Atlantic Casualty Insurance Company

Goldsboro, North Carolina

Report on Examination

As of December 31, 2014

TABLE OF CONTENTS

March 30, 2016

Honorable Wayne Goodwin
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section ("§") 58-2-131 of the General Statutes of North Carolina ("GS"), the North Carolina Department of Insurance ("Department") conducted an examination of the records, business affairs and financial condition of

Atlantic Casualty Insurance Company

(hereinafter referred to as the "Company" or "ACIC"), at its main administrative office located at 400 Commerce Court; Goldsboro, North Carolina 27534. The Company's statutory home office is located at the same address. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2010 to December 31, 2014, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department's most recent prior examination of the Company was as of December 31, 2009.

The purpose of this examination was to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

This was a multi-state coordinated financial examination of Atlantic Casualty Insurance Company. North Carolina served as the Lead State, and the Participating State was Delaware. Delaware's domestic insurer was Little River Insurance Company.

We conducted our examination in accordance with standards established by the Department and the National Association of Insurance Commissioners ("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 the Company'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 and the following key functional activities were identified:

Investments
Premiums and Underwriting
Claims Handling and Actuarial Reserving
Reinsurance Ceding
Related Parties
Financial Reporting

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58, and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company's financial statements.

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

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Johnson Lambert, LLP of Raleigh, North Carolina, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2014.

The statutory reserves and related items for 2014 were reviewed and certified by the Company's Appointed Actuary, Chad C. Karls, MAAA, FCAS of Milliman, Inc.

REPORT ACRONYMS

The following acronyms will be used throughout the report of examination:

American Claims Services, Inc. ("ACS")
Atlantic Casualty Insurance Company ("the Company")
Auto-Owners Insurance Group ("Auto-Owners")
Board of Directors ("Board")
Financial Condition Examiners Handbook ("Handbook")
Installment Discount Corporation ("ID Corporation")
Little River Insurance Company ("Little River")
National Association of Insurance Commissioners ("NAIC")
North Carolina Department of Insurance ("Department")
North Carolina Reinsurance Facility ("the Facility")
SI Premium Plan, Inc. ("SI Premium")
Strickland Insurance Brokers, Inc. ("SIB")
Strickland Insurance Group, Inc. ("SIG")

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

A review of the Company's agreements with affiliates revealed that the agreements do not contain a provision for the right of "setoff" as prescribed by the NAIC Statement of Statutory Accounting Principle ("SSAP") 64, paragraphs 2 and 5. If the Company intends to "setoff" balances arising from these agreements, the Company is directed to comply with SSAP 64, paragraphs 2 and 5. The Department subsequently verified that this provision was cured.

CURRENT EXAMINATION

There were no significant findings in the current examination period.

COMPANY HISTORY

The Company was incorporated in 1983 under the laws of North Carolina as Atlantic Casualty Insurance Company and is a wholly owned subsidiary of Strickland Insurance Group, Inc. ("SIG"), a privately-owned company incorporated in the State of North Carolina. SIG is also the sole owner of Little River Insurance Company ("Little River"), a Delaware domiciled property and casualty insurance company, as well as several insurance service companies and non-insurance organizations.

Capital Stock

As of December 31, 2014, the Company's capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	5,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	$1,800,000
Par value per share	N/A

No additional shares were issued during the period under examination. As of December 31, 2014, all outstanding shares are owned by SIG.

The Company's gross paid-in and contributed capital totaled $25,845,618 and unassigned funds totaled $58,032,701 at December 31, 2014.

Dividends to Stockholder

Dividends on common stock are paid as declared by the Board of Directors ("Board") of the Company. Under the insurance regulations of North Carolina, the maximum amount of dividends which the Company may pay to shareholders is limited to the greater of: 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. Any amounts exceeding these limits are considered extraordinary and require prior Department approval. The Company paid dividends of $2,000,000 and $1,000,000 in 2014 and 2013, respectively.

Management and Control

Corporate Governance

Board of Directors

The business of the Company is conducted by its management team and subject to review by the Board. The bylaws specify that the number of directors shall be not less than three (3) and no more than ten (10). Directors are elected annually, at the annual meeting of shareholders or by the written consent of the stockholders, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors at December 31, 2014:

Name	Location	Principal Occupation
Robert Wyatt Strickland	Goldsboro, NC	Chairman of the Board, Chief Executive Officer of Strickland Insurance Group, Inc.
Robert Charles Strickland	Goldsboro, NC	President of Strickland Insurance Group, Inc.
Marianna Strickland Tillman	Goldsboro, NC	Executive Vice President and Secretary of Strickland Insurance Group, Inc.
Christopher Bret Strickland	Goldsboro, NC	President and Chief Operating Officer of Atlantic Casualty Insurance Company
Horace Lee Best	Goldsboro, NC	Chairman of the Audit Committee
William Glenn Reynolds	Goldsboro, NC	Retired
Lester Paul Aycock	Goldsboro, NC	Executive Vice President – Agency Services, Strickland Insurance Group, Inc.
Gregory Andrew Ricker	Goldsboro, NC	Partner – Sombra Technologies
William Bradley Dickler	Richmond, VA	Retired

The Board has the authority to establish committees. These committees have the power and duties deemed appropriate by the Board, however, their power cannot exceed the power of the Board. The Board has established an Audit Committee, an Investment Committee, and an Enterprise Risk Management Committee to act on behalf of the Company.

The following individuals served on Board committees at December 31, 2014:

Audit Committee
Horace Lee Best – Chairman
Robert Wyatt Strickland

Investment Committee
Robert Wyatt Strickland – Chairman
Robert Charles Strickland
Christopher Bret Strickland
Horace Lee Best

Enterprise Risk Management Committee
Robert Charles Strickland – Chairman
Christopher Bret Strickland

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company shall consist of a Chairman of the Board, Chief Executive Officer, Chief Financial Officer, President, Chief Operating Officer, Secretary, Treasurer, one or more Vice Presidents including Executive Vice Presidents and Senior Vice Presidents, and such Assistant Secretaries and Assistant Treasurers and other officers as may from time to time be appointed by the Board. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices may be held by the same person, but no officer may act in more than one (1) capacity where action of two (2) or more officers is required.

The following individuals served as officers of the Company at December 31, 2014:

Name	Title
Robert Wyatt Strickland	Chief Executive Officer
Christopher Bret Strickland	President and Chief Operating Officer
Stephen Michael Westfield	Chief Financial Officer, Treasurer and Assistant Secretary
Robert Charles Strickland	Executive Vice President
Marianna Strickland Tillman	Executive Vice President and Secretary
Lester Paul Aycock	Vice President – Agency Services
Christopher Travers Stratton	Vice President - IT
John Dodd Curry	Vice President – Marketing and Business Development
Brian Lee Schwarzbach	Vice President – Casualty Underwriting
Joseph Eugene Koch	Vice President – Property Underwriting
Mark Edward Caughron	Assistant Vice President
Cindy Davis Norville	Assistant Vice President
Jennifer McGowan Cunningham	Controller

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has an established policy and procedure to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed that the Company acted in accordance with its policy and procedures for disclosure of conflicts of interest.

CORPORATE RECORDS

The minutes of the meetings of the Board and its committees were reviewed for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

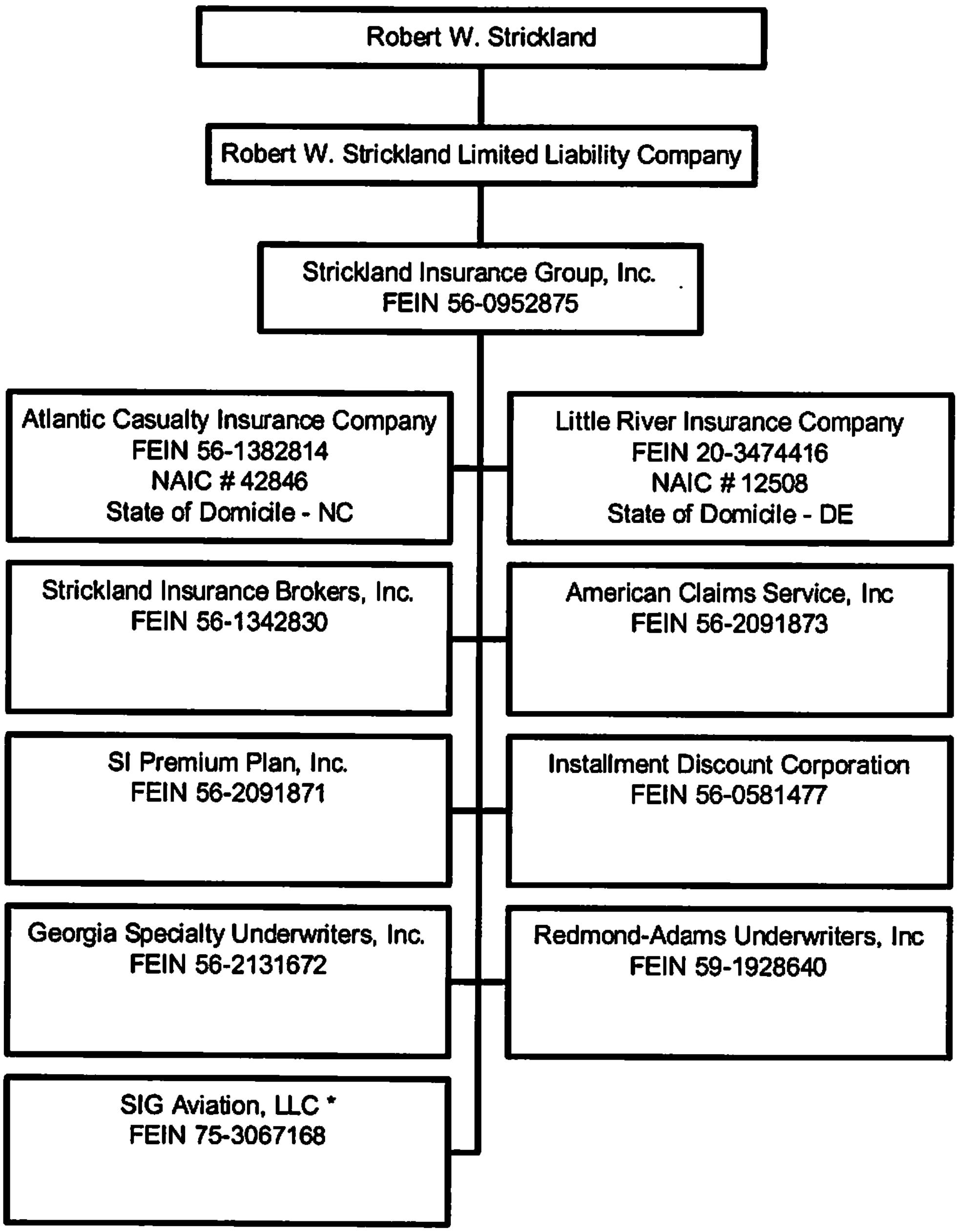
The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. No changes to the Articles of Incorporation and Bylaws were noted during the period under examination.

CORPORATE ORGANIZATION

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is a wholly owned subsidiary of SIG, a privately owned insurance holding company domiciled in the State of North Carolina. The ultimate controlling person of the insurance holding company system is Robert W. Strickland.

The following is an organizational chart including all of the entities in the Strickland Insurance Group:

STRICKLAND INSURANCE GROUP
ORGANIZATIONAL CHART



(*) SIG Aviation, LLC was dissolved, effective December 31, 2014.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2014 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state.

ACCOUNTS AND RECORDS

The Company's books and records, computer processing, and data center are maintained at the main administrative office at 400 Commerce Court, Goldsboro, North Carolina 27534.

The Company's Information Technology ("IT") environment has remained relatively consistent in recent years. WPC™ System ("WPC"), the Company's core policy and claims administration system, was purchased in 1998 and brought online in 1999. This system provides all policy and claims processing along with statistical and management reporting. A front-end web based system was built to attach to the WPC system to allow agents to electronically enter property and casualty data into the system, thereby eliminating any duplication of data entry by home office personnel.

All server hardware is located in the data center located at the Goldsboro, North Carolina location.

FIDELITY BONDS AND OTHER INSURANCE

The Company is a named insured under a fidelity bond issued to SIG with coverage totaling $2,200,000 in aggregate. The coverage exceeds the minimum amount of fidelity bond coverage recommended by the Handbook for SIG on a consolidated basis.

In addition, the Company is a named insured on various corporate property and liability policies issued to SIG, which appears to be adequate to cover risks in the normal course of business.

EMPLOYEE BENEFITS AND PENSION PLANS

SIG sponsors a defined contribution 401(k) profit sharing plan ("profit sharing plan"), contributing up to 5% of the annual cash compensation of eligible employees depending upon their individual contribution rates. The profit sharing plan covers most all employees. The Company's allocated share of expenses for the profit sharing plan amounted to $255,651 and $250,926 for 2014 and 2013, respectively. The Company has no legal obligation for benefits under this plan.

RELATED PARTY AGREEMENTS

The Company, in the normal course of business, is involved in intercompany transactions with SIG and its affiliates, including SIB, ACS, SI Premium, Redmond-Adams Underwriters, Inc., and Georgia Specialty Underwriters, Inc.

The Company has a management agreement with SIG, effective May 1, 1998, under which the Company is provided research, management, financial and accounting, computer, and other administrative services. The Company pays SIG a monthly service fee for actual expenses incurred by SIG. Under this agreement, the Company incurred management fees to SIG of approximately $11,161,000 and $10,002,000 in 2014 and 2013, respectively.

The Company has a claims service agreement with ACS, effective May 27, 1998, under which ACS provides claims handling and administration services for all claims related to insurance policies issued or assumed by the Company. The Company pays ACS a service fee for actual expenses incurred by ACS. Under this agreement, the Company incurred claims services fees to ACS of approximately $2,927,017 and $2,788,523 in 2014 and 2013, respectively.

The Company has an agency agreement with SIB, effective January 1, 1994, under which SIB provides underwriting services for the Company's North Carolina automobile business. SIB produced gross written premium for the Company of approximately $14,059,000 and $12,678,000 in 2014 and 2013, respectively. The Company incurred commission expenses to SIB of approximately $3,847,000 and $3,427,000 in 2014 and 2013, respectively.

The Company is included in a consolidated income tax return in accordance with a tax sharing agreement with SIG, effective May 1, 1998. The provisions for federal income tax are computed as if the Company were filing separate income tax returns. Benefits, which arise from tax credits and net operating losses, are allocated to the Company producing such results to the extent they are utilized in the consolidated income tax provisions. Intercompany tax balances are to be settled through estimated tax installments payable on or before the due date for each installment and final amounts for the fiscal year are settled within thirty days after amounts have been determined. The Company incurred federal income taxes to SIG of approximately $2,219,000 and $842,000 in 2014 and 2013, respectively.

TERRITORY AND PLAN OF OPERATION

Since April 1998, the Company has focused on writing commercial product lines of business. The Company primarily writes other liability, but also writes fire, allied lines, commercial multiple-peril and boiler and machinery. The Company writes commercial auto liability and physical damage in the state of North Carolina only. The Company is eligible to write on a non-admitted basis in the District of Columbia and every state except for North Carolina, where it is admitted. The Company is also an accredited reinsurer in North Dakota. The Company markets its products exclusively through general agents, including an affiliated company, Strickland Insurance Brokers, Inc. ("SIB").

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five year period ended December 31, 2014:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2014	$240,766,746	$85,678,319	$100,358,623	$71,615,942	$8,016,289
2013	$226,518,326	$82,914,726	$92,693,694	$63,594,965	$5,033,756
2012	$207,299,681	$76,031,128	$88,042,017	$64,401,050	$5,122,919
2011	$202,062,503	$71,782,966	$78,356,174	$48,891,448	$1,546,478
2010	$193,176,363	$72,302,012	$63,976,667	$44,908,586	$6,458,031

ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2014 were reviewed and certified by the Company's Appointed Actuary, Chad C. Karls, FCAS, MAAA, of Milliman, Inc. Actuarial opinions regarding the Company's reserves for loss and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the loss and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserves on loss and loss adjustment expenses met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; and made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company.

REINSURANCE PROGRAM OVERVIEW

AGREEMENTS FOR REINSURANCE CEDED

The Company ceded business to other insurance companies under various reinsurance agreements, including certain excess limit reinsurance coverage. Among other benefits, these reinsurance arrangements provide the Company with the capacity to write larger risks. The Company has casualty excess of loss and property excess of loss reinsurance contracts to minimize its exposure to losses. The Company remains contingently liable to the extent that the reinsurance companies are unable to meet their treaty obligations. The Company utilized Aon Benfield, Inc. and Assure Re Intermediaries, Inc. as reinsurance intermediaries to solicit, negotiate, and obtain reinsurance contracts on its behalf for specifically identified risks.

The Company cedes property business under excess of loss and catastrophe reinsurance agreements as follows:

TYPE	Layer	Coverage
Excess of Loss ("XOL")	1st Layer	$150,000 excess of $350,000
Excess of Loss ("XOL")	2nd Layer	$500,000 excess of $500,000
Facultative Excess of Loss	3rd Layer	$2,000,000 excess of $1,000,000
Catastrophe ("CAT")	1st Layer	$4,000,000 excess of $1,000,000
Catastrophe ("CAT")	2nd Layer	$10,000,000 excess of $5,000,000

The Company cedes casualty business under excess and excess of loss agreements as follows:

TYPE	Layer	Coverage
Excess	NA	$1,000,000 excess of $1,000,000
Excess of Loss ("XOL")	1st Layer	$800,000 excess of $200,000
Excess of Loss ("XOL")	2nd Layer	$4,000,000 excess of $1,000,000

100% of the Company's auto business written in North Carolina is ceded to the North Carolina Reinsurance Facility ("the Facility"), whereby the Company remains contingently liable for its proportionate share of the Facility's unfunded losses for each policy year.

The Facility was created by the North Carolina General Assembly in 1973 and is a non-profit, unincorporated legal entity comprising all licensed insurers writing motor vehicle liability insurance (or any component thereof) in North Carolina. It was established to assure the availability of motor vehicle liability insurance to any eligible risk by accepting all placements made by members in accordance with law. The law further provides that member companies of the Facility shall, following payment of any pro-rata assessment for losses and expenses, commence recovery of that assessment by way of surcharges on motor vehicle liability insurance policies issued by the member or through the Facility. As a member of the Facility, the Company is guaranteed under the law to recover or be reimbursed for all assessments within a period not to exceed two and one-half years.

AGREEMENTS FOR REINSURANCE ASSUMED

The Company had no reinsurance assumption agreements which were effective during the examination period.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2014. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2013, are unexamined and are presented for comparative purposes only.

Atlantic Casualty Insurance Company
Statutory Statement of Admitted Assets
December 31,

	2014	2013 *(unexamined)*
Bonds	$ 180,339,304	$170,138,021
Common stocks	24,089,701	24,185,894
Cash and short-term investments	19,663,689	12,773,743
Other invested assets	372,001	3,665,578
Total cash and invested assets	224,464,695	210,763,236
Investment income due and accrued	1,946,487	1,911,676
Premiums and agents' balances in course of collection	7,985,746	8,169,587
Reinsurance recoverable	2,070,120	1,394,380
Net deferred tax asset	4,045,079	4,221,467
Receivables from parent, subsidiaries and affiliates	253,869	57,728
Miscellaneous receivable	750	252
Total admitted assets	**$240,766,746**	**$226,518,326**

Atlantic Casualty Insurance Company
Statutory Statement of Liabilities, Capital and Surplus
December 31,

	2014	2013 *(unexamined)*
Losses	$ 60,081,412	$ 52,541,399
Reinsurance payable on paid losses and loss adjustment expense	22,022	27,381
Loss adjustment expense	52,797,534	50,422,458
Commissions payable, contingent commissions and other similar charges	1,498,386	1,377,785
Other expenses	126,000	105,000
Federal income tax liability	1,074,093	295,704
Unearned premiums	35,653,345	34,443,718
Ceded reinsurance premiums payable	3,043,924	3,948,669
Provision for reinsurance		418
Payable to parent, subsidiaries and affiliates		2,041
Payable for securities	157,509	
Miscellaneous liabilities	352,992	18,907
Balance payable for reinsurance profit commission	281,210	420,120
Total Liabilities	**155,088,427**	**143,603,600**
Common capital stock	1,800,000	1,800,000
Gross paid in and contributed surplus	25,845,618	25,845,618
Unassigned funds	58,032,701	55,269,108
Total capital and surplus	85,678,319	82,914,726
Total Liabilities, Capital and Surplus	**$ 240,766,746**	**$ 226,518,326**

Atlantic Casualty Insurance Company
Statutory Statement of Operations
December 31,

	2014	**2013** *(unexamined)*
Underwriting Income		
Premiums Earned	$71,615,942	$ 63,594,965
Losses incurred	29,010,336	24,034,165
Loss adjustment expenses incurred	15,853,863	16,078,179
Other underwriting expenses incurred	25,828,346	24,684,670
Total underwriting deductions	70,692,545	64,797,014
Net underwriting gain (loss)	923,397	(1,202,049)
Investment Income		
Net investment income earned	3,392,814	3,733,998
Net realized capital gains (losses)	3,941,003	2,216,629
Net investment gain (loss)	7,333,817	5,950,627
Other Income		
Net gain (loss) from agents' or premium balances charged off	(51,175)	(18,897)
Miscellaneous (income)/expense	(1,352)	4,345
Total other income (loss)	(52,527)	(14,552)
Federal income tax incurred	188,398	(299,730)
Net Income	**$8,016,289**	**$5,033,756**

Atlantic Casualty Insurance Company
Statutory Statement of Capital and Surplus
December 31,

	2014	2013 *(unexamined)*
Capital and surplus, beginning of year	$ 82,914,726	$ 76,031,128
Capital and surplus increases (decreases):		
Net income	8,016,289	5,033,756
Change in net unrealized capital gain (loss)	(2,094,680)	2,006,483
Change in net deferred income tax	(409,589)	(310,396)
Change in non-admitted assets	(748,845)	1,114,096
Change in provision for reinsurance	418	39,659
Dividends to stockholders	(2,000,000)	(1,000,000)
Change in surplus as regards policyholders for the year	2,763,593	6,883,598
Capital and surplus, end of year	**$ 85,678,319**	**$ 82,914,726**

Atlantic Casualty Insurance Company
Statutory Statement of Cash Flow
December 31,

	2014	2013 *(unexamined)*
Cash From Operations		
Premiums collected net of reinsurance	$72,201,697	$67,120,111
Net investment income	6,378,310	6,153,867
Miscellaneous income	(52,527)	(14,552)
Total	78,527,480	73,259,426
Benefit and loss related payments	22,151,422	19,197,272
Commissions, expenses paid and aggregate write-ins	39,186,531	37,662,320
Federal income taxes paid	1,440,223	701,445
Total	62,778,176	57,561,037
Net cash from operations	**15,749,304**	**15,698,389**
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	84,293,578	70,901,052
Cost of investments acquired	(91,149,435)	(92,736,838)
Net cash from (used by) investments	**(6,855,857)**	**(21,835,786)**
Cash From (Used By) Financing and Miscellaneous Sources		
Cash from (applied to) dividends to stockholders	(2,000,000)	(1,000,000)
Other cash (applied)	(3,505)	149,453
Net cash from (used by) financing and miscellaneous sources	**(2,003,505)**	**(850,547)**
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	6,889,942	(6,987,944)
Cash and short-term investments, beginning of year	12,773,747	19,761,691
Cash and short-term investments, end of year	**$19,663,689**	**$12,773,747**

COMMENTS ON FINANCIAL STATEMENTS

There were no changes to the Company's financial statements and there were no proposed adjustments to surplus as a result of this examination.

Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost or fair value based on their NAIC rating.

Common stocks: Carried at fair value..

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

Premiums: Earned over the policy period and reduced for reinsurance ceded.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

Non-admitted assets: Certain assets, such as premiums over 90 days past due, and net deferred tax assets are "non-admitted" and are charged against surplus.

Unpaid loss & loss adjustment expense: Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

Analysis of Assets:

The following represents an analysis of the Company's net admitted assets as of December 31, 2014:

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	$180,339,304		$180,339,304
Common stocks	24,089,701		24.089,701
Cash and short-term investments	19,663,689		19,663,689
Other invested assets	372,001		372,001
Total cash and invested assets	**224,464,695**		**224,464,695**
Investment income due and accrued	1,946,487		1,946,487
Premiums and agents' balances in course of collection	8,345,822	360,076	7,985,746
Reinsurance recoverable	2,070,120		2,070,120
Net deferred tax assets	5,389,392	1,344,313	4,045,079
Receivable from parent, subsidiaries and affiliates	253,869		253,869
Miscellaneous receivable	750		750
Total admitted assets	**$242,471,135**	**$1,704,389**	**$240,766,746**

Reinsurance Ceded Activity

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts, retention limits, and insurance coverage are described below.

Casualty Excess of Loss

The Company has a casualty excess of loss contract with various reinsurers, effective July 1, 2014, which provides two layers of excess coverage for the Company's general liability business, including the liability portion of commercial multiple peril policies. The first layer provides excess coverage up to $800,000 on its ultimate net loss in excess of $200,000; and the second layer covers up to $4.0 million in excess of $1.0 million.

The reinsurers and their participation percentage for the contract are as follows:

	1st Layer	2nd Layer
Munich American Reinsurance	35.0%	35.0%
JRG Reinsurance Company, Ltd	22.5%	20.0%
Partner Reinsurance Company of the U.S.	22.5%	20.0%
SCOR Reinsurance Company	10.0%	15.0%
The Toa Reinsurance Company	10.0%	10.0%
Total	100.0%	100.0%

The annual reinsurance premium is based on a specified percentage of net written premiums. In 2014 and 2013, the Company ceded premiums totaling $13,196,524 and $11,355,358, respectively, under the contract.

In addition the Company has a second excess of loss contract with various reinsurers, effective July 1, 2014, which provides a layer of coverage only for policies with limits greater than $1.0 million up to $2.0 million. The Company retains 5% and cedes 95%, as noted below. The reinsurers and their participation percentage for the contract are as follows:

JRG Reinsurance Company, Ltd		52.5%
Partner Reinsurance Company of the U.S.		20.0%
SCOR Reinsurance Company		12.5%
The Toa Reinsurance Company		10.0%
	Total	95.0%

The annual reinsurance premium is based on a specified percentage of net written premiums. In 2014 and 2013, the Company ceded premiums totaling $636,145 and $500,091, respectively, under the contract.

<u>Property Excess of Loss</u>

The Company has a property excess of loss contract with various reinsurers, effective March 1, 2014, which provides two layers of excess coverage for the Company's property risks, including the property portion of commercial multiple peril policies. The first layer provides excess coverage up to $350,000 each loss occurrence in excess of $150,000 and $5.6 million in aggregate; the second layer covers up to $500,000 in excess of $500,000 each loss occurrence and $2.5 million in aggregate subject to certain reinstatement premium.

The reinsurers and their participation percentage under the contract are as follows:

		1st Layer	2nd Layer
Allied World Insurance Company		15.0%	15.0%
American Agricultural Insurance Company		5.0%	0.0%
Arch Reinsurance Company		10.0%	10.0%
Hannover Ruck SE		30.0%	30.0%
JRG Reinsurance Company, Ltd.		5.0%	0.0%
Munich Reinsurance America, Inc.		30.0%	30.0%
Partner Reinsurance Company of the U.S.		5.0%	5.0%
QBE Reinsurance Corporation		0.0%	10.0%
	Total	100.0%	100.0%

In 2014 and 2013, the Company ceded premiums totaling $1,680,137 and $2,118,053, respectively, under the contract.

The Company also has a facultative property excess of loss contract with Ascot Underwriting, Inc. for and on behalf of Lloyd's Syndicate No. 1414. Ascot is the only participant and assumes 100% of the risk. The treaty provides up to $2,000,000 in excess of $1,000,000 coverage for the Company's property risks, including the property portion of commercial multiple peril policies.

In 2014 and 2013, the Company ceded premiums totaling $96,509 and $49,308, respectively, under this contract.

Property Catastrophe Excess of Loss

The Company has a property catastrophe excess of loss contract with various reinsurers, effective March 1, 2014, which provides two layers of excess coverage for the Company's fire, inland marine, private passenger and commercial auto physical damage, and the property section of the commercial multi-peril policies from catastrophes. The first layer provides excess coverage of up to $4.0 million of the net loss in excess of $1,000,000 per occurrence; the second layer covers up to $10.0 million of the net loss in excess of $5 million per occurrence.

The reinsurers and their participation percentage under the contract are as follows:

	1st Layer	2nd Layer
Allied World Insurance Company	15.0%	7.5%
American Agricultural Insurance Company	5.0%	5.0%
Arch Reinsurance Company	0.0%	5.0%
Everest Reinsurance Company	10.0%	10.0%
Hannover Ruck SE	7.5%	7.5%
Munich Reinsurance America, Inc.	22.5%	22.5%
Odyssey Reinsurance Company	10.0%	10.0%
Partner Reinsurance Company Ltd.	0.0%	5.0%
QBE Reinsurance Corporation	0.0%	5.0%
Swiss Reinsurance America Corporation	10.0%	10.0%
Transatlantic Reinsurance Company	15.0%	7.5%
Lloyd's Underwriter Syndicate No. 2791 MAP	5.0%	5.0%
Total	100.0%	100.0%

In 2014 and 2013, the Company ceded premiums totaling $979,455 and $2,049,700, respectively, under the contract.

Commercial Automobile Excess of Loss

The Company has an excess of loss contract with JRG Reinsurance Company, Ltd., effective May 1, 2014, which provides excess coverage for the Company's commercial auto liability, uninsured and underinsured motorists and property damage, personal injury protection, and medical payments. Coverage is provided up to $250,000 on each loss occurrence and each policy in excess of $750,000.

The reinsurer will receive 100% of the increased limit of premium to increase the limit of liability from $750,000 to $1 million. In 2014 and 2013, the Company ceded premiums totaling $184,511 and $165,482, respectively, under the contract.

North Carolina Reinsurance Facility

The Company ceded 100% of its commercial auto liability to the Facility. With respect to amounts ceded to the Facility, the Company remains contingently liable for its proportionate share of the Facility's unfunded losses for each policy year. In 2014 and 2013, the Company ceded premiums totaling $10,646,681 and $9,569,482, respectively.

Reinsurance Assumed Activity

The Company did not assume any business during the examination period.

Direct and ceded premiums written and earned are as follows:

	2014	2013
		(unexamined)
Direct written	$ 100,358,263	$ 92,693,694
Ceded written	27,532,694	25,893,010
Net written	**72,825,569**	**66,800,684**
Direct earned	97,948,836	87,452,608
Ceded earned	26,332,894	23,857,643
Net earned	**$ 71,615,942**	**$ 63,594,965**

Summary of Reserves:

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	2014	2013
		(unexamined)
Reserve for losses and loss adjustment expenses, beginning of year	$102,963,85 7	$96,514,280
Add:		
Provision for losses and loss adjustment expenses, current year	43,875,000	40,935,000
Change in estimated losses and loss adjustment expenses, prior years	989,199	(822,656)
Total incurred	44,864,199	40,112,344
Deduct:		
Losses and loss adjustment expenses paid, current year	7,785,000	9,400,000
Losses and loss adjustment expenses paid, prior year	27,164,110	24,262,767
Total paid	34,949,110	33,662,767
Reserve for losses and loss adjustment expenses, end of year	112,878,946	102,963,857
Increase in reserve for losses and loss adjustment expenses	$9,915,089	$6,449,577

The Company reduced reserves by anticipated salvage and subrogation of $296,000 and $390,000 at December 31, 2014 and 2013, respectively.

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2014 and 2013, the liability for losses and loss adjustment expenses was reduced by $55,665,000 and $50,265,000 respectively, for amounts to be recovered from reinsurers.

Capital and Surplus:

The following, in conjunction with the Capital and Surplus Account table (see page 15), represents the changes in the Company's capital and surplus since the Department's last examination as of December 31, 2009:

	2012	2011	2010
	(unexamined)	*(unexamined)*	*(unexamined)*
Capital and surplus, beginning of year	$71,782,967	$72,302,012	$65,003,367
Capital and surplus increases (decreases):			
Net income	5,122,919	1,546,478	6,458,031
Change in net unrealized capital gain (loss)	(1,216,058)	(308,057)	1,060,800
Change in net deferred income tax	(379,014)	653,851	(733,383)
Change in non-admitted assets	(410,251)	(400,271)	989,827
Change in provision for reinsurance	(22,149)	(11,046)	23,370
Cumulative effect of change in Accounting Principles	1,152,712	0	0
Dividends to stockholders	0	(2,000,000)	(500,000)
Change in surplus as regards policyholders for the year	4,248,159	(519,045)	7,298,645
Capital and surplus, end of year	$76,031,126	$71,782,967	$72,302,012

Contingencies and Commitments:

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company.

SUBSEQUENT EVENTS

Effective January 1, 2015, the Company and Little River entered into an intercompany pooling agreement. As defined in the agreement, the pooling percentages are 96% for the Company and 4% for Little River. This agreement was rescinded in connection with the Auto-Owners acquisition.

Effective January 1, 2016, Auto-Owners, a Michigan domestic insurer, acquired 100% of the outstanding shares of SIG. Immediately prior to that transaction, the shares of SIB, SI Premium, and ID Corporation were distributed to the shareholders of SIG as a dividend. Effectively, Auto-Owners acquired SIG except for SIB, SI Premium, and ID Corporation. As of September 30, 2015, Auto-Owners reported $12.8 billion in net admitted assets, $8.4 billion in capital and surplus, and had a combined ratio of 82.48%. Additionally, Auto-Owners' A++ (Superior) financial strength rating was affirmed by A.M. Best, as of January 16, 2015. A.M. Best notes that the rating reflects Auto-Owners' superior capitalization, the re-emergence of solid operating income primarily through net investment income and recent underwriting profits, an experienced management team, a blend of personal and commercial product offerings and long-standing agency relationships.

Effective January 1, 2016, Auto-Owners issued an excess reinsurance cover ("Excess Cover") over the existing reinsurance treaties for both the Company and Auto-Owners Specialty Insurance Company (Little River's name was changed to Auto-Owners Specialty Insurance Company upon the acquisition by Auto-Owners). The Excess Cover expires by its terms on the dates when Atlantic Casualty's underlying reinsurance contracts expire (March 1, 2016 for property, May 1, 2016 for commercial auto, and July 1, 2016 for general liability coverages). As the underlying reinsurance contracts expire, Atlantic Casualty's ongoing business operations will be reinsured by Auto-Owners Insurance Company.

On February 26, 2016, Auto-Owners, on behalf of the Company, filed a Form D with the Department. This Form D requested that Auto-Owners be permitted to start its new affiliate reinsurance coverage as of March 1, 2016 for the expiring property lines, May 1, 2016 for the expiring commercial auto reinsurance, and July 1, 2016 for the general liability insurance.

Under the terms of this reinsurance agreement, the Company will be ceding 10% of its subject premium. This will be approximately $7 to $8 million in ceded premiums per year. Based on the Company's surplus as of December 31, 2015, this will exceed 5% of Atlantic Casualty's surplus (approximately $4.5 million).

Atlantic Casualty Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2014

Stephen M. Westfield, Chief Financial Officer
400 Commerce Court
Goldsboro, NC 27534

Robert W. Strickland, Chief Executive Officer
400 Commerce Court
Goldsboro, NC 27534

C. Bret Strickland, President
400 Commerce Court
Goldsboro, NC 27534

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is $2,250,000.

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

Respectfully submitted,

Monique D Smith

Monique D. Smith, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

March 30, 2016

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Bill Keely, Examination Supervisor, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature: Bill Keely Date: 3/24/16

Bill Keely

Sworn and subscribed before me this 24 day of March, 2016

Notary Public Signature: Thomas Smith Notary Public Seal:

THOMAS SMITH
NOTARY PUBLIC
WAKE COUNTY, NC