

I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused to Discovery Insurance Company as of December 31, 2020 with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 9th day of June, 2022.



Mike Causey
Commissioner of Insurance



Ke Xu, CPA, CFE
Chief Financial Examiner
Financial Examination Division

Discovery Insurance Company

Kinston, North Carolina

Report on Examination

As of December 31, 2020

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May 9, 2022

Honorable Mike Causey
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

Discovery Insurance Company

(hereinafter referred to as the “Company”), at its main administrative office and statutory home office located at 604 North Queen Street, Kinston, North Carolina 28501. 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, 2016, to December 31, 2020, 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, 2015.

The purpose of this examination is 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.

We conducted our examination in accordance with auditing 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 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 and the following key functional activities were identified:

Premiums and Underwriting
Claims Handling and Reserving
Investments
Reinsurance
Related Parties
Capital and Surplus
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 insurer 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). Dixon Hughes Goodman, LLP of High Point, North Carolina, the designated independent public accountant of the Company, issued an unmodified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2020.

SUMMARY OF SIGNIFICANT FINDINGS

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

- a. The Company did not maintain the NAIC’s recommended minimum fidelity bond coverage from June 28, 2019, through December 31, 2020. The Company’s fidelity policy contains a rider which limits coverage for the Company to \$350,000, which is below the NAIC’s recommended minimum of \$400,000. The Company is directed to maintain fidelity bond coverage for no less than the minimum recommended by the NAIC. (Refer to Subsequent Events)
- b. The Company is not in compliance with North Carolina Administrative Code (“NCAC”) 11C.0117, which states that “Conflict of interest (“COI”) statements shall be executed annually by the officers, directors, trustees, attorneys-in-fact, and administrative personnel of every domestic insurer subject to GS 58, Articles 1 through 67.” Examiners performed a review of COIs for years 2016 through 2020 and noted there were missing or incomplete forms identified in each year. The Company is directed to comply with NCAC 11C.0117 by maintaining COIs annually.
- c. The Company is not in compliance with NCAC 11C.0105, which states, “All records of domestic insurance companies shall be maintained by the company for the years for which a statutory examination has not yet been completed.” It was noted that investment pre-posting reports are generated and reconciled to investment custodian statements; however, the pre-posting reports were discarded and could not be utilized to validate the Company’s internal control process. The Company is directed to maintain records in compliance with NCAC 11C.0105.
- d. The Company improperly excluded policy fees from direct premiums written reported in column 2 of its Annual Statement Schedule T – Exhibit of Premiums Written and from direct business reported in column 1 of its Underwriting and Investment Exhibit Part 1B – Premiums Written for the years 2016 through 2020. The exclusion of policy fees from written premiums does not comply with the Annual Statement Instructions and the Statement of Statutory Accounting Principle (“SSAP”) No. 53 — Property Casualty Contracts — Premiums, and this financial reporting error resulted in inaccurate premium tax calculations and remittances for those years. The Company’s gross premiums excluded the following estimated amounts for policy fees:

2016	\$1,210,328
2017	\$1,322,426
2018	\$1,478,989
2019	\$1,495,980
2020	\$1,406,403

In addition, the Company reported finance and services charges on line 13 of the Income Statement for the years 2017 and 2020; however, it did not report these finance and services charges in column 8 of its Annual Statement Schedule T. The Company is directed to comply with the Annual Statement Instructions, SSAP 53, and GS § 58-2-165(c).

- e. The Company reported inaccurate information in its 2020 Annual Statement filed with the Department in the following areas: restricted assets in Note 5 and related parties in Note 10 to the financial statements; General Interrogatories Part 1 #30 (bonds and preferred stocks) and #39 (payments for expenditures); General Interrogatories Part 2 #12.5 (letters of credit or collateral)

and #13.1 (net aggregate); Supplemental Investment Interrogatories; and the Five-Year Historical Data. The overall dollar value of the errors is immaterial and there is no impact to the Company's surplus; however, the Company is directed to provide accurate information in all future filings to the Department pursuant to GS § 58-2-165(c).

- f. The Company provides financial reporting and payroll services to its wholly owned subsidiary, Britton Benefits Services, LLC ("Britton") and bills Britton monthly for reimbursement of expenses paid. There is no formal management agreement for the related party services rendered to Britton, which is a violation of GS § 58-19-30(b)(4) which states "Transactions involving a domestic insurer and any person in its holding company system may not be entered into unless the insurer has notified the Commissioner in writing of its intention to enter into the transaction at least 30 days before the transaction, or such shorter period as the Commissioner permits, and the Commissioner has not disapproved it within that period including: (4) All management agreements, service contracts, guarantees, or cost-sharing arrangements." The Company is directed to comply with GS § 58-19-30(b)(4) and submit an agreement to the Department for review and approval.
- g. The Company is not in compliance with its bylaws in effect for 2020, which requires a minimum of ten (10) members to make up the Board of Directors ("Board"). The Company identified seven (7) Board members during the examination period. The Company is directed to comply with its bylaws. (Refer to Subsequent Events)

ORGANIZATIONAL STRUCTURE AND COMPANY HISTORY

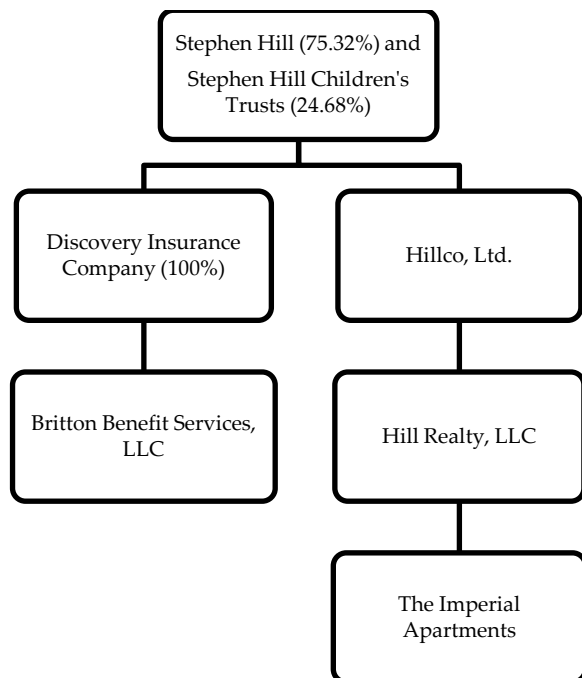
The Company is part of an insurance holding company system as defined in GS § 58-19. Stephen B. Hill owns approximately 75.32% of all outstanding shares of the Company, and Stephen B. Hill Children's Trusts own the remaining 24.68%. The Company owns 100% of the outstanding shares of Britton. The Hill family directly owns Hillco, Ltd ("Hillco") and indirectly owns Hill Realty, LLC ("Hill Realty") and The Imperial Apartments ("Imperial"). Stephen Hill and family are the ultimate controlling party of all entities within the holding company system, which operates in various service areas.

The Company was incorporated on October 20, 1993, as a stock property and casualty insurance company and commenced business on November 1, 1993, with the authority to issue 250,000 shares of \$10 par value common stock. The Company started business with 100,000 shares of \$10 par value common stock issued and outstanding to Hillco. Effective January 1, 1996, Hillco sold its interest in the Company to the Hill family. At December 31, 2000, the Company issued an additional 80,000 shares of \$10 par common stock in order to meet North Carolina's minimum regulatory requirements.

Hillco was established in 1952 and provides health care services through the operation of medical nursing homes and dialysis centers throughout North Carolina, Kentucky, and Virginia. Hill Realty was established on December 10, 2010, and primarily operates in the insurance agent and brokers service business. Imperial is an apartment building, which opened for business in March 2017 and provides fully furnished short-term and long-term housing for corporate clients. Britton is a third-party administrator of health insurance claims, which was established on January 8, 2019.

ORGANIZATIONAL CHART

The Company's 2020 Annual Statement Schedule Y contains a complete organizational chart. The following is a summarized organizational chart of the Company within the holding company group as of December 31, 2020:



CAPITAL STOCK AND DIVIDENDS

CAPITAL STOCK

As of December 31, 2020, the Company's capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	250,000
Number of shares issued and outstanding	180,000
Total common capital stock	\$10
Par value per share	\$1,800,000

No additional shares were issued during the period under examination. As of December 31, 2020, all outstanding shares are owned by Stephen Hill and Stephen Hill Children's Trusts.

At December 31, 2020, the Company reported \$3,900,000 in gross paid-in and contributed surplus and \$13,483,502 in unassigned funds.

DIVIDENDS TO STOCKHOLDER

Dividends on common stock are paid as declared by the Board of the Company. Under the insurance regulations of North Carolina, the maximum amounts of ordinary 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 in excess of this are considered extraordinary. The Company has not declared or paid any dividends during the years 2016 through 2020.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Shareholders

The bylaws of the Company provide that an annual meeting of the shareholders be held at such time and place as the Board may appoint. Special meetings of the shareholders may be called at any time by the chairman of the Board, the president or by any two members of the Board.

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 ten. 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. (Refer to Summary of Significant Findings)

The following individuals served as directors as of December 31, 2020:

Name	Location	Principal Occupation
A. Andrew Culpepper	Greenville, NC	Managing Director, Wells Fargo
Glenn S. Gannett	Kinston, NC	Director of Finance
Stephen B. Hill	Kinston, NC	Board Chairman/ Chief Executive Officer
D. Stuart Lindley	Kinston, NC	President
C.R. (Trey) Means III	Kinston, NC	Financial Analyst
E. Trent Mooring	Kinston, NC	President, Mother Earth Brewing
Kathryn B. Vick	Kinston, NC	Board Director

The Board established several committees including Audit, Claims, Executive, Investment, IT, and Management to act on behalf of the Company.

The following individuals served on committees as of December 31, 2020:

Audit Committee

Glenn S. Gannett, Chair
 A. Andrew Culpepper
 Charles (Trey) Means
 E. Trent Morning
 Michael B. Jones

Claims Committee

D. Stuart Lindley, Chair
 Glenn S. Gannett
 Charles (Trey) Means
 Kimberly Parker
 Cassie Stallings

Executive Committee

Stephen B. Hill, Chair
 D. Stuart Lindley
 Glenn S. Gannett
 Charles (Trey) Means
 Kimberly Parker
 Cassie Stallings

Investment Committee

D. Stuart Lindley, Chair
 Stephen B. Hill
 Glenn S. Gannett
 A. Andrew Culpepper
 Charles (Trey) Means
 Michael B. Jones

IT Committee

D. Stuart Lindley, Chair
 Stephen B. Hill
 Glenn S. Gannett
 Charles (Trey) Means
 Jerry Arnette
 W. Jeff Laws
 Kimberly Parker
 Amy Villagra

Management Committee

D. Stuart Lindley, Chair
 Glenn S. Gannett
 Charles (Trey) Means
 Jerry Arnette
 James Johnson
 Heather Kinney
 W. Jeff Laws
 Kimberly Parker
 Shelby Reece
 Cassie Stallings
 Christy Tyndall
 Amy Villagra

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer, and any other officers deemed necessary 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.

The following individuals served as officers of the Company as of December 31, 2020:

Name	Title
Stephen B. Hill	Chairman of the Board/Chief Executive Officer
D. Stuart Lindley	President
Glenn S. Gannett	Treasurer/Chief Financial Officer
Kathryn B. Vick	Secretary

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 did not act in accordance with its policies and procedures for disclosure for conflicts of interest. (Refer to Summary of Significant Findings)

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board 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 were made to the articles of incorporation or bylaws during the period under examination.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2020 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state. The Company only maintains a North Carolina statutory deposit.

FIDELITY BONDS AND OTHER INSURANCE

The Company has fidelity bond coverage totaling \$350,000 in aggregate, which is less than the minimum amount of fidelity bond coverage recommended by the Handbook. (Refer to Summary of Significant Findings)

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

EMPLOYEE BENEFITS AND PENSION PLANS

The Company's employees are covered by a qualified defined contribution pension plan sponsored by the Company. The fair value of the pension plan at December 31, 2020, was \$2,934,355.

RELATED PARTY TRANSACTIONS

The Company has a management agreement with Hillco and its affiliates, effective February 17, 1997, whereby Hillco and its affiliates provide to Discovery financial and administrative services, including, but not limited to, communications, planning and information services, investment services and use of equipment. Under this agreement, the Company agrees to pay the actual costs for any and all such services rendered to it by Hillco monthly. The Company paid \$12,646 to Hillco for printing services in 2020. The Company also has balances totaling \$9,481 due from its affiliates as of December 31, 2020.

The Company has a software lease agreement with Hill Realty effective March 31, 2015, whereby Hill Realty provides a Ravello Solutions Policy and Claims Administration and Bill software system to Discovery. Under this agreement, the Company paid fees totaling \$20,160 in 2020 and 2019, respectively.

The Company has a lease agreement with Imperial, effective April 1, 2017, whereby Imperial provides a dwelling place which the Company utilizes to accommodate guests. Under this agreement, the Company paid rent totaling \$32,000 for 2020 and 2019, respectively.

The Company has a lease agreement with Britton, its wholly owned subsidiary, effective April 1, 2019, whereby the Company provides approximately 519 square feet of its office building located at 604 North Queen Street, Kinston to Britton. Under this agreement, Britton paid rent totaling \$9,000 for 2020 and 2019, respectively.

The Company also provides financial reporting and payroll services to Britton and receives reimbursement for the actual expenses paid on behalf of Britton. The Company did not charge Britton any fees for the services provided and no formal service agreement has been executed or filed with the Department related to these related party transactions. (Refer to Summary of Significant Findings)

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write insurance coverage to residents of the State of North Carolina only. As of December 31, 2020, the Company provides nonstandard private passenger auto liability and auto physical damage coverage to its policyholders through independent agents.

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 2020:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2020	\$34,650,976	\$19,183,502	\$42,532,152	\$21,583,929	\$1,304,279
2019	\$32,520,251	\$15,947,448	\$47,237,352	\$24,205,481	\$2,559,739
2018	\$33,346,938	\$15,251,025	\$49,076,714	\$24,616,342	\$1,654,314
2017	\$30,244,439	\$13,578,257	\$44,824,448	\$22,047,833	\$1,944,040
2016	\$25,734,960	\$11,450,828	\$39,799,297	\$19,482,931	\$123,527

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 2020 were reviewed and certified by the Company's Appointed Actuary, Kyle Babirad, ACAS, MAAA of Canary Consulting, Inc. Actuarial opinions regarding the Company's reserves for losses and loss adjustment expenses were issued by the 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 losses and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserve on the losses 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 losses and loss expense obligations of the Company.

REINSURANCE PROGRAM OVERVIEW

REINSURANCE CEDED

Property Catastrophe Excess of Loss Coverage

The Company has a property catastrophe excess of loss reinsurance contract with various reinsurers, effective March 1, 2020, whereby the reinsurers indemnify the Company for any loss or losses occurring under policies classified by the Company as private passenger automobile physical damage insurance, including motorcycle physical damage. This policy provides coverage up to \$3,000,000 of net loss in excess of \$2,000,000 per occurrence. The Company ceded written premiums of approximately \$79,000 in 2020 under this contract.

On March 1, 2019, the Company entered into a property catastrophe excess of loss reinsurance agreement covering private passenger automobile physical damage losses. The treaty remained in-force until March 1, 2020. The Company retains \$2,000,000 on each loss occurrence, subject to a limit of liability to the reinsurer of \$3,000,000 each loss occurrence. The Company ceded written premiums of approximately \$82,000 in 2019, respectively, under this contract.

The Company is a participating member of the North Carolina Reinsurance Facility (“NCRF”) effective July 30, 2019. The Company cedes 100% of its private passenger auto liability premium to NCRF, and in return, the NCRF pays the Company a ceding commission and a loss expense allowance and reimburses the Company for 100% of losses paid by the Company on this coverage. The Company ceded written premiums to NCRF of approximately \$21,857,000 in 2020 and \$23,347,000 in 2019, respectively.

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, 2020. 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, 2019, are unexamined and are presented for comparative purposes only.

Discovery Insurance Company
Statutory Statement of Admitted Assets
December 31, 2020

	2020	2019 <i>(unexamined)</i>
Bonds	\$8,594,960	\$7,080,834
Common stocks	5,764,533	4,936,705
Real estate	295,305	322,862
Cash and short-term investments	3,332,486	2,370,736
Other invested assets	(80,679)	10,071
Receivable for securities	-	5,864
Total cash and invested assets	17,906,605	14,727,071
Investment income due and accrued	70,044	40,326
Premiums and agents' balances in course of collection	2,470,522	2,920,394
Premiums and agents' balances booked but deferred and not yet due	8,895,169	9,586,228
Reinsurance recoverable	4,545,589	4,422,763
Federal income tax recoverable	182,871	302,567
Net deferred tax asset	490,327	457,830
Electronic data processing equipment and software	48,887	42,574
Receivable from parent, subsidiaries, and affiliates	9,481	20,364
Other miscellaneous	31,481	134
Total admitted assets	\$34,650,976	\$32,520,251

Discovery Insurance Company
Statutory Statement of Liabilities, Capital, and Surplus
December 31, 2020

	2020	2019 <i>(unexamined)</i>
Losses	\$1,970,411	\$ 2,126,429
Loss adjustment expenses	1,492,053	1,695,935
Commissions payable, contingent commissions and other similar charges	503,838	551,234
Other expenses	2,881,747	2,549,865
Taxes, licenses, and fees	(123,864)	(37,313)
Unearned premiums	6,441,585	7,430,919
Advance premium	66,242	50,632
Ceded reinsurance premiums payable	2,061,450	2,125,137
Amounts withheld or retained by Company for account of others	166,265	79,966
Miscellaneous liabilities	7,745	-
Total liabilities	15,467,472	16,572,804
Common capital stock	1,800,000	1,800,000
Gross paid in and contributed surplus	3,900,000	3,900,000
Unassigned funds	13,483,502	10,247,448
Total capital and surplus	19,183,502	15,947,448
Total Liabilities, Capital, and Surplus	\$34,650,974	\$32,520,252

Discovery Insurance Company
Statutory Statement of Operations
December 31, 2020

	2020	2019 <i>(unexamined)</i>
Underwriting Income		
Premiums Earned	\$21,583,929	\$24,205,481
Deductions		
Losses incurred	14,961,191	15,714,135
Loss adjustment expenses incurred	1,377,565	1,621,619
Other underwriting expenses incurred	5,031,008	5,429,386
Total underwriting deductions	21,369,764	22,765,140
Net underwriting gain	214,165	1,440,341
Investment Income		
Net investment income earned	480,289	507,511
Net realized capital gains	318,908	(20,148)
Net investment gain	799,197	487,363
Other Income		
Net loss from agents' or premium balances charged off	(2,248,355)	(2,515,947)
Finance and service charges not included in premiums	3,048,572	3,252,131
Aggregate write-ins for miscellaneous income	(193,028)	(55,866)
Total other income	607,189	680,318
Federal income taxes incurred	316,272	49,533
Net Income	\$1,304,279	\$2,558,489

Discovery Insurance Company
Statutory Statement of Capital and Surplus
December 31, 2020

	2020	2019 <i>(unexamined)</i>
Capital and surplus, beginning of year	\$15,947,448	\$15,251,025
Capital and surplus increases (decreases):		
Net income	1,304,279	2,558,489
Change in net unrealized capital gains	67,660	505,840
Change in net deferred income tax	(293,497)	(56,406)
Change in non-admitted assets	2,157,611	(2,311,499)
Change in capital and surplus as regards policyholders for the year	3,236,052	696,423
Capital and surplus, end of year	\$19,183,501	\$15,947,448

Discovery Insurance Company
Statutory Statement of Cash Flow
December 31, 2020

	2020	2019 <i>(unexamined)</i>
Cash From (Used By) Operations		
Premiums collected net of reinsurance	\$21,730,924	\$ 23,822,883
Net investment income	516,834	559,749
Miscellaneous income	607,189	680,318
Total	22,854,947	25,062,950
Benefit and loss related payments	15,240,035	15,923,801
Commissions, expenses paid and aggregate write-ins	6,414,519	7,334,831
Federal income taxes paid	300,000	(352,100)
Total	21,954,554	22,906,532
Net cash from operations	900,393	2,156,418
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	4,771,683	8,099,158
Cost of investments acquired	4,805,170	7,269,658
Net cash (used by) investments	(33,487)	829,500
Cash From Financing and Miscellaneous Sources		
Other cash provided	94,845	13,647
Net cash from financing and miscellaneous sources	94,845	13,647
Reconciliation of Cash and Short-Term Investments		
Net change in cash and short-term investments	961,751	2,999,565
Cash and short-term investments, beginning of year	2,373,774	(625,791)
Cash and short-term investments, end of year	\$3,335,525	\$2,373,774

COMMENTS ON FINANCIAL STATEMENTS

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 using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

Preferred stocks: Investment grade perpetual preferred stocks are stated at fair value. Investment grade redeemable preferred stocks are stated at cost. Preferred stock at non-investment grade is stated at the lower of cost or fair value.

Common stocks: Carried at fair value except investments in stock of subsidiaries, which are carried at a value determined under equity method.

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: Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

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.

Policy acquisition costs: The cost of acquiring and renewing business are expensed when incurred.

Non-admitted assets: Certain assets, such as premiums over 90 days past due, excess of book value over market value for securities, and prepaid expenses, are "non-admitted" and are charges against surplus.

Loan-backed securities: Stated at either amortized cost or the lower of amortized cost or fair market value. The retrospective adjustment method is used to value all loan-backed securities. Non-investment grade loan-backed securities are stated at the lower of amortized or fair value.

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 at December 31, 2020:

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$8,594,960		\$8,594,960
Common stocks	5,764,533		5,764,533
Real estate	295,305		295,305
Cash and short-term investments	3,332,486		3,332,486
Derivatives	161,632	\$161,632	-
Other invested assets	(80,679)		(80,679)
Total cash and invested assets	18,068,237	161,632	17,906,605
Investment income due and accrued	70,044		70,044
Premiums and agents' balances in course of collection	2,625,872	155,350	2,470,522
Premiums and agents' balances booked but not yet due	8,895,169		8,895,169
Reinsurance recoverable	4,545,589		4,545,589
Federal income tax and interest recoverable	182,871		182,871
Net deferred tax assets	499,953	9,626	490,327
Electronic data processing equipment and software	48,887		48,887
Furniture and equipment	19,577	19,577	-
Receivable from parent, subsidiaries, and affiliates	9,481		9,481
Employee loans	1,185	65,843	31,481
Prepaid Expenses	64,643		64,643
Other miscellaneous	31,496		31,496
Total admitted assets	\$35,063,004	\$412,028	\$34,650,976

Reinsurance Activity:

The Company has catastrophe reinsurance contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company utilizes Acrisure Re US Limited (Formally Beach Re) as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct, assumed, and ceded premiums written and earned are as follows:

	2020	2019
Direct and assumed written	\$42,532,152	\$47,237,204
Ceded written	21,935,656	23,428,747
Net written	20,594,595	23,808,605
Direct and assumed earned	44,256,416	47,707,158
Ceded earned	22,670,586	23,501,677
Net earned	\$21,583,929	\$24,205,481

The reinsurers share in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described under the Reinsurance Program Overview.

Summary of Reserves:

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

	2020	2019
Reserve for losses and loss adjustment expenses, beginning of year	\$ 3,822,364	\$4,509,797
Add:		
Provision for losses and loss adjustment expenses, current year	17,593,587	18,777,510
Change in estimated losses and loss adjustment expenses, prior years	1,254,831	1,441,756
Total incurred	16,338,756	17,335,754
Deduct:		
Losses and loss adjustment expenses paid, current year	15,643,849	16,484,782
Losses and loss adjustment expenses paid, prior year	1,054,807	1,538,405
Total paid	16,698,656	18,023,187
Reserve for losses and loss adjustment expenses, end of year	3,462,464	3,822,364
Decrease in reserve for losses and loss adjustment expenses	\$(359,900)	\$(687,433)

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, 2020, and 2019, the liability for losses and loss adjustment expenses was reduced by \$16,566,026 and \$19,284,951, respectively, for amounts to be recovered from reinsurers.

The Company did not reduce reserves by anticipated salvage and subrogation at December 31, 2020, and 2019.

Capital and Surplus:

The following, in conjunction with the Statutory Statement of Capital and Surplus, represents the changes in the Company's capital and surplus since the Department's last examination as of December 31, 2015:

	2018	2017	2016
Capital and surplus, beginning of year	\$13,578,257	\$11,450,828	\$10,771,143
Capital and surplus increases (decreases):			
Net income	1,654,314	1,944,040	123,527
Change in net unrealized capital gain (loss)	(356,581)	208,029	229,695
Change in net deferred income tax	(934,889)	(766,211)	235,709
Change in non-admitted assets	1,309,924	741,571	150,754
Change in surplus as regards policyholders for the year	1,672,768	2,127,429	739,685
Capital and surplus, end of year	\$15,251,025	\$13,578,257	\$11,450,828

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

On April 14, 2021, the Company received notification from the Small Business Administration that its Paycheck Protection Program loan totaling \$553,300 had been forgiven and the Company had been relieved of its obligation for the liability.

On December 7, 2021, the Company's Board amended and approved its bylaws to state that the number of directors shall be no less than six (6) and no greater than ten (10).

Effective April 16, 2022, the Company increased its fidelity bond coverage from \$350,000 to \$450,000.

Discovery Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2020

Stuart Lindley, President
604 North Queen Street
Kinston, North Carolina 28501

Glenn S. Gannett, Chief Financial Officer
604 North Queen Street
Kinston, North Carolina 28501

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,



Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

May 9, 2022

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Tonneta Drummond, Insurance Company Manager, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature: Tonneta Drummond Date: 5/9/22

Sworn and subscribed before me this 9th day of May, 2022.

Notary Public Signature: Grant James Myers Notary Public Seal:

