



COLORADO

Department of
Regulatory Agencies

Division of Insurance

REPORT OF FINANCIAL EXAMINATION

AS OF DECEMBER 31, 2015

PINNACOL ASSURANCE

**7501 East Lowry Blvd
Denver, Colorado 80230**

NAIC Company Code 41190



Conducted by:

COLORADO DIVISION OF INSURANCE

CERTIFICATE OF COPY

I, **Marguerite Salazar**, Commissioner of Insurance of the State of Colorado, do hereby certify that the attached is a true and correct copy of the Financial Examination Report as of December 31, 2015 for **Pinnacol Assurance** now on file as a record of this office.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal of office at the City and County of Denver on this 7th day of October 2016.



Marguerite Salazar
Commissioner of Insurance

REPORT OF FINANCIAL EXAMINATION

OF

PINNACOL ASSURANCE

7501 East Lowry Blvd
Denver, Colorado 80230

AS OF

DECEMBER 31, 2015

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Denver, Colorado
August 29, 2016

Honorable Marguerite Salazar, Commissioner
Division of Insurance
State of Colorado
1560 Broadway, Suite 850
Denver, Colorado 80202

Commissioner:

Pursuant to your instructions and in compliance with Section 10-1-201, et seq., C.R.S., a financial examination has been made of the financial condition and affairs of:

PINNACOL ASSURANCE

Statutory Home Office:

7501 East Lowry Blvd.
Denver, Colorado 80230

and the report thereon is respectfully submitted.

Pinnacol Assurance, hereinafter referred to as the "Company," was last examined as of December 31, 2012, under the Association Plan of the National Association of Insurance Commissioners "NAIC". The Colorado Division of Insurance hereinafter referred to as the "Division" conducted the last examination and current examination.

The actuarial firm of Taylor-Walker & Associates, Inc. was engaged to certify the accuracy and reasonableness of loss and loss adjustment reserves. In addition, Taylor-Walker reviewed premium deficiency reserves, unearned premium, the special surplus fund for unfunded pension benefits and structured settlement liabilities. Their results, if deemed appropriate, are referenced in this report.

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SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The last examination covered the period of January 1, 2010 to December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2015.

We conducted our examination in accordance with the Colorado Examiners Handbook and the NAIC Financial Condition Examiners Handbook "Handbook". The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

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

Included in the examination was a review or audit of the following matters as called for in the Handbook and not otherwise commented upon in the report:

- Acquisitions, mergers or sales
- Dividends to stockholders
- Stockholder meetings
- Parent, subsidiaries and affiliates
- Holding company filings
- Statutory and special deposits

The determination to reflect financial adjustments in the financial statements was dependent upon: the materiality of a particular adjustment; the materiality of the total of all immaterial adjustments; and/or compliance with pertinent laws and regulations. Materiality was determined based on the Company's surplus, admitted assets and/or operating results.

This examination does not address market conduct issues related to policy forms or rates, policyholder treatment and claims settlement practices. These issues are addressed in separate market conduct examinations conducted periodically by the Division.

SUMMARY OF SIGNIFICANT FINDINGS

1. The results of this examination disclosed that as of December 31, 2015, the Company had admitted assets of \$2,463,382,952, liabilities of \$1,528,084,701 and capital and surplus of \$935,298,251. As a result of this examination, there were no adjustments to the Company's capital and surplus, as reported in the Company's 2015 Annual Statement.

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SUBSEQUENT EVENTS

The board of directors declared general dividends on November 4, 2015 in an amount to be approximately \$30,000,000. The final dividend amount of \$30,000,000 was confirmed in February 2016 and subsequently paid at the end of March 2016.

COMPANY HISTORY

History

The Company was created on August 1, 1915, by the General Assembly under the provisions of the Worker's Compensation Act of Colorado. It was then known as the "State Compensation Insurance Fund." In 1987, the General Assembly created the State Compensation Insurance Authority, which assumed the responsibilities of the State Compensation Insurance Fund. On July 1, 1990, the Company's name changed to "Colorado Compensation Insurance Authority." Effective July 1, 2002, the General Assembly repealed and reenacted the substantive provisions of the Workers' Compensation Act of Colorado, creating "Pinnacol Assurance," which assumed the powers, duties, and functions of the Colorado Compensation Insurance Authority. The Company's primary purpose is to offer workers' compensation and employer's liability insurance to Colorado employers.

Pursuant to Section 8-45-101, C.R.S., the Company is a political subdivision of the state and operates as a domestic mutual insurance company except as otherwise provided by law. The Company is not an agency of state government, nor is it subject to administrative direction by any state agency except as provided in the provisions of Title 8, Article 45, C.R.S. The Company shall not refuse to insure any Colorado employer or cancel any insurance policy due to the risk of loss or amount of premium; except as otherwise allowed by statute.

Special Surplus Fund for Unfunded Pension Benefits

The Company participates in a cost sharing multiemployer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). Statutory accounting does not allow a company to record a pension liability for multiemployer plans but does allow a company to establish a special surplus fund to provide for contingencies. In 2015, the Company established a special surplus fund to record its portion of the unfunded pension benefits in the amount of \$156,767,000. This amount is based on actuarially derived data and allocation percentages provided to the Company by PERA.

Surplus Debentures

On June 25, 2014, the Company issued a surplus note in the amount of \$100,000,000 to an unaffiliated third party in exchange for cash. The interest on the unpaid principal amount of this note will be paid in semi-annual installments at the rate of 8.625% per annum upon the Division's approval. The note will be due and payable twenty years from the issuance date, with a call date in whole or part in fifteen years with no penalty.

The surplus note was issued to partially cover the Company's estimated proportionate share of PERA's unfunded liability for the vested service of the Company employees and retirees (see Special Surplus Fund section above).

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CORPORATE RECORDS

The by-laws, and all amendments thereto, as well as the minutes of the board of directors meetings and committee meetings, were reviewed for the period under examination. As a political subdivision of the State of Colorado, the Company does not have Articles of Incorporation, but is subject to the statutes that created the Company, Section 8-45-101, et al., C.R.S.

Effective November 5, 2014, the Company amended and restated its by-laws. The amendment updated and clarified stale dated language and removed unnecessary language. The amendment also made adjustments to board committee composition, included references to committee charters and added language to increase board oversight of Company officers. It was determined that the Company is conducting its affairs in accordance with the provisions of its by-laws.

The Company has a formal investment policy, which is reviewed and updated periodically. The board of directors has authorized investment officers to execute investment transactions on behalf of the board. The investment committee reviews and approves the investment transactions on a regular basis. A permanent written record of all investment transactions is maintained. The Company's investment policies and actions comply with the requirements of Sections 8-45-117(6) and 10-3-234, C.R.S.

Board of Directors Meetings

The by-laws provide that regular meetings of the board shall be held at such times as the board may from time to time determine at the principal office of the Company or at such other places as the board may from time to time determine.

Special meetings of the board may be called at any time and for any purpose by the chairman of the board, by the written request of any three members of the board, or by the chief executive officer of the Company.

In accordance with the by-laws, a majority of the members of the board will be necessary and sufficient to constitute a quorum for the transaction of business, the performance of the duties or the exercise of the powers of the board. The act of a majority of the directors, when in session as a board, constitutes the act of the board. The board held twenty-two regular meetings and eight special meetings during the examination period.

Committee Meetings

The Company's committees met at various times during the period of examination. The committees report to the board of directors and the results or recommendations of the various committees are recorded in the minutes of the board.

MANAGEMENT AND CONTROL

Board of Directors

Section 8-45-101(2)(a), C.R.S. states that the number of directors shall be nine and all are to be appointed by the Governor, with the consent of the Senate. Of the nine members, four shall be employers whose liability for workers compensation is covered by the Company, with one of such employers to be a farmer or rancher. Three of the nine members shall be employees of employers whose liability is covered by the

Company. One of the nine members shall be experienced in the management and operation of insurance companies as defined in section 10-1-102(6), C.R.S. Such member shall not concurrently serve as an owner, a shareholder, an officer, an employee, an agent of, or in any other capacity with any business which competes with the Company. One of the nine members shall be experienced in finance or investments, but shall not be an employer whose liability is insured by the Company.

The term of office for each such member shall be five years. The appointees may serve on a temporary basis if the Senate is not in session when they are appointed until the Senate is in session and is able to confirm such appointments. Vacancies on the board shall be filled by appointment of the Governor for the remainder of any unexpired terms. The board shall elect a chairman annually from its membership.

Directors duly elected and serving at December 31, 2015, together with their state of residence and principal occupation follows:

<u>Name & Address</u>	<u>Principal Occupation</u>
Howard L. Carver Silverthorne, CO	Retired Ernst and Young Partner Insurance Representative
Jeffrey L. Cummings Henderson, CO	Chief Executive Officer Duffy Crane & Hauling, Inc. Employer Representative
Barbara M. Davis Denver, CO	Manager/Member Madison Ventures LLC Employee Representative
Bonnie B. Dean Greely, CO	President Bonnie Dean Associates Employer Representative
Mark D. Goodman Denver, CO	Chairman and Chief Executive Officer Colorado Nut Company Employer Representative
Joseph A. Hoff Greely, CO	Chief Financial Officer Horton Feedlots/Montera Cattle Employer Farm & Ranch Representative
Harold R. Logan, Jr. Denver, CO	Investments/Corporate & Community Director Basic Materials and Services LLC Finance & Investment Representative
Joshua L. McFarland, J.D. Denver, CO	Partner Evans and McFarland, LLC Employee Representative
Patricia L. Peterson, B.S.N., J.D. Monument, CO	President & Chief Executive Officer Colorado Cancer Research Program Employee Representative

It is noted that the directors serving as of December 31, 2015 were still serving the Company as of the date of this examination report.

Officers

Pursuant to Section 8-45-101(2)(a), C.R.S., the board shall annually elect a chairman of the board from its membership. The by-laws also provide for the election of a vice chairman from the board's membership.

In addition, Section 8-45-101(5)(a), C.R.S., requires that the board appoint a chief executive officer who may appoint and/or hire such other staff as is deemed necessary. The by-laws state that the officers of the Company will be a chief executive officer appointed by the board, and such other officers as designated and appointed by the board.

The CEO can appoint and remove vice presidents or other officers as may be necessary or desirable for the efficient operation of the Company. Each vice president, if any, will perform functions on behalf of the Company, subject to limitations imposed by the board or the CEO.

The CEO will hold his or her office at the pleasure of the board and may be removed at any time by the board with or without cause or any prior notice. All other officers of the Company will hold their respective offices or positions at the pleasure of the board, or as delegated by the board, at the pleasure of the CEO and may be removed.

The officers duly elected and serving at December 31, 2015, follows:

<u>Name</u>	<u>Title</u>
Howard L. Carver	Chairman of the Board
Jeffrey L. Cummings	Vice Chairman of the Board
Philip B. Kalin	President & Chief Executive Officer
Katherine L. Kranz	Vice President, Chief Financial Officer
David L. Bomberger	Vice President, Chief Investment Officer
Edie D. Sonn	Vice President, Communications and Public Affairs
Mark R. Isakson	Vice President, Insurance Operations
Terrence M. Leve	Vice President, Chief Legal and Corporate Resources Officer
Jon E. Scott	Vice President, Agency Relations and Safety Services
Robert H. Norris	Vice President, Strategic Development and Chief Information Officer
Barbara J. Brannen	Vice President, Human Resources
Karyn P. Gonzales	Vice President, Medical Operations and Healthcare Strategy

Effective May 20, 2016, Karyn Gonzales resigned her position and Dana Held was appointed as interim Vice President of Medical Operations and Healthcare Strategy. Effective August 24, 2016, Tamela Vaughn was appointed as interim Chief Information Officer.

Committee Members

Per the by-laws, the board may from time to time establish committees, and approve the charters thereof, for the performance of designated functions which the board determines to be beneficial to the Company

and to the discharge of the responsibilities of the board. Each committee shall consist of not less than a majority of persons who are members of the board.

The board may provide, by resolution or by approval of a charter of a committee, that the committee may exercise certain powers and authority of the board with respect to the business and affairs of the Company, provided, however, that a committee may not exercise the power or authority of the board to amend these by-laws

Membership on the board's primary committees as of December 31, 2015, follows:

Risk & Audit Committee:

<u>Name</u>	<u>Title</u>
Jeffrey Cummings	Board Member - Chair
Howard Carver	Board Member – Vice-chair
Bonnie Dean	Board Member
Joseph Hoff	Board Member
David Stevens	Non-Board Member/Outside Advisor

Compensation Committee:

<u>Name</u>	<u>Title</u>
Patricia Peterson	Board Member - Chair
Harold Logan, Jr.	Board Member – Vice-chair
Bonnie Dean	Board Member
Mark Goodman	Board Member
Skip Spriggs	Non-Board Member/Outside Advisor

Governance and Ethics Committee:

<u>Name</u>	<u>Title</u>
Howard Carver	Board Member - Chair
Joshua L. McFarland	Board Member – Vice-chair
Mark Goodman	Board Member

Investment Committee:

<u>Name</u>	<u>Title</u>
Harold Logan, Jr.	Board Member - Chair
Joseph Hoff	Board Member – Vice-chair
Joshua L. McFarland	Board Member
Bob Bush	Non-Board Member/Outside Advisor
Blair Richardson	Non-Board Member/Outside Advisor

Executive Committee:

<u>Name</u>	<u>Title</u>
Howard Carver	Board Member - Chair
Jeffrey Cummings	Board Member – Vice-chair
Harold Logan, Jr.	Board Member
Patricia Peterson	Board Member

Fidelity Bonds and Other Insurance

In accordance with Colorado Insurance Regulation 3-1-1, the Company is required to maintain fidelity bond coverage of at least \$2,000,000. As of December 31, 2015, the Company is a named insured on a fidelity bond, which affords protection up to a \$10,000,000 single loss limit, after a \$100,000 single loss deductible, for loss resulting directly from the dishonest or fraudulent acts committed by an employee. The bond is written through Zurich American Insurance Company, an entity licensed to sell insurance in Colorado.

The Company is also insured under various insurance coverages relating to its business activities. This insurance protection includes commercial property and general liability, commercial automobile, directors & officers, cyber liability and commercial umbrella liability.

Employees' and Agents' Welfare

The Company's employees are provided a full range of benefits including health, dental, vision, basic life, short-term disability, and long-term disability insurance on a contributory basis. All employees participate in the Public Employees' Retirement Association (PERA) pension plan. Employees may also participate in PERA's 401(k) plan, as well as a 457(b) savings plan. The Company does not provide benefits to its agents.

The Company provides an employee incentive plan and an executive performance plan. These plans payout a percentage of earnings based on the achievement of certain performance targets.

Service and Management Agreements

The Company engages certain outside entities to provide services related to its business activities. The services provided by these third parties include investment accounting and record keeping functions, investment consulting and advisory services, internal audit functions, claims processing for the Other States Coverage (OSC) policies and actuarial services. All services listed were governed by formal written agreements effective at exam date.

TERRITORY AND PLAN OF OPERATION

Territory

Pursuant to Section 8-45-101(5)(f), C.R.S., the Company was organized to write workers compensation and employer's liability coverage in the State of Colorado.

Plan of Operation

The Company was created as a corporate body and a political subdivision of the state operating as a mutual company, and is a nonprofit organization. The Company's primary purpose is to offer workers' compensation and employer's liability insurance to Colorado employers. The Company insures all risks including those that the private market declines to write because of unfavorable experience, poor reporting practices, or lack of cooperation with the insurance underwriter as mandated by state statute. Business underwritten under this mandate as the "carrier of last resort" in Colorado traditionally represents around 10% of the Company's premium. Through competitive pricing and focused services, the Company also underwrites risks sought by the private market.

The Company has entered into an assumed reinsurance agreement enabling the Company to serve Colorado employers with employees residing outside of Colorado (see "Reinsurance" section of this report). The Company is not required by state statute to insure employees who reside in other states, but the other states coverage enables the company to write and retain worker's compensation business that might not otherwise be available.

The Company maintains a website where prospective policyholders can obtain information of the product offered, as well as other information for current policyholders. In addition, the Company hires independent agents to market its products.

GROWTH OF THE COMPANY

The growth of the Company for the years under examination is presented in the following schedules, which were prepared from information contained in the Company's annual statements for the years indicated. The amounts reported below for 2015 were determined by examination.

<u>Year</u>	<u>Admitted assets</u>	<u>Liabilities</u>	<u>Capital</u>	<u>Surplus</u>
2013	\$2,043,552,956	\$1,417,993,069	\$0	\$625,559,887
2014	2,315,375,246	1,467,388,160	0	847,987,086
2015	2,463,382,952	1,528,084,701	0	935,298,251

Premiums by State

The Company is licensed only in the State of Colorado.

A schedule of direct premiums written, reinsurance assumed and ceded and net premiums written and earned follows

Year	Direct premiums written	Reinsurance assumed	Reinsurance ceded	Net premiums written	Net premiums earned
2013	\$478,230,077	\$11,213,236	\$1,013,918	\$488,429,395	\$479,718,586
2014	571,693,807	7,477,790	1,274,383	577,897,214	569,319,216
2015	633,021,356	8,424,395	1,494,838	639,950,913	635,875,803

Loss and Underwriting Experience

The following schedule shows the underwriting results of the Company. The amounts were compiled from the Company's filed annual statements. The amounts for 2015 were verified in connection with this examination.

Year	Net premiums earned	Loss and loss expense incurred	Underwriting expense incurred	Loss and loss exp. ratio%	Underwriting ratio%	Combined ratio %*
2013	\$479,718,586	\$424,405,042	\$110,022,346	88.47	22.93	111.40
2014	569,319,216	440,645,711	122,462,738	77.40	21.51	98.91
2015	635,875,803	408,195,657	140,906,570	64.19	22.16	86.35

*A combined ratio of greater than 100% is the result of a net underwriting loss

Each of the above ratios was calculated by the examiners

Year	Total operating income	Total operating deductions	Net underwriting gain/(loss)	Investment and other income	Net income before dividends and taxes
2013	\$479,718,586	\$534,427,388	\$(54,708,802)	\$ 82,524,721	\$27,815,919
2014	569,319,216	563,108,449	6,210,767	187,214,392	193,425,159
2015	635,875,803	549,102,227	86,773,576	44,207,446	130,981,022

The dollar figures reported in the schedules above were extracted from the filed statutory annual reports. The large 2014 increase in investment and other income was due to significant realized capital gains as a result of the Company restructuring its investment portfolio.

REINSURANCE

The following exhibit presents an overview of the Company's reinsurance program in comparison to total written premiums as of December 31, 2015, as reflected in the Company's 2015 Annual Statement:

	Premiums Written
Direct Business	\$ 633,021,356
Reinsurance Assumed	8,424,395
Subtotal	\$ 641,445,751
Reinsurance Ceded	1,494,838
Total	\$ 639,950,913

Ceded

The Company utilizes excess of loss reinsurance coverages for protection against losses in excess of its retention. During the exam period, coverage was obtained through treaties with various reinsurers and syndicates, which the Company accesses through a reinsurance broker.

The reinsurance coverage for individual worker's compensation accidents was as follows:

- Layer 1 – Limit of \$20 million in excess of retention of \$20 million per occurrence.
- Layer 2 – Limit of \$40 million in excess of retention of \$40 million per occurrence
- Terrorism Only – Limit of \$50 million in excess of retention of \$80 million per occurrence.

All three layers include nuclear, biological, chemical or radiological weapons coverage. The Company has not incurred any claims where the excess loss coverage was utilized. The Company did not claim reinsurance recoverables or take reserve credits associated with its excess of loss coverage during the exam period.

The reinsurance agreements reviewed were found to meet NAIC guidelines with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines. Compliance with Section 10-3-118, C.R.S. and Colorado Insurance Regulations 3-3-3 and 3-3-5 was evaluated as part of this examination. It was concluded that the reinsurance agreements contain language sufficient to meet the requirements of the Colorado statute and regulations.

Assumed

The Company has entered into assumed reinsurance contracts that allow the Company to provide insurance coverage under the worker's compensation provisions of other states for the employees of Colorado companies who work outside of Colorado. Since 2010, this coverage, called "Other States Coverage" (OSC), is contracted with Zurich American and American Zurich Insurance Companies (Zurich), a New York domiciled company licensed in the State of Colorado. Prior to 2010, this coverage was through a contract with Argonaut Insurance Company. The Argonaut contract was canceled in 2010; however, the Company continues to pay existing claims in accordance with contract terms until these claims are closed or the risks are transferred.

The OSC contracts are designed as 100% quota share arrangements with the Company acting as the assuming company. The Company assumes 100% of the business issued by Zurich, "owning" all financial liability and risk associated with the OSC policies. The employer/policyholder receives a

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separate Zurich policy for this coverage. Premium revenue is recognized pro rata over the period the policy is effective.

It is noted that, as the assuming company under this fronting arrangement, the Company is considered an unauthorized insurer and as such, is required to provide the ceding insurer security in the amount of the unpaid losses (including IBNR). The Company provided letters of credit issued by a local bank as security for the unpaid loss reserves. As of December 31, 2015, the Company had assets in the amount of \$68.6 million pledged to this bank as collateral for these letters of credit.

The assumed reinsurance agreement with Zurich was reviewed and found to meet NAIC guidelines with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

ACCOUNTS AND RECORDS

The accounts and records of the Company are generated and maintained through an electronic data processing system utilizing a combination of internally developed and commercial off the shelf applications for its significant financial/business systems. The Company has established policies and procedures to outline its information system business practices and is proactive in implementing and monitoring its security environment.

A trial balance was extracted from the general ledger for the year ended December 31, 2015 and traced to the appropriate assets, liabilities, and income and expense exhibits of the annual statement. Test checks of postings from original documents to the general ledger revealed no material differences.

The Company is audited annually by an independent auditor pursuant to Section 8-45-121(2), C.R.S. The auditor is retained by the State Auditor's Office. The audit report was filed with the Division in accordance with related provisions in Colorado Insurance Regulation 3-1-4. The auditor's work papers were made available for review by the examination team and were used where applicable to avoid duplicative procedures.

The Company utilizes the services of a consulting actuary. The actuarial certifications for the examination period were filed with the Division as required by Colorado Insurance Regulation 3-1-3.

The Company maintains its securities with a custodian pursuant to the terms of a safekeeping agreement. It was noted that the custodial and safekeeping agreement was in compliance with the requirements of Colorado Insurance Regulation 3-1-16.

A review of the Company's records indicates that it routinely escheats unclaimed property to the appropriate jurisdictions.

FINANCIAL STATEMENTS

The following statement of Assets, Liabilities, Surplus and Other Funds that are based on statutory financial statements filed by the Company with the Division present the financial condition of the Company as of December 31, 2015. The Company was responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting practices prescribed and permitted by the Division. The accompanying comments on financial statements reflect any exam adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

This statement is followed by supporting statements and reconciliations presented in the following order:

Summary of Operations, for the Year Ended December 31, 2015

Capital and Surplus Account, for the Year Ended December 31, 2015

Reconciliation of Capital and Surplus, December 31, 2012 through December 31, 2015

Analysis of Examination Changes, as of December 31, 2015

Comparative Financial Statements, as of December 31, 2012 and December 31, 2015

ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDSDECEMBER 31, 2015ASSETS

	<u>Assets</u>	<u>Assets not admitted</u>	<u>Net admitted assets</u>
Bonds	\$1,833,785,822	\$ 0	\$1,833,785,822
Preferred stocks	553,457		553,457
Common stocks	447,762,615		447,762,615
Properties occupied by the company	16,225,566		16,225,566
Cash, cash equivalents & short-term investments	42,819,466	0	42,819,466
Other invested assets	24,416,858		24,416,858
Receivable for securities	71,334		71,334
Investment income due/accrued	14,212,116	118	14,211,998
Premiums and consideration:			
Uncollected premium & agents' balances	41,408,811	6,920,518	34,488,293
Deferred premium	50,490,000	5,100,000	45,390,000
Funds deposited with reinsured companies	1,895,082		1,895,082
Amounts receivable relating to uninsured plans	155		155
Electronic data processing equipment	1,849,038	86,732	1,762,306
Furniture and equipment	873,118	873,118	0
Aggregate write-ins for other than invested assets	1,677,439	1,677,439	0
Total assets	<u>\$2,478,040,877</u>	<u>\$14,657,925</u>	<u>\$2,463,382,952</u>

ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS (continued)DECEMBER 31, 2015LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$ 834,214,065
Reinsurance payable on paid losses and LAE		848,863
Loss adjustment expenses		105,910,138
Commissions payable, contingent commissions		33,035,154
Other expenses		15,657,702
Taxes, licenses and fees		2,097,185
Unearned premiums		83,514,215
Advance premiums		9,770,956
Policyholder dividends declared and unpaid		51,365,345
Ceded reinsurance premiums payable		30,583
Amounts withheld or retained by company for others		1,682,851
Payable for securities		4,750,907
Aggregate write-ins for liabilities		<u>385,206,737</u>
Total liabilities		<u>\$1,528,084,071</u>
Aggregate write-ins for special surplus funds	\$156,766,736	
Surplus notes	100,000,000	
Unassigned funds (surplus)	<u>678,531,515</u>	
Surplus as regards policyholders (Note 1)		<u>935,298,251</u>
Total liabilities, surplus and other funds		<u><u>\$2,463,382,952</u></u>

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015

Underwriting income

Premiums earned		<u>\$635,875,803</u>
<u>Deductions</u>		
Losses incurred	\$341,873,914	
Loss expenses incurred	66,321,743	
Other underwriting expenses incurred	<u>140,906,570</u>	
Total underwriting deductions		<u>549,102,227</u>
Net underwriting gain (loss)		<u>\$ 86,773,576</u>
<u>Investment income</u>		
Net investment income earned	63,958,693	
Net realized capital losses	<u>(9,367,556)</u>	
Total investment gain		<u>54,591,137</u>
<u>Other income</u>		
Net loss from agents' or premium balances charged off	(4,829,356)	
Finance and service changes not included in premiums	80,520	
Aggregate write-ins for miscellaneous income	<u>(5,634,855)</u>	
Total other income		<u>(10,383,691)</u>
Net income before dividends to policyholders		\$130,981,022
Dividends to policyholders		<u>32,410,123</u>
Net income		<u><u>\$ 98,570,899</u></u>

CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2015

Surplus as regards policyholders December 31, previous year		<u>\$847,987,086</u>
Net income	\$ 98,570,899	
Change in net unrealized capital gains (losses)	(13,633,656)	
Change in non-admitted assets	(760,744)	
Correction of error	<u>3,134,666</u>	
Change in surplus as regards policyholders for the year		<u>\$ 87,311,165</u>
Surplus as regards policyholders December 31, 2015		<u><u>\$935,298,251</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
DECEMBER 31, 2012 THROUGH DECEMBER 31, 2015

	2013	2014	2015
Surplus as regards policyholders December 31, previous year	\$616,101,766	\$625,559,887	\$847,987,086
Net income	26,095,763	191,835,335	98,570,899
Change in net realized capital gains (losses)	57,055,928	(71,097,116)	(13,633,656)
Change in net unrealized foreign exchange capital gain (loss)	(45,411)	0	0
Change in non-admitted assets	(2,054,764)	1,688,980	(760,744)
Change in surplus notes	0	100,000,000	0
Change in accounting principle	(70,171,950)	0	0
Correction of an error	(1,421,445)	0	3,134,666
Change in surplus as regards policyholders for the year	\$9,458,121	\$222,427,199	\$ 87,311,165
Surplus as regards policyholders December 31, current year	\$625,559,887	\$847,987,086	\$935,298,251

The above amounts were extracted from the Company's filed annual statements. The 2015 amounts were determined by examination.

ANALYSIS OF EXAMINATION CHANGES
DECEMBER 31, 2015

	<u>Per annual statement</u>	<u>Per examination</u>	<u>Surplus increase (decrease)</u>
<u>Admitted assets</u>			
Total admitted assets	<u>\$2,463,382,952</u>	<u>\$2,463,382,952</u>	<u>\$ 0</u>
<u>Liabilities</u>			
Total liabilities	<u>\$1,528,084,701</u>	<u>\$1,528,084,701</u>	<u>\$ 0</u>
<u>Capital and surplus</u>			
Total surplus	<u>\$ 935,298,251</u>	<u>\$ 935,298,251</u>	<u>\$ 0</u>
Net change per examination			<u><u>\$ 0</u></u>
Capital and surplus per annual statement			\$935,298,251
Net change per examination			<u>0</u>
Capital and surplus per examination			<u><u>\$935,298,251</u></u>

COMPARATIVE FINANCIAL STATEMENT
DECEMBER 31, 2012 AND DECEMBER 31, 2015
ADMITTED ASSETS

	<u>December 31, 2012*</u>	<u>December 31, 2015*</u>
Bonds	\$1,397,763,334	\$1,833,785,822
Stocks		
Preferred	8,500	553,457
Common	309,691,148	447,762,615
Real estate - properties occupied by company	19,209,404	16,225,566
Cash, cash equivalents and short-term investment	129,570,878	42,819,466
Other invested assets	0	24,416,858
Receivable for securities	0	71,334
Investment income due and accrued	14,900,747	14,211,998
Premiums and considerations:		
Uncollected premiums and agents' balances	20,687,913	34,488,293
Deferred premiums & installments booked but deferred	9,790,000	45,390,000
Reinsurance - Funds held or deposited with reinsurers	0	1,895,082
Amounts receivable related to uninsured plans	1,629	155
Electronic data processing equipment	864,032	1,762,306
Total assets	<u>\$1,902,487,585</u>	<u>\$2,463,382,952</u>

*As determined by examination

COMPARATIVE FINANCIAL STATEMENT
DECEMBER 31, 2012 AND DECEMBER 31, 2015
LIABILITIES, CAPITAL SURPLUS AND OTHER FUNDS

	<u>December 31, 2012*</u>	<u>December 31, 2015*</u>
Losses	\$ 676,346,741	\$ 834,214,065
Reinsurance payable on paid losses & LAE	0	848,863
Loss adjustment expenses	112,430,992	105,910,138
Commissions payable	12,669,834	33,035,154
Other expenses	11,379,402	15,657,702
Taxes, licenses and fees	3,801,038	2,097,185
Unearned Premium	62,150,298	83,514,215
Advance premium	8,931,373	9,770,956
Policyholders dividends declared and unpaid	12,747,682	51,365,345
Ceded Reinsurance Payable	0	30,583
Amounts withheld or retained by company for others	1,533,790	1,682,851
Payable for securities	0	4,750,907
Structured settlement liability	350,641,173	373,371,273
Premium deficiency reserve	20,206,715	0
Credit balances due policyholders	4,781,381	8,406,257
Reserve for unclaimed checks	5,560,400	2,729,207
Grants	3,205,000	700,000
Total liabilities	<u>\$1,286,385,819</u>	<u>\$1,528,084,701</u>
Aggregate write-ins for special surplus funds	\$ 0	\$ 156,766,736
Surplus notes	0	100,000,000
Unassigned funds (surplus)	<u>616,101,766</u>	<u>678,531,515</u>
Surplus as regards policyholders (Note 1)	<u>\$ 616,101,766</u>	<u>\$ 935,298,251</u>
Total liabilities, capital, surplus and other funds	<u><u>\$1,902,487,585</u></u>	<u><u>\$2,463,382,952</u></u>

*As determined by examination

Report of Financial Examination as of December 31, 2015	Pinnacol Assurance	25
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NOTES TO FINANCIAL STATEMENTS

Note 1 – Surplus as Regards Policyholders

Pursuant to Section 8-45-111, C.R.S., the board shall set aside such proportion as it may deem necessary of the earned premiums paid into the Company's fund, as a contribution to the surplus of the fund.

As determined by this examination, the Company's total adjusted capital and surplus under the risk based capital calculation is \$935,298,251 which is 1,107.4% of authorized control level as of December 31, 2015.

Report of Financial Examination as of December 31, 2015	Pinnacol Assurance	26
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RECOMMENDATIONS

There are no recommendations as a result of this examination.

CONCLUSION

The courtesy, assistance and cooperation extended by the officers and employees of the Company during the course of this examination are greatly appreciated.

Taylor-Walker and Associates, Inc. conducted the actuarial phase of the examination. Philip E. Gates, EDP Auditor for the Division, conducted the IS phase of the examination.

In addition to the undersigned, Brent Pearson and Judy Chen, Examiners for the Division, participated in the examination.

Respectfully submitted,

Daniel J. Watkins, CFE
Examiner-in-Charge
Division of Insurance
State of Colorado