

ROYAL NEIGHBORS OF AMERICA as of December 31, 2015

THE STATE of Royal Neighbors of America

The Audit Committee
is comprised of
four independent
board members:

Suzanne Riesterer,
Chairperson
Julie Bauer
Marla Glabe
Estella Vallejo

Audit Committee Report to Members, May 2016

The Royal Neighbors of America Audit Committee operates under a written charter adopted by the Board of Directors, and is responsible for overseeing the Society's financial reporting process on behalf of the Board of Directors and Society members. This responsibility is accomplished by following a detailed work plan of activities. Management is responsible for Royal Neighbors' financial statements and the financial reporting process, including internal controls. The Society's independent auditors are responsible for performing an independent audit of Royal Neighbors' financial statements in accordance with applicable regulatory accounting principles.

The Audit Committee's responsibility is to monitor and oversee these processes. In this context, the Audit Committee is authorized, among other things, to approve and retain the independent auditors to conduct the annual audit of the Society's financial books and records, review the proposed scope and results of the audit, review and pre-approve the independent auditor's audit and non-audit services rendered, approve the audit fees to be paid, review and approve related party transactions, recognize and prevent prohibited non-audit services by Royal Neighbors' independent auditors, review the annual operating budget proposed by management, and establish procedures for complaints received by the Society regarding accounting matters.

The Audit Committee was formed in September 2004 and meets at least quarterly throughout the year. The Committee meets with representatives of management and independent public accountants to review material matters related to auditing, financial reporting, internal controls, and audit results. For 2015, the Audit Committee retained the firm of Kerber, Eck & Braeckel, LLP (KEB) as Royal Neighbors' independent auditors.

The Audit Committee is comprised of four independent board members: Chairperson Suzanne Riesterer, Julie Bauer, Marla Glabe, and Estella Vallejo.

Royal Neighbors
 Financial Statement Summary
 (dollars in thousands)

BALANCE SHEET

December 31

	2015	2014
Investments	\$ 885,116	\$ 830,258
Real estate	1,974	2,085
Contract loans	14,880	14,202
Cash and short-term investments	40,042	33,128
Other assets	29,969	24,713
Total admitted assets	<u>\$ 971,981</u>	<u>\$ 904,386</u>
Insurance reserves and claims	\$ 718,565	\$ 670,562
Other liabilities	50,911	24,763
Total reserves and liabilities	<u>\$ 769,476</u>	<u>\$ 695,325</u>
Fraternal fund and assigned surplus	\$ 93,146	\$ 92,789
Unassigned surplus	109,359	116,272
Total certificateholders' surplus	<u>202,505</u>	<u>209,061</u>
Total insurance reserves, liabilities, and surplus	<u>\$ 971,981</u>	<u>\$ 904,386</u>

INCOME STATEMENT

Premium income, net of reinsurance	\$ 102,034	\$ 89,309
Investment income	43,816	41,023
Reinsurance allowances and miscellaneous income	4,289	4,581
Total income	<u>\$ 150,139</u>	<u>\$ 134,913</u>
Benefits paid or provided	\$ 100,509	\$ 91,980
Commissions	22,397	17,449
General and administrative expenses	29,145	26,433
Net income (loss) before net realized capital gains (losses)	<u>(1,912)</u>	<u>(949)</u>
Net realized capital gains (losses)	265	89
Net income (loss)	<u>\$ (1,647)</u>	<u>\$ (860)</u>

Royal Neighbors is rated **A- Excellent** (4th-highest out of 15) by the A.M. Best Company for overall financial strength and ability to meet ongoing obligations to certificateholders.

as of Dec. 31, 2015

Management's Report to the Membership

In 2015 Royal Neighbors of America reported both record-setting life sales and Social Good numbers. Our success on both fronts reflects our commitment to a responsible growth strategy for the future where Royal Neighbors' business funds the mission and our mission drives the business.

We generated revenue in excess of \$150 million; grew our assets by \$68 million to \$972 million; and are proud to have a surplus to assets ratio of 21 percent - more than double the industry benchmark,* indicating our ability to meet our fiduciary obligations to our membership. We also maintained our A.M. Best rating of A- (Excellent, 4th highest out of 15 possible) for overall financial strength.

Our Social Good activities, which we call the ROYAL Difference, are equally critical to Royal Neighbors' mission as a fraternal benefit society that provides financial protection through life insurance and "neighbor-helping-neighbor" community service. In 2015 Royal Neighbors and its members provided \$9.1 million in Social Good from charitable and volunteer activities; more than 113,000 volunteer hours; and \$718,000 to Royal Neighbors chapters to support local community projects and programs that empower women.

We are very proud of our 2015 results and look forward to continued growth in 2016.

*ACLI Factbook 2015

	December 31	
	2015	2014
Insurance in force face amount	\$3.2 billion	\$3.0 billion
Net admitted assets	\$971,981	\$904,386
Certificateholders' surplus	\$202,505	\$209,061
Premium income, net of reinsurance	\$102,034	\$89,309
Revenue	\$150,139	\$134,913

(dollars in thousands)

Chapter 20039, Davenport, IA, bell ringers



PRODUCT OPTIONS

- Whole Life
- Single Premium Whole Life
- Simplified Issue Whole Life
- Graded Death Benefit Whole Life
- Universal Life (Cash Value and 20-year Death Benefit Guarantee)
- Single Premium Immediate Annuity
- Single Premium Deferred Annuity (3, 5, and 6-year interest guarantee)
- Flexible Premium Deferred Annuity
- Traditional Individual Retirement Annuity
- Roth Individual Retirement Annuity

These products are not available in all states.

2015 Philanthropy

Together we can make a difference. And because strong women build strong communities, you'll find Royal Neighbors members throughout America's cities and hometowns changing the world. This is not a new concept for us. Volunteering and the importance of neighbor-helping-neighbor have been Royal Neighbors' vision since 1895. It's part of our DNA.

Our vision of protecting women financially and empowering them to improve their lives, families, and communities remains clear and focused. The results of our philanthropic endeavors define who we are and validate that we truly are Insurance with a DifferenceSM.

Funded Fraternal Programs

Nation of Neighbors SM Program	\$	100,000
Member Discount Programs	\$	307,200
Fraternal Aid	\$	10,000
Fraternal Support	\$	718,190
Corporate Charitable Contributions	\$	55,066
Scholarship Program	\$	173,500

To learn more about Royal Neighbors' philanthropic programs and activities, visit www.royalneighbors.org or call (800) 627-4762.

Youth Chapter 30, Sterling, IL, hosting a craft project for children



MEMBERS
live the
LEGACY

SOCIAL IMPACT

In 2015, Royal Neighbors members volunteered **113,945** hours for community service projects.