



# 011138 - United Surety & Indemnity Company

*Report Revision Date:* 03/07/2017

<b>Rating and Commentary</b> <sup>1</sup>	<b>Financial</b> <sup>2</sup>	<b>General Information</b> <sup>3</sup>
<b>Best's Credit Rating:</b> 02/16/2017 <b>Rating Rationale:</b> 02/16/2017 <b>Report Commentary:</b> 03/07/2017	<b>Time Period:</b> 1st Quarter - 2017 <b>Last Updated:</b> 05/26/2017 <b>Status:</b> Quality Cross Checked	<b>Corporate Structure:</b> N/A <b>States Licensed:</b> 11/16/2001 <b>Officers and Directors:</b> 02/14/2017
 <a href="#">Best's Credit Rating Methodology</a>	<a href="#">Disclaimer</a>	 <a href="#">Best's Rating Guide</a>

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<sup>1</sup> The **Rating and Commentary** dates outline the most recent updates to the company's Best's Credit Rating, Rating Rationale, and Report Commentary for key rating and business changes. Report Commentary may include significant changes to the Business Profile, Risk Management, Operating Performance, Balance Sheet Strength, or Reinsurance sections of the report.

<sup>2</sup> The **Financial** dates reflect the current status of the financial tables and charts found within the AMB Credit Report, including whether the data was loaded "As Received" or had been run through A.M. Best "Quality Cross Checks".

<sup>3</sup> The **General Information** dates cover key changes made to Corporate Structure, States Licensed, or Officers and Directors.

Ultimate Parent: [MRM Group, Inc.](#)

## United Surety & Indemnity Company

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AMB #: 011138

Ultimate Parent #: [051221](#)

NAIC #: 44423

FEIN#: 66-0457223

### Best's Credit Ratings

Best's Financial Strength Rating: A

Outlook: Stable

Best's Issuer Credit Rating: a+

Outlook: Stable

Rating Effective Date: 02/16/2017

Financial Size Category: VII

Report Revision Date: 03/07/2017

### Rating Rationale

**Rating Rationale:** The ratings reflect United Surety & Indemnity Company's (USIC) excellent level of risk-adjusted capitalization, very strong operating performance over the long term, and strong local market expertise derived through the company's niche market focus. Partially offsetting these positive factors are the company's geographic risk concentration within Puerto Rico, which exposes operations to changes within the economic, competitive and regulatory environments, and high underwriting expense structure. While USIC's personal dwelling line of business remains highly profitable, the line exposes both earnings and surplus to the potential for frequent and severe weather-related events. However, this concern is mitigated by the company's comprehensive reinsurance program, which protects surplus from both aggregate and shock losses while reducing net retained exposures to a manageable level. Despite these concerns, the outlooks reflect USIC's conservative underwriting approach, along with strong level of risk-adjusted capitalization, as well as A.M. Best's expectation for profitable earnings and additional surplus growth over the near term.

The positive rating factors are derived from USIC's profitable underwriting and solid investment performance, which has mitigated the surplus decline due to the payment of significant stockholder dividends and capital losses. The company remains the largest provider of surety insurance in Puerto Rico and has become one of the preferred providers of dwelling insurance on the island. While USIC has reported modest levels of adverse reserve development on select older accident years primarily due to increased losses from contract surety bonds, management subsequently implemented stricter underwriting guidelines and has developed reserving practices to more accurately reflect loss trends. As a result, development patterns improved as evidenced by favorable reserve development in subsequent accident years.

While USIC is well positioned at its current rating level, negative rating actions could occur if the company's underwriting and operating performance and consequently risk-adjusted capitalization fall below A.M. Best's expectations.

## Five Year Rating History

Date	BEST'S	
	FSR	ICR
02/16/2017	A	a+
02/12/2016	A	a+
01/28/2015	A	a+
12/13/2013	A	a+
12/21/2012	A	a+

## Key Financial Indicators

Period Ending	Statutory Data (\$000)					
	Premiums Written		Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus
	Direct	Net				
2016	38,424	26,324	13,873	10,818	98,754	59,784
2015	37,167	25,854	15,114	-4,122	94,218	54,078
2014	35,966	24,450	8,433	8,046	98,932	55,319
2013	35,925	22,404	8,635	8,364	108,960	60,330
2012	37,069	20,997	7,111	8,861	106,168	62,802
03/2017	7,876	5,019	4,052	2,638	102,746	62,570
03/2016	8,353	5,574	4,076	2,633	96,035	53,747

Period Ending	Profitability			Leverage			Liquidity	
	Combined Ratio	Investment Yield (%)	Pre-tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2016	56.0	2.4	52.5	21.4	0.4	1.1	253.4	114.5
2015	50.0	3.3	60.2	29.6	0.5	1.2	234.7	142.6
2014	76.3	3.8	36.5	48.0	0.4	1.2	226.8	139.6
2013	80.9	3.8	37.5	17.3	0.4	1.2	224.1	138.0
2012	81.9	3.8	35.0	16.8	0.3	1.0	244.8	125.9
5-Yr Avg	68.0	3.5	45.1	...	...	...	...	...
03/2017	60.6	2.0	61.1	21.0	0.4	1.1	255.7	118.9
03/2016	57.3	2.9	62.0	23.4	0.5	1.3	227.1	107.3

(\*) Within several financial tables of this report, this company is compared against the Commercial Property Composite.

(\*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

## Business Profile

United Surety & Indemnity Company (USIC) is licensed to write all property and casualty business in Puerto Rico. While USIC is the largest surety writer in Puerto Rico and specializes in contract surety bonds, the majority of written premium is derived from residential dwelling coverage on single family, reinforced concrete properties which the company began writing in 1993. The company targets small surety contracts less than \$2 million, although has flexibility to underwrite up to \$6 million. USIC also offers builders' risk coverage as well as private flood insurance. USIC is a subsidiary of MRM Group, Inc., and is a sister company to USIC Life Insurance Company.

## Scope of Operations

### Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Net Premiums Earned	
	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)
2016	38,424	3.4	...	...	12,100	7.0	26,324	1.8	26,425	5.3
2015	37,167	3.3	...	...	11,313	-1.8	25,854	5.7	25,091	8.7
2014	35,966	0.1	...	...	11,517	-14.8	24,450	9.1	23,090	0.3
2013	35,925	-3.1	...	...	13,521	-15.9	22,404	6.7	23,013	13.2
2012	37,069	4.2	...	...	16,072	7.0	20,997	2.1	20,326	-10.9
5-Yr CAGR	XX	1.6	XX	...	XX	-4.2	XX	5.1	XX	3.0
03/2017	7,876	-5.7	...	...	2,856	2.8	5,019	-9.9	6,627	0.9
03/2016	8,353	8.4	...	...	2,780	-2.2	5,574	14.6	6,571	9.2

## Territory

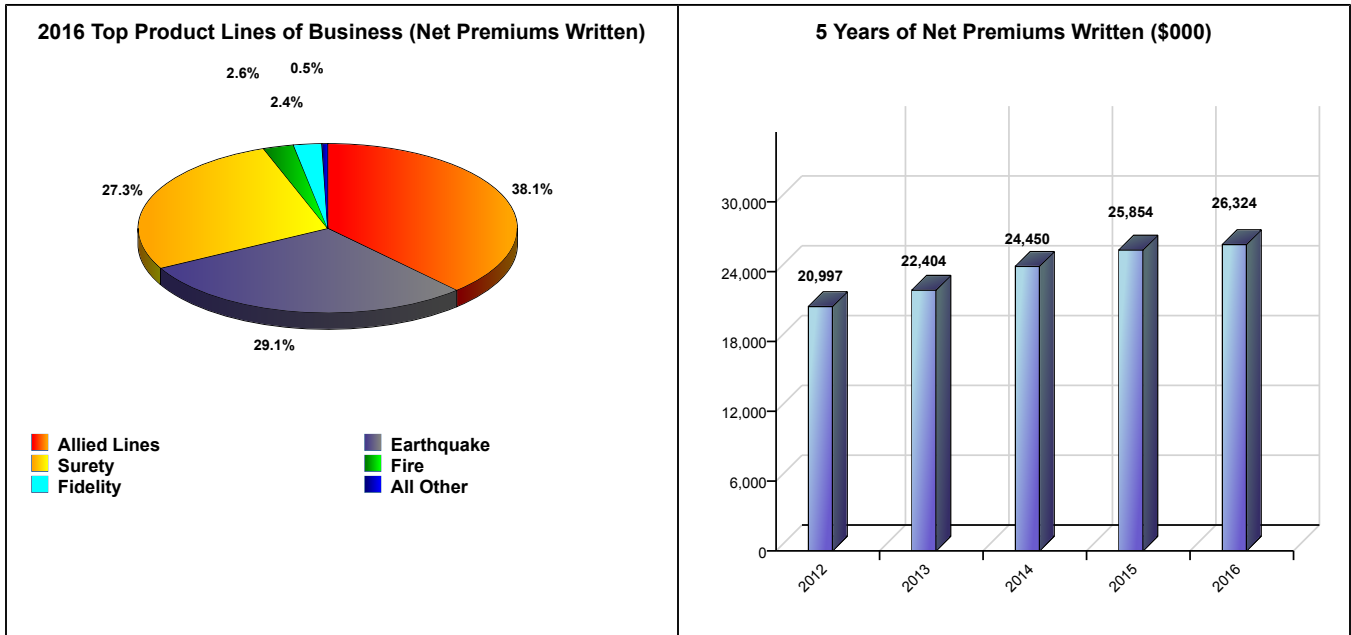
The company is licensed in Puerto Rico.

## Business Trends

### 2016 By-Line Business (\$000)

Product Line	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention (%)
	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	
Allied Lines	12,256	31.9	...	...	2,227	18.4	10,029	38.1	81.8
Earthquake	8,964	23.3	...	...	1,316	10.9	7,648	29.1	85.3
Surety	14,518	37.8	...	...	7,319	60.5	7,199	27.3	49.6
Fire	812	2.1	...	...	119	1.0	693	2.6	85.3
Fidelity	693	1.8	...	...	69	0.6	624	2.4	90.0
Group A & H	796	2.1	...	...	796	6.6	...	...	...
All Other	384	1.0	...	...	254	2.1	130	0.5	33.9
Total	38,424	100.0	...	...	12,100	100.0	26,324	100.0	68.5

## Business Trends (Continued...)



### By-Line Reserves (\$000)

Product Line	2016	2015	2014	2013	2012
Allied Lines	2	1	2	5	3
Earthquake	5	...	7	5	5
Surety	8,444	10,881	16,102	17,591	18,043
Fire	14	...	7	35	7
Fidelity	...	...	...	29	29
All Other	1	...	...	...	...
<b>Total</b>	<b>8,464</b>	<b>10,882</b>	<b>16,118</b>	<b>17,664</b>	<b>18,087</b>

## Market Share / Market Presence

### Geographical Breakdown By Direct Premium Writings (\$000)

	2016	2015	2014	2013	2012
Puerto Rico	38,424	37,167	35,966	35,925	37,069
<b>Total</b>	<b>38,424</b>	<b>37,167</b>	<b>35,966</b>	<b>35,925</b>	<b>37,069</b>

## Risk Management

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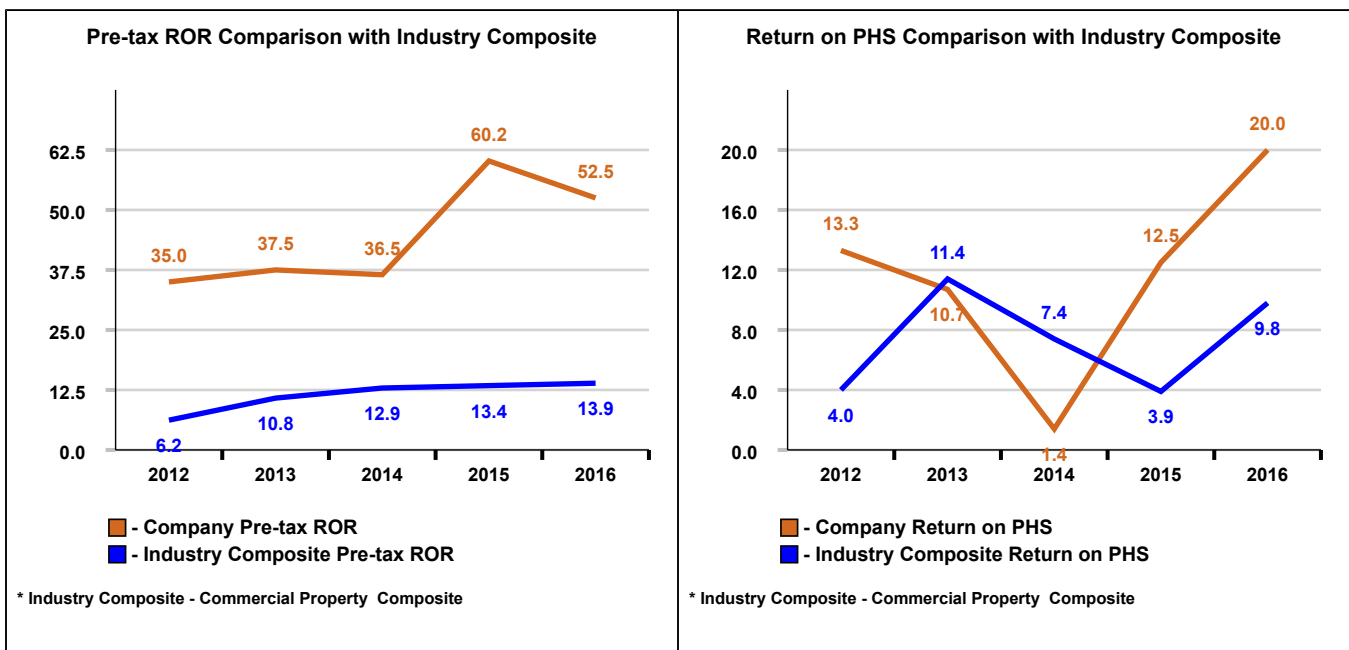
USIC has developed a comprehensive risk management process which is regularly evaluated. Management reviews a number of areas including Operational, Financial, Event, Geographic, Infrastructure, and Investment Risk, all of which potentially represent an exposure to the organization. While management has identified the 5 largest exposures (OTTI risk due to downgrade of PR bonds, Exposure to a series of surety losses, loss of main dwelling client, Internal systems and control failures, CAT risk) it has not yet quantified the potential correlation of the risks occurring in combination. However, management has identified its risk appetite statement (evaluated on an annual basis) which provides probabilities for specific loss occurring in various risk categories such as: Capital Risk, Rating Risk, Profitability Risk (ROE) and Profitability Risk (Combined Ratio). Management has identified risks which could potentially pose a threat to the organization, performing stress tests on both budgeted and actual results. Event risk from hurricane losses are monitored weekly, as management monitors risk aggregation and concentration by producer with a reinsurance program covering 100 year PML for wind. Excess EQ and Flood protection is in place to protect against a potential model error.

## Operating Performance

**Operating Results:** USIC has produced strong operating earnings over the long term as evidenced by its total return measures ( Revenue and Surplus) which outperform the commercial property composite over the recent five and ten-year period. The strong operating performance reflects consistently profitable underwriting results given its local market expertise which have typically benefited from favorable loss reserve development occurring on prior accident years, augmented by solid investment income. USIC has generally reported realized capital gains over the current five year period, although on a total return basis, results have been impacted by a significant decline in realized capital losses occurring in 2015. Conversely, unrealized capital losses were reported in four out of the past five years but a large unrealized capital gain was reported in 2015 for a positive five year total return. Going forward, A.M. Best anticipates that USIC will continue to generate strong earnings over the near term despite ongoing competitive market conditions.

### Profitability Analysis

Period Ending	Company				Industry Composite					
	Pre-tax Operating Income (\$000)	After-tax Operating Income (\$000)	Net Income (\$000)	Total Return (\$000)	Pre-tax ROR (%)	Return on PHS (%)	Operating Ratio (%)	Pre-tax ROR (%)	Return on PHS (%)	Operating Ratio (%)
2016	13,873	10,243	10,818	11,414	52.5	20.0	47.7	13.9	9.8	84.6
2015	15,114	11,029	-4,122	6,852	60.2	12.5	37.8	13.4	3.9	87.7
2014	8,433	7,178	8,046	835	36.5	1.4	60.0	12.9	7.4	87.2
2013	8,635	6,829	8,364	6,593	37.5	10.7	64.1	10.8	11.4	90.3
2012	7,111	6,983	8,861	8,458	35.0	13.3	62.9	6.2	4.0	94.6
5-Yr Avg/Tot	53,166	42,262	31,968	34,153	45.1	11.6	53.8	11.3	7.3	89.1
03/2017	4,052	2,654	2,638	2,865	61.1	20.0	54.7	XX	XX	XX
03/2016	4,076	2,831	2,633	2,668	62.0	14.7	47.7	XX	XX	XX



## Underwriting Results

**Underwriting Results:** USIC has consistently produced strong underwriting results despite the challenges associated with ongoing competitive market conditions, as evidenced by reported combined ratios which have outperformed the peer composite by a wide margin over the long term. The strong underwriting performance is reflected in low loss and loss adjustment expense ratios which outperform the commercial property composite by a considerable margin, partially offset by the above average expense ratio which is reflective of the competitive market in which the company operates. USIC's strong underwriting results and low loss ratios are reflective of the large personal dwelling book of business, and commitment to conservative reserving practices, especially over the most recent five year period. While surety claims negatively impacted results in earlier years, management implemented tighter underwriting guidelines for the surety lines while non-renewing specific accounts which significantly improved results. Given management's cautious approach towards underwriting, A.M. Best anticipates profitable underwriting results over the near term despite ongoing competitive market conditions.

### Underwriting Experience

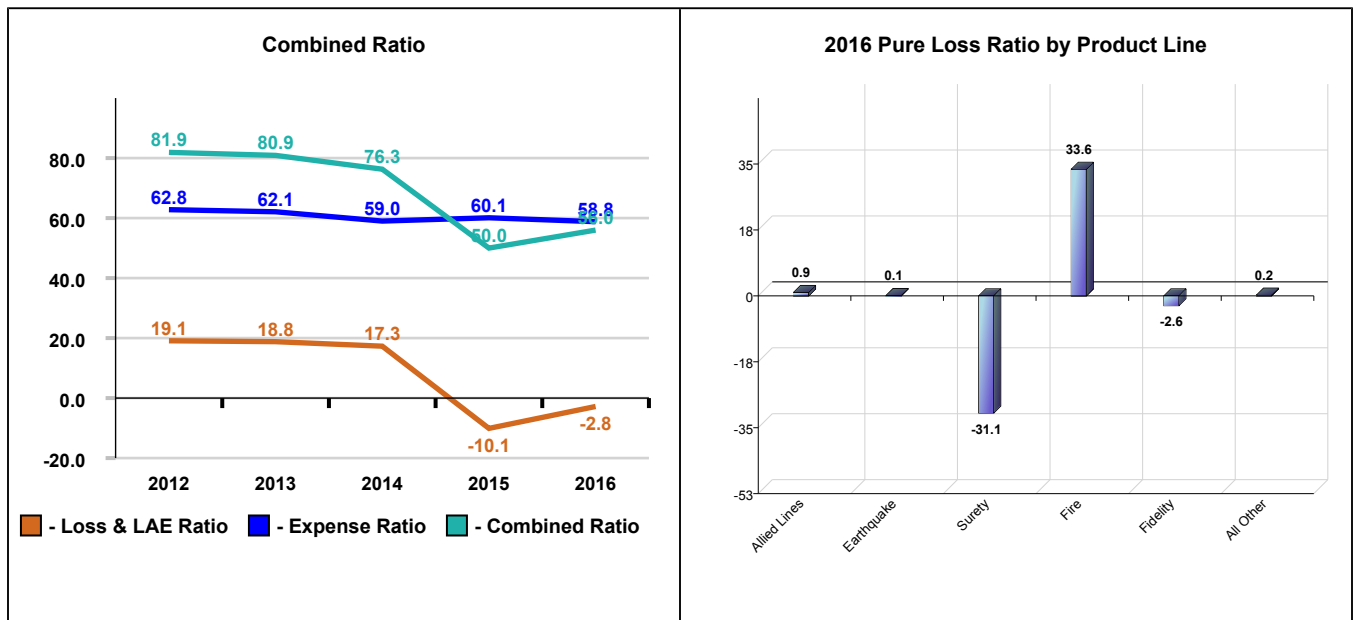
Year	Company								Industry Composite	
	Net Undrw Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb. Ratio	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.			
2016	11,681	-6.7	4.0	-2.8	30.2	28.6	58.8	...	56.0	91.9
2015	12,087	-15.0	4.9	-10.1	32.4	27.7	60.1	...	50.0	94.6
2014	4,666	11.9	5.4	17.3	31.9	27.2	59.0	...	76.3	93.5
2013	4,780	13.2	5.6	18.8	32.8	29.3	62.1	...	80.9	96.4
2012	3,256	13.9	5.2	19.1	32.1	30.7	62.8	...	81.9	101.2
5-Yr Avg/Tot	36,469	2.6	5.0	7.6	31.8	28.6	60.4	...	68.0	95.7
03/2017	3,659	-8.7	4.1	-4.6	XX	XX	65.2	...	60.6	XX
03/2016	3,441	-8.9	2.3	-6.6	XX	XX	63.9	...	57.3	XX

### Loss Ratio By Line

Product Line	2016	2015	2014	2013	2012	5-Yr. Avg.
Allied Lines	0.9	...	0.3	0.3	0.1	0.4
Earthquake	0.1	0.2	0.7	0.1	0.1	0.2
Surety	-31.1	-58.4	34.3	33.7	29.4	3.6
Fire	33.6	29.9	44.5	58.8	78.3	47.7
Fidelity	-2.6	...	-0.9	...	1.3	-0.4
All Other	0.2	...	8.6	...	0.3	1.9
Total	-6.7	-15.0	11.9	13.2	13.9	2.6



## Underwriting Results (Continued...)



### Direct Loss Ratios By State

	2016	2015	2014	2013	2012	5-Yr. Avg.
Puerto Rico	-11.2	-20.9	20.1	33.8	33.5	10.9
Total	-11.2	-20.9	20.1	33.8	33.5	10.9

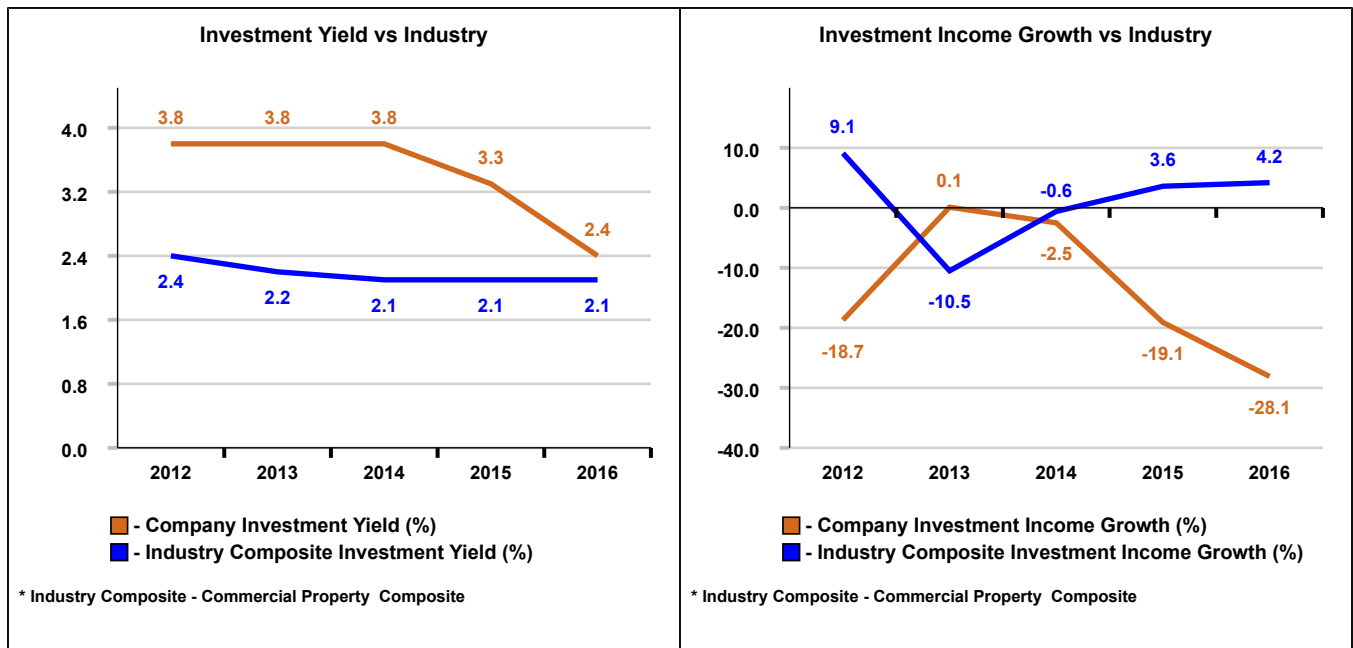
## Investment Results

**Investment Results:** The company maintains a significant level of short term holdings which allows the company to address claim and other short term obligations. USIC's invested asset base has declined over the past five-year period largely due to stockholder dividends payouts, capital losses and an accounting change in certain investments as a result of downgrades on select Puerto Rico bonds. The company's net investment income has declined over the current five year period primarily due to the reduced invested assets bases and the low interest environment. Despite the decline, investment yields have outperformed the peer composite over the long term. USIC typically invests more than 95% of admitted assets, primarily in a portfolio consisting of government bonds, tax exempt securities, corporate bonds, and to a lesser extent, common stocks.

## Investment Results (Continued...)

### Investment Gains

Year	Company						Industry Composite		
	Net Investment Income (\$000)	Realized Capital Gains (\$000)	Unrealized Capital Gains (\$000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Pre-tax Invest Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2016	2,192	575	597	-28.1	2.4	3.1	4.0	4.2	2.1
2015	3,048	-15,151	10,974	-19.1	3.3	-12.1	-2.3	3.6	2.1
2014	3,767	869	-7,211	-2.5	3.8	4.7	-4.4	-0.6	2.1
2013	3,864	1,535	-1,772	0.1	3.8	5.4	3.4	-10.5	2.2
2012	3,859	1,878	-403	-18.7	3.8	5.7	5.3	9.1	2.4
5-Yr Avg/Tot	16,730	-10,294	2,185	-13.2	3.5	1.3	1.2	1.0	2.2
03/2017	393	-15	227	-38.1	2.0	2.8	0.7	XX	XX
03/2016	635	-199	36	-30.5	2.9	-12.3	0.5	XX	XX



## Balance Sheet Strength

### Capitalization

**Capitalization:** The company's underwriting, investment and reinsurance risks are fully supported by its excellent level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) which fully supports the rating. The strong capital position reflects the company's conservative underwriting leverage and investment philosophy. Despite strong earnings, surplus growth has been tempered by sizable annual stockholder dividends during the recent five-year period as well as realized and unrealized capital losses. Management has indicated that future dividend allocation remains flexible and dependent upon company performance. A.M. Best anticipates that capitalization will remain fully supportive of the rating over the near term as additional surplus growth should be driven by profitable earnings.

Current BCAR: 577.5

### Capital Generation Analysis (\$000)

Year	Source of Surplus Growth							
	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	% Change in PHS
2016	13,873	575	3,630	597	-6,000	292	5,707	10.6
2015	15,114	-15,151	4,085	10,974	-6,940	-1,153	-1,241	-2.2
2014	8,433	869	1,256	-7,211	-4,000	-1,846	-5,011	-8.3
2013	8,635	1,535	1,806	-1,772	-8,861	-204	-2,472	-3.9
2012	7,111	1,878	128	-403	-10,000	16	-1,526	-2.4
5-Yr Total	53,166	-10,294	10,904	2,185	-35,801	-2,895	-4,544	-1.5
03/2017	4,052	-15	1,398	227	...	-79	2,786	4.7
03/2016	4,076	-199	1,244	36	-3,000	...	-331	-0.6

### Quality of Surplus (\$000)

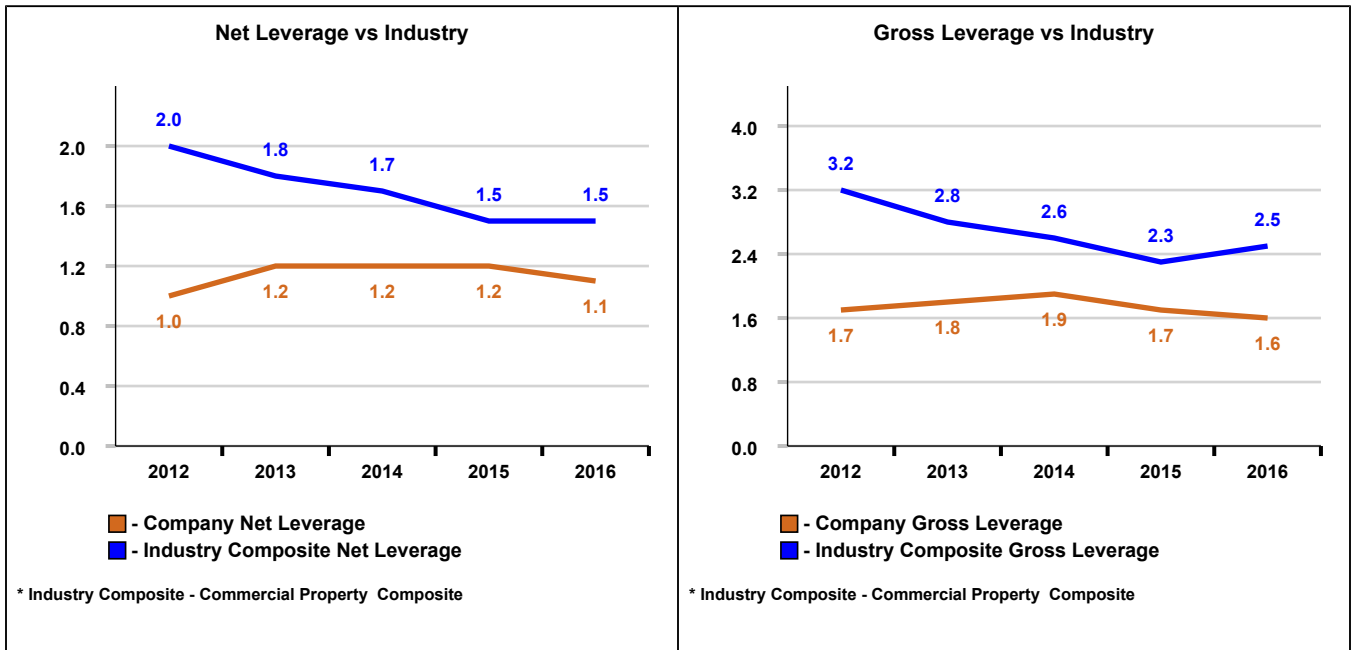
Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2016	...	...	20,368	39,416	59,784	...	59,784
2015	...	...	19,741	34,337	54,078	...	54,078
2014	...	...	19,324	35,995	55,319	...	55,319
2013	...	...	18,971	41,359	60,330	...	60,330
2012	...	...	18,596	44,206	62,802	...	62,802
03/2017	...	...	20,434	42,137	62,570	...	62,570
03/2016	...	...	19,834	33,912	53,747	...	53,747

## Underwriting Leverage

**Underwriting Leverage:** USIC's underwriting leverage measures has fluctuated over the past five years due to modest growth in premiums and its associated liabilities coupled with the slight decline in the company's surplus. Despite the slight increase in the company's underwriting leverage measures in recent years, these measures still compare favorably with the commercial property composite.

### Leverage Analysis

Year	Company				Industry Composite			
	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2016	0.4	0.1	1.1	1.6	0.5	0.4	1.5	2.5
2015	0.5	0.2	1.2	1.7	0.4	0.4	1.5	2.3
2014	0.4	0.3	1.2	1.9	0.5	0.4	1.7	2.6
2013	0.4	0.3	1.2	1.8	0.6	0.4	1.8	2.8
2012	0.3	0.3	1.0	1.7	0.6	0.5	2.0	3.2
03/2017	0.4	0.1	1.1	XX	XX	XX	XX	XX
03/2016	0.5	0.2	1.3	XX	XX	XX	XX	XX



## Underwriting Leverage (Continued...)

### Ceded Reinsurance Analysis (\$000)

Year	Company				Industry Composite		
	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2016	27,656	68.5	27.4	46.3	42.2	48.0	92.8
2015	28,509	69.6	33.4	52.7	42.5	42.9	88.9
2014	35,657	68.0	45.3	64.5	48.2	48.3	94.4
2013	37,360	62.4	41.1	61.9	47.6	48.1	96.3
2012	40,204	56.6	40.0	64.0	49.9	67.3	120.0

### 2016 Reinsurance Recoverables (\$000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Affiliates	115	100	...	...	215
US Insurers	1,329	9,804	4,053	609	15,795
Pools/Associations	104	...	453	...	557
Total(ex US Affils)	1,433	9,804	4,506	609	16,352
Grand Total	1,548	9,904	4,506	609	16,567

\* Includes Commissions less Funds Withheld

## Loss Reserves

**Loss Reserves:** USIC has reported favorable loss reserve development in nine straight calendar years which reflects management's conservative underwriting guidelines for contract surety bonds, and improved monitoring of construction projects. However, the company reported slight adverse reserve development occurring on three of the recent nine accident years. The adverse loss reserve development in accident years 2011 and 2012 was driven by a spike in surety losses and incorrect allocation between accident years which were corrected in 2013. Subsequently, management implemented a number of initiatives including, corrective underwriting actions to limit future potential loss and reserves are set at the worst case scenario and do not reflect potential recoverables.

### Loss and ALAE Reserve Development: Calendar Year (\$000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru Latest Year End	Development to Original (%)	Development to PHS (%)	Developed Reserves to NPE (%)	Unpaid Reserves @ Latest Year End	Unpaid Reserves to Developed Reserves (%)
2016	8,461	8,461	...	...	32.0	8,461	100.0
2015	10,882	8,491	-22.0	-4.4	33.8	7,325	86.3
2014	16,119	9,930	-38.4	-11.2	43.0	7,002	70.5
2013	17,664	11,106	-37.1	-10.9	48.3	4,269	38.4
2012	18,087	12,464	-31.1	-9.0	61.3	3,368	27.0
2011	19,561	14,393	-26.4	-8.0	63.1	2,535	17.6

## Loss Reserves (Continued...)

### Loss and ALAE Reserve Development: Accident Year (\$000)

Accident Year	Original Loss Reserves	Developed Reserves Thru Latest Year End	Development to Original (%)	Unpaid Reserves @ Latest Year End	Accident Year Loss Ratio	Accident Year Comb. Ratio
2016	1,136	1,136	...	1,136	6.3	65.1
2015	1,419	855	-39.7	323	5.0	65.1
2014	4,109	3,735	-9.1	2,733	18.8	77.8
2013	5,816	2,048	-64.8	901	14.7	76.8
2012	894	2,833	216.9	833	16.9	79.7
2011	6,088	5,955	-2.2	387	32.8	94.7

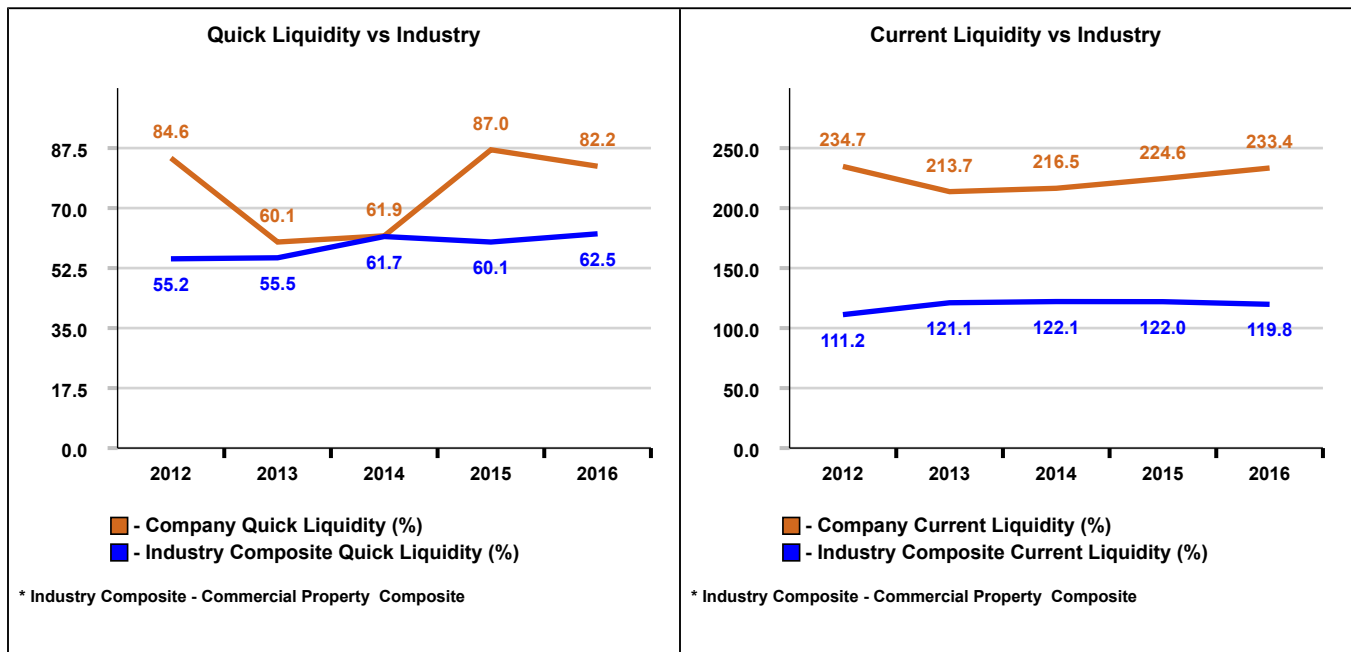
## Liquidity

**Liquidity:** USIC maintains an excellent liquidity position as evidenced by the company's overall liquidity ratios which exceed the peer composite by a considerable margin. The company's liquidity measures have been enhanced by positive underwriting and operating cash flows. Cash flow measures declined slightly during 2011 due in part to a reduction in premium volume combined with an increase in loss payments, yet remained solid given strong underwriting and investment results. Both underwriting and operating cash flow measures improved in recent years as premium collections increased, while loss payments declined. Operating cash flows improved due to a reduction in income taxes paid. Despite some fluctuations, both measures have compared favorably with the peer composite throughout the recent five year period.

### Liquidity Analysis

Year	Company				Industry Composite			
	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)
2016	82.2	233.4	253.4	3.7	62.5	119.8	191.3	14.3
2015	87.0	224.6	234.7	3.8	60.1	122.0	196.0	17.9
2014	61.9	216.5	226.8	2.1	61.7	122.1	186.4	19.6
2013	60.1	213.7	224.1	2.8	55.5	121.1	178.7	23.0
2012	84.6	234.7	244.8	2.1	55.2	111.2	170.6	24.8
03/2017	XX	242.4	255.7	2.0	XX	XX	XX	XX
03/2016	XX	219.5	227.1	2.5	XX	XX	XX	XX

## Liquidity (Continued...)



## Cash Flow Analysis (\$000)

Year	Company					Industry Composite	
	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2016	9,331	3,694	-5,662	154.5	114.5	104.9	107.2
2015	8,578	8,619	8,293	151.6	142.6	104.6	105.6
2014	5,044	8,261	-736	125.2	139.6	119.4	122.4
2013	3,639	7,047	-896	120.3	138.0	96.9	100.2
2012	3,640	5,185	6,273	120.8	125.9	99.8	103.5
5-Yr Total	30,232	32,805	7,271	...	...	...	...
03/2017	417	1,012	3,959	107.8	118.9	XX	XX
03/2016	392	479	4,685	106.6	107.3	XX	XX

## Investments

**Investments:** USIC's investment leverage has declined from the beginning part of the five-year period and compares favorably with the commercial property industry composite. Equity Exposure has increased between 2012 and 2016, surplus remains somewhat exposed to market fluctuations given ongoing exposure to Puerto Rico investment holdings, as evidenced by capital losses over the past five years. Despite this concern, the majority of invested assets are comprised of a fixed income portfolio consisting of U.S. Government, municipal securities and corporate bonds, with the balance held in cash and cash equivalents.

## Investments (Continued...)

### Investment Leverage Analysis (% of PHS)

Year	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2016	4.0	...	2.7	14.8	21.4	...	2.0	42.1
2015	12.7	...	2.5	14.4	29.6	...	2.1	38.5
2014	37.4	...	2.3	8.3	48.0	...	2.0	42.7
2013	5.0	...	2.1	10.3	17.3	...	1.8	40.9
2012	6.1	...	...	10.7	16.8	...	1.7	34.8

## Investments - Bond Portfolio

### 2016 Distribution By Maturity

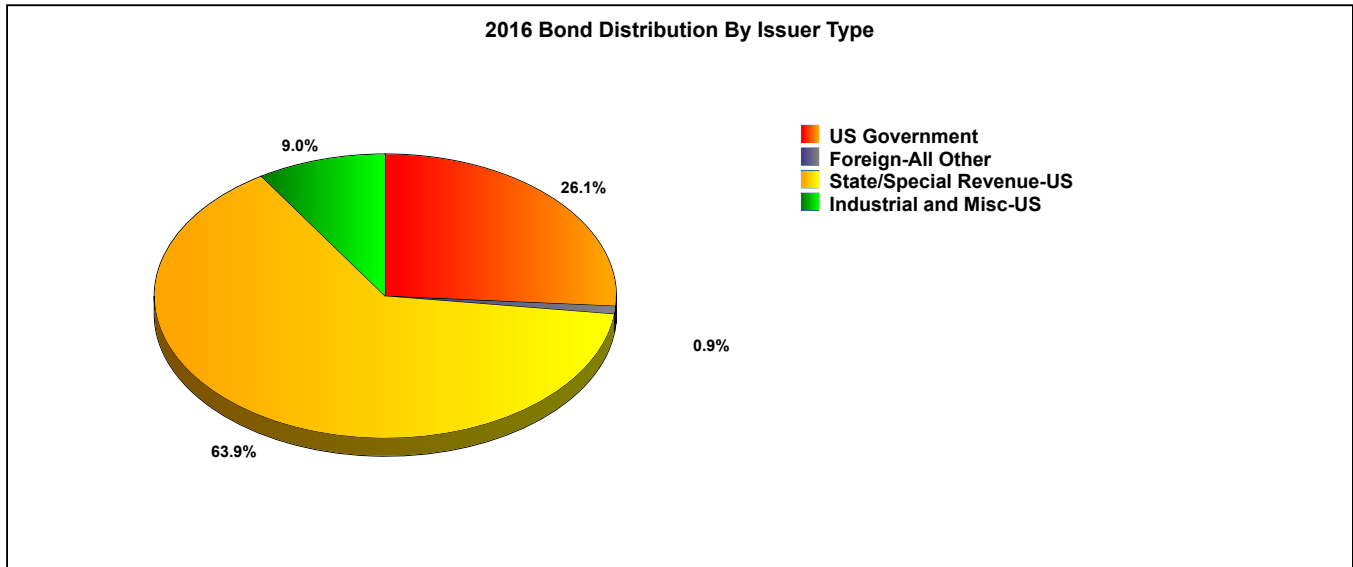
	Years					Years Average Maturity
	0-1	1-5	5-10	10-20	20+	
Government	4.0	13.4	7.6	0.8	0.4	4.6
Government Agencies and Muni.	3.9	25.1	28.0	6.8	0.1	6.1
Industrial and Misc.	0.6	4.8	4.2	0.1	0.3	5.5
Total	8.4	43.4	39.8	7.7	0.8	5.7

### Bond Distribution By Issuer Type

	2016	2015	2014	2013	2012
Bonds (\$000)	69,948	64,569	80,039	87,074	83,198
US Government	26.1	28.3	23.4	21.5	19.8
Foreign Government	...	...	1.6	1.5	1.6
Foreign-All Other	0.9	...	...	...	...
State/Special Revenue-US	63.9	68.5	72.9	75.7	78.6
Industrial and Misc-US	9.0	3.2	2.1	1.3	...



**Investments - Bond Portfolio (Continued...)**



**Bond Percent Private vs Public**

	2016	2015	2014	2013	2012
Public Issues	100.0	100.0	100.0	100.0	100.0

**Bond Quality Percent**

	2016	2015	2014	2013	2012
Class 1	94.1	90.3	74.1	70.2	66.5
Class 2	2.5	...	...	26.4	29.0
Class 3	0.6	0.5	15.1	3.4	4.6
Class 4	...	...	8.1	...	...
Class 5	...	1.3	2.7	...	...
Class 6	2.8	7.9	...	...	...

**Investments - Equity Portfolio**

	2016	2015	2014	2013	2012
Total Stocks (\$000)	10,634	9,467	6,420	8,242	9,115
Unaffiliated Common	83.0	82.3	71.9	75.0	73.7
Unaffiliated Preferred	17.0	17.7	28.1	25.0	26.3

**Investments - Other Invested Assets**

	2016	2015	2014	2013	2012
Total Other Invested Assets (\$000)	11,332	16,769	8,351	9,087	8,733
Cash	85.0	56.8	85.0	86.2	100.0
Short-Term	0.9	35.0	...	...	...
Schedule BA Assets	14.1	8.2	15.0	13.8	...

## History

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**Date Incorporated:** 01/29/1990

**Date Commenced:** 1990

**Domicile:** PR

United Surety & Indemnity Company was incorporated on January 29, 1990 in Puerto Rico to write surety business, and commenced operations on August 31, 1990. In 1993, USIC became fully licensed in all property lines and began writing dwelling business.

## Management

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The company is ultimately a family owned enterprise controlled by Maria de Lourdes Gonzalez Inclán (50%), Rafael Blanes Gonzalez (25%) and Maria de Lourdes Blanes Gonzalez (25%). Effective January 2004, the shareholders transferred 100% of the shares of the company to USIC Group, Inc., the holding company, in exchange for 100% of the shares of USIC. In 2014, USIC Group, Inc. changed its name to MRM Group, Inc. This change did not impact company structure or lines of business. Daily operations of the company are under the direction of Frederick Millan, president, who has over 30 years of experience in the Puerto Rico insurance industry.

## Officers And Directors

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### Officers

**President:** Frederick Millán

**CFO:** Jorge Junquera

**Vice President:** Duhamel Iglesias

**Secretary and Chief Risk Officer:** Rafael Blanes

**Controller:** Gretchen Manzanet

### Directors

Maria de Lourdes Blanes González

Rafael A. Blanes González

Carlos González Inclán

Maria de Lourdes González Inclán

Duhamel Iglesias

Frederick Millán

## Regulatory

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An examination of the financial condition was made as of December 31, 2012, by the insurance department of Puerto Rico. The 2015 annual independent audit of the company was conducted by BDO Puerto Rico, LLP. The annual statement of actuarial opinion is provided by Charles C. Pearl, Jr., FCAS, MAAA, Milliman.

## Reinsurance

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The company maintains dwelling property catastrophe reinsurance which provides protection against windstorm and earthquake exposures up to \$40.0 million, excess retention of \$2.0 million. USIC maintains an additional \$60 million excess \$40 million layer covering both earthquake and flood losses. For Builders Risk exposures, USIC maintains a surplus share proportional treaty which provides a maximum retention of \$500,000 on any one risk. USIC utilizes quota share reinsurance on the surety lines which provides 44% quota share reinsurance on bonds up to \$500,000, and 56% quota share reinsurance on bonds in excess of \$500,000 up to \$6.0 million.

## Balance Sheet (\$000)

Admitted Assets	YE 2016	YE 2015	2016 %	2015 %
Bonds	69,948	64,569	70.8	68.5
Preferred Stock	1,805	1,678	1.8	1.8
Common Stock	8,829	7,789	8.9	8.3
Cash and Short-term Invest	9,732	15,394	9.9	16.3
Real estate, investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	1,600	1,375	1.6	1.5
Investments in Affiliates	...	...	...	...
Real Estate, Offices	...	...	...	...
<b>Total Invested Assets</b>	<b>91,913</b>	<b>90,805</b>	<b>93.1</b>	<b>96.4</b>
Premium Balances	2,197	2,076	2.2	2.2
Accrued Interest	653	708	0.7	0.8
All Other Assets	3,990	629	4.0	0.7
<b>Total Assets</b>	<b>98,754</b>	<b>94,218</b>	<b>100.0</b>	<b>100.0</b>

Liabilities & Surplus	YE 2016	YE 2015	2016 %	2015 %
Loss and LAE Reserves	8,464	10,882	8.6	11.5
Unearned Premiums	15,141	15,243	15.3	16.2
Derivatives	...	...	...	...
Conditional Reserve Funds	...	...	...	...
All Other Liabilities	15,364	14,016	15.6	14.9
<b>Total Liabilities</b>	<b>38,970</b>	<b>40,140</b>	<b>39.5</b>	<b>42.6</b>
Surplus notes	...	...	...	...
Capital and Assigned Surplus	20,368	19,741	20.6	21.0
Unassigned Surplus	39,416	34,337	39.9	36.4
<b>Total Policyholders' Surplus</b>	<b>59,784</b>	<b>54,078</b>	<b>60.5</b>	<b>57.4</b>
<b>Total Liabilities and Surplus</b>	<b>98,754</b>	<b>94,218</b>	<b>100.0</b>	<b>100.0</b>

### Interim Balance Sheet (\$000)

<b>Admitted Assets</b>	<b>03/31/2017</b>
Bonds	72,251
Preferred Stock	1,785
Common Stock	9,134
Cash and Short-term Invest	13,691
Other Investments	1,688
<b>Total Invested Assets</b>	<b>98,548</b>
Premium Balances	1,226
Accrued Interest	546
Reinsurance Funds	218
All Other Assets	2,209
<b>Total Assets</b>	<b>102,746</b>
<b>Liabilities &amp; Surplus</b>	<b>03/31/2017</b>
Loss and LAE Reserves	7,920
Unearned Premiums	13,534
All Other Liabilities	18,722
<b>Total Liabilities</b>	<b>40,176</b>
Capital and Assigned Surp	20,434
Unassigned Surplus	42,137
<b>Total Policyholders' Surplus</b>	<b>62,570</b>
<b>Total Liabilities and Surplus</b>	<b>102,746</b>

## Summary Of 2016 Operations (\$000)

Statement of Income	2016	Funds Provided from Operations	2016
Premiums earned	26,425	Premiums collected	26,466
Losses incurred	-1,781	Benefit & loss-related pmts	545
LAE incurred	1,046		
Undwr expenses incurred	15,479	LAE & undwr expenses paid	16,591
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	...	Dividends to policyholders	...
Net underwriting income	11,681	Underwriting cash flow	9,331
		Net transfer	...
Net investment income	2,192	Investment income	2,623
Other income/expense	...	Other income/expense	...
Pre-tax operating income	13,873	Pre-tax cash operations	11,954
Realized capital gains	575		
Income taxes incurred	3,630	Income taxes pd (recov)	8,260
Net income	10,818	Net oper cash flow	3,694

## Interim Summary Of Operations (\$000)

### Interim Income Statement (\$000)

	Period Ended 03/31/2017	Period Ended 03/31/2016	Increase / Decrease
Premiums earned	6,627	6,571	56
Losses incurred	-574	-584	10
LAE incurred	271	151	120
Undwr expenses incurred	3,272	3,563	-292
Other expenses incurred	...	...	...
Dividends to policyholders	...	...	...
Net underwriting income	3,659	3,441	218
Net investment income	393	635	-242
Other income/expense	...	...	...
Pre-tax operating income	4,052	4,076	-24
Realized capital gains	-15	-199	183
Income taxes incurred	1,398	1,244	154
Net income	2,638	2,633	6

### Interim Cash Flow (\$000)

	Period Ended 03/31/2017	Period Ended 03/31/2016	Increase / Decrease
Premiums collected	5,769	6,303	-534
Benefit & loss-related pmts	-156	111	-266
LAE & undwr expenses paid	5,508	5,800	-293
Dividends to policyholders	...	...	...
Underwriting cash flow	417	392	25
Net transfer	...	...	...
Investment income	596	740	-144
Other income/expense	...	...	...
Pre-tax cash operations	1,013	1,131	-118
Income taxes pd (recov)	2	653	-651
Net oper cash flow	1,012	479	533

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A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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