015 is approximately \$185,000 higher than what was estimated by the independent actuary.

Unpaid losses and loss adjustment expenses have not been discounted for the time value of money.

Unpaid losses and loss adjustment expenses are shown net of reinsurance recoverables on unpaid losses and loss adjustment expenses of approximately \$-0- and \$13,000 at September 30, 2015 and 2014, respectively. The losses and loss adjustment expenses are net of the effect of changes in recoveries recognized under the reinsurance contracts referred to in Note 3.

During the years ended September 30, 2015 and 2014, the Cooperative experienced no change in the recoveries recognized under these reinsurance contracts.

At September 30, 2015 and 2014, losses and loss adjustment expenses included approximately \$43,000 and \$145,000, respectively, of claims administration fees.

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

NOTE 4 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

	<u>2015</u>	<u>2014</u>
Balance at September 30	\$ <u>762,131</u>	\$ <u>744,276</u>
Less reinsurance recoverable on unpaid loss and loss adjustment expenses	<u>13,463</u>	<u>143,456</u>
Net balance at September 30	<u>748,668</u>	<u>600,820</u>
Incurred related to:		
Current period	--	691,186
Prior period	<u>(26,975)</u>	<u>(59,988)</u>
Total incurred	<u>(26,975)</u>	<u>631,198</u>
Paid related to:		
Current period	--	439,890
Prior period	<u>346,956</u>	<u>43,460</u>
Total paid	<u>346,956</u>	<u>483,350</u>
Net balance at September 30	374,737	748,668
Plus reinsurance recoverable on unpaid losses and loss adjustment expenses	<u>--</u>	<u>13,463</u>
Balance at September 30	\$ <u>374,737</u>	\$ <u>762,131</u>

NOTE 5 - THIRD PARTY ADMINISTRATION

The Cooperative is currently under a management agreement with The Sandner Group - Insurance Program Managers Inc. (TSG) to perform certain management services. Under the terms of the agreement, TSG has the authority to supervise, administer, or cause to be administered all business functions of the Cooperative. In consideration of these services, TSG is paid a fee of \$2,000 a month. Total fees paid to TSG were \$24,000 and \$10,000 during the years ended September 30, 2015 and 2014, respectively. The management agreement was with Cannon Cochran Management Services, Inc., (CCMSI) from September 30, 2013 through May 8, 2014. The management agreement was never provided by CCMSI. Total fees paid to CCMSI totaled approximately \$75,000 during the year ended September 30, 2014, of which no balance remains payable. The CCMSI amounts were confirmed by written confirmation during the year ended September 30, 2014.

Oklahoma Schools Property and Casualty Cooperative

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

NOTE 6 - CONCENTRATIONS

All members who participate in the Cooperative are school districts within the State of Oklahoma.

The Cooperative believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it may be impractical to insure all deposits throughout the year. As a result, the Cooperative evaluates each financial institution; only those institutions with an acceptable estimated risk level are used as depositories.

NOTE 7 - MEMBER INDEMNIFICATION

The Cooperative has entered into an agreement with each participating member to provide property and casualty coverages for the participating members. The Cooperative is responsible for the payment of all covered claims that fall within the joint loss fund. The Cooperative shall adopt policies and procedures for responding to overpayments and underpayments, if any.

NOTE 8 - SUPPLEMENTAL CONTRIBUTIONS RECEIVABLE

Gross supplemental contributions receivable in the amount of \$1,400,000 were assessed by the Cooperative in August 2014. The members are required to pay the supplemental contributions over three years and have been billed for the first two installments as of September 30, 2015. The supplemental contributions receivable amount on the balance sheet as of September 30, 2015 is the gross supplemental contribution of approximately \$1,400,000 less the amounts collected. The first installment of approximately \$587,000 was billed in July, 2014. The second installment of approximately \$149,000 was billed in July, 2015.

Approximately \$139,000 of the first installment and \$54,000 of the second installment are still due as of the audit report date. The Cooperative is vigorously pursuing collections of the outstanding receivables. Management believes all supplemental contributions will ultimately be collected. Therefore, no allowance for the uncollected supplemental contributions receivable is considered necessary as of September 30, 2015 and 2014.

NOTE 9 - GOING CONCERN

As of May 15, 2014, the Cooperative ceased writing policies. The Cooperative will remain in business for the sole purpose of running off claims incurred on or before May 15, 2014. Accordingly, the Cooperative will not continue as a going concern. No adjustments have been made to the accompanying financial statements for the carrying value of assets or liquidation of liabilities as a result of the Cooperative going into run off mode.

Oklahoma Schools Property and Casualty Cooperative
NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2015 and 2014

NOTE 10 - PRIOR PERIOD ADJUSTMENT

Fund balance at September 30, 2013, as reported in the prior year financial statements has been adjusted for certain items as shown below:

Deficit in fund balance at September 30, 2013 as previously reported \$ (832,721)

The prior claims administrator (CCMSI) did not include certain expenses on excess claims as allowed under the excess policy. As a result, reinsurance recoverable was understated as originally reported at September 30, 2013

	<u>38,282</u>
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Deficit in fund balance at September 30, 2013, as restated \$ (794,439)

NOTE 11- SUBSEQUENT EVENTS

Management considered subsequent events through January 22, 2016, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

Oklahoma Schools Property / Casualty Cooperative

Supplemental Reconciliation of Claims Liability by Type of Contract September 30, 2015

	2014-2015			2013-2014		
	Property	Liability	Total	Property	Liability	Total
Unpaid Losses and Loss Adjustment Expenses -						
Beginning of year	\$ 264,033	\$498,098	\$762,131	\$438,695	\$305,581	\$744,276
Net of reinsurance receivables	<u>13,463</u>	<u>--</u>	<u>13,463</u>	<u>143,456</u>	<u>--</u>	<u>143,456</u>
Net unpaid losses and loss adjustment expense	<u>250,570</u>	<u>498,098</u>	<u>748,668</u>	<u>295,239</u>	<u>305,581</u>	<u>600,820</u>
Incurred Losses and Loss Adjustment Expenses						
Provision for covered events of the current accident year	--	--	--	514,865	176,321	691,186
Changes in provision for covered events of prior accident years	<u>(81,036)</u>	<u>54,061</u>	<u>(26,975)</u>	<u>(305,974)</u>	<u>245,986</u>	<u>(59,988)</u>
Total losses and loss adjustment expenses	<u>(81,036)</u>	<u>54,061</u>	<u>(26,975)</u>	<u>208,891</u>	<u>422,307</u>	<u>631,198</u>
Payments						
Losses and loss adjustment expense attributable to covered events of current accident year	--	--	--	423,594	16,296	439,890
Losses and loss adjustment expense attributable to covered events of prior accident years	<u>169,534</u>	<u>177,422</u>	<u>346,956</u>	<u>(170,035)</u>	<u>213,495</u>	<u>43,460</u>
Total payments	<u>169,534</u>	<u>177,422</u>	<u>346,956</u>	<u>253,559</u>	<u>229,791</u>	<u>483,350</u>
Add reinsurance recoverables	<u>--</u>	<u>--</u>	<u>--</u>	<u>13,463</u>	<u>--</u>	<u>13,463</u>
Unpaid Losses and Loss Adjustment Expenses - Net of reinsurance recoverables - End of year	<u>\$ --</u>	<u>\$374,737</u>	<u>\$374,737</u>	<u>\$264,034</u>	<u>\$498,097</u>	<u>\$762,131</u>

**ACTUARIAL STATEMENT OF OPINION
OKLAHOMA SCHOOLS PROPERTY AND CASUALTY
COOPERATIVE
As of September 30, 2015**

IDENTIFICATION

I, Natalia S. Dimitrienko, am a Principal for Oliver Wyman Actuarial Consulting, Inc. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to perform the actuarial opinion contained herein. I am also a Fellow of the Casualty Actuarial Society.

SCOPE

I have examined the actuarial assumptions and methods used in determining reserves listed below, as prepared for filing with the state regulatory officials, as of September 30, 2015. The estimated reserve for the unpaid losses and allocated loss adjustment expenses is \$374,737.

The Oklahoma Schools Property and Casualty Cooperative (OSPCC) was created in April of 2010 and primarily provides property and general liability coverage to Oklahoma school districts. OSPCC has ceased writing policies after May 15, 2014 and will continue only in the capacity of running off all claims incurred on or before May 15, 2014, until all claims have been paid.

Effective November 1, 2015 the State of Oklahoma requires an actuarial opinion to certify the amount and adequacy of reserves for loss and loss adjustment expenses, including amounts for Incurred But Not Reported (IBNR) claims, and the adequacy of premiums. This opinion provides an estimate of OSPCC's liability related to these exposures. Please note that there is no premium involved, as OSPCC is no longer writing new policies.

In forming my opinion of the loss, allocated loss adjustment expense reserves and premiums, I relied upon data prepared by OSPCC and The Sandner Group, which is the OSPCC's administrators. I evaluated that data for reasonableness and consistency.

OPINION

In my opinion, giving consideration to the issues herein, the amounts identified above:

- A. meet the requirements of the self-insurance laws of Oklahoma;

- B. are consistent with reserves computed in accordance with accepted loss reserving standards and principles;
- C. make reasonable provision, in the aggregate, for all unpaid loss and allocated loss adjustment expense and premium obligations of the Company under the terms of its policies and agreements.

RELEVANT COMMENTS

A. Risk of Material Adverse Deviation

The greatest risks to the OSPCC's loss reserve adequacy are associated with adverse development on the remaining open claims. However, the excess reinsurance mitigates this risk. Given that OSPCC's financial position is \$160,535, any adverse deviation from the reserve listed above would be material.

B. Other Disclosures

There are no additional disclosures.

C. Reinsurance

Not applicable.

D. IRIS Ratios

Not applicable.

E. Methods and Assumptions

Not applicable.

F. Additional Comments

Unpaid loss and loss adjustment expense reserves are subject to inherent uncertainty due to the variability of fortuitous outcomes of contingent events which may affect loss and loss adjustment expense costs. In evaluating whether the reserves make a reasonable provision for unpaid losses and loss adjustment expenses, it is necessary to project future loss and loss adjustment expense emergence and payments. It is virtually certain that actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. No warranty is expressed or implied that this will not occur.

I have neither examined the assets of the Cooperative nor formed any opinion as to the value or validity of the assets. My review was limited to the items noted in the scope paragraph, and did not include an analysis of any income statement or other balance sheet items. My opinion that the reserves make a reasonable provision in the aggregate for the unpaid loss and loss adjustment expense obligations of the Cooperative presumes that these reserves are backed by valid assets and that these assets reflect suitably scheduled maturities and/or sufficient liquidity to meet cash flow requirements.

This statement of opinion is intended solely for the use of, and only to be relied upon, the Cooperative and the State of Oklahoma.

An actuarial report and underlying work papers supporting the findings expressed in this Statement of Actuarial Opinion are being provided to the Company to be retained for a period of seven years at its administrative offices and available for regulatory examination.

Natasha Dimitrienko

Natalia S. Dimitrienko
Fellow, Casualty Actuarial Society
Member of the American Academy of Actuaries
Oliver Wyman Actuarial Consulting, Inc.

January 21, 2016