

Maiden Specialty Insurance Company

Raleigh, North Carolina

Report on Examination

As of December 31, 2014

Maiden Specialty Insurance Company

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Maiden Specialty Insurance Company

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December 31, 2014

REPORT ON EXAMINATION OF FINANCIAL CONDITION

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

Maiden Specialty Insurance Company

(hereinafter referred to as the (“Company”), at its main administrative office located at 6000 Midlantic Dr., Mount Laurel, NJ. The Company’s statutory home office is located at 150 Fayetteville St., Raleigh, NC. The following report on examination is respectfully submitted.

SCOPE OF EXAMINATION

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 examination was a coordinated examination conducted concurrently with the examination of an affiliate, Maiden Reinsurance North America, Inc., and included participation from state regulators from Missouri who served as the Lead State for the group.

This examination was conducted in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (“NAIC”). We examined the Company to evaluate the financial condition and identify prospective risks by obtaining information regarding its corporate governance structure, identifying and assessing inherent risks, and evaluating system controls and other procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management’s compliance with GS Chapter 58.

This examination was risk-focused and consisted of a seven-phase process used to identify and assess risk, assess the adequacy and effectiveness of strategies and controls used to mitigate risk and assist in determining the extent and nature of testing procedures to review the Company’s key activities. This process included a determination of the quality and reliability of the Company’s corporate governance structure and risk management programs, as well as, verification of specific portions of the financial statement. All accounts and activities of the Company were considered; however, the examination focused on areas of high risk and fewer tests were performed on the accounts identified as having a low risk of misstatement.

Our examination was directed specifically to the quality, value and integrity of the admitted assets and liabilities reported by the Company in its 2014 Annual Statement, as those balances are critical to determining financial solvency.

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SUBSEQUENT EVENTS

On June 16, 2015, Clear Blue Financial Holdings, LLC entered into an agreement with Maiden Reinsurance North America, Inc. ("MRNA") and Maiden Holdings North America, Ltd. ("MHL"), to purchase all of the issued and outstanding capital stock of Maiden Specialty Insurance Company. Upon approval by the Department, the closing of the sale would complete the Company's transition from writing excess and surplus lines of insurance business.

COMPANY HISTORY

The Company was incorporated and licensed in 1990 as a property and casualty insurer under the name of Integon Specialty Insurance Company in North Carolina. The Company was originally owned by Integon Indemnity Corporation (40%), Integon General Insurance Corporation (40%), and New South Insurance Company (20%). In 1993, the Company was acquired by GMAC Insurance Management Corporation. Effective September 1, 2009, the Company was acquired by MRNA, which is a wholly owned subsidiary of MHL. With the acquisition, the Company became a member of an insurance holding company system under MHL, the ultimate controlling entity, a publicly traded company incorporated in Bermuda. Effective September 22, 2009, the Company was renamed Maiden Specialty Insurance Company.

The Company is primarily utilized to write the excess and surplus property lines portfolio within the Strategic Risks Specialists ("SRS") unit of MRNA in the United States. This portfolio was historically written by the Company prior to the acquisition. SRS focuses on providing insurance for excess property, builder's risk, energy business, and most inland marine coverages. Classes of business include, but are not limited to, residential, commercial, manufacturing, industrial, office, municipal, educational, retail and wholesale producers.

The Company had 500,000 shares of \$10 par value common stock authorized, issued and outstanding, gross paid-in and contributed surplus totaling \$28,506,015, and \$18,377,063 in unassigned funds at December 31, 2014.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board of Directors ("Board") and committees 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 Board approved these transactions and events.

The Company's articles of incorporation and bylaws were reviewed for any changes during the period under examination. In 2010, the Company replaced its bylaws in their entirety. There have been no amendments made to the bylaws since 2010. In 2010, the Company amended its articles of incorporation to change the following:

- Changed the address of the registered agent and principal.
- Changed registered agent

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MANAGEMENT AND CONTROL

Board of Directors

The business of the Company is managed by its management team and subject to review by the Board. The bylaws specify that the number of directors shall be not less than one, but not more than nine. Directors are elected annually, at the annual meeting of shareholders, for a term of one year.

The following individuals were serving as directors at December 31, 2014:

<u>Name</u>	<u>Address</u>	<u>Principal Business Affiliation</u>
Arturo M. Raschbaum	Haddonfield, NJ	President & Chief Executive Officer MHL
Paul W. Hawk, Jr.	Audubon, PA	Vice President and Treasurer of the Company
Thomas H. Highet	Voorhees, NJ	President of Company & MRNA
Lawrence F. Metz	Westfield, NJ	Senior Vice President, General Counsel & Secretary - MHL
Karen L. Schmitt	Plainsboro, NJ	Chief Financial Officer - MHL

Committees

The Board has the authority to establish one or more committees. The established committees and the individuals elected and serving as of December 31, 2014, were as follows:

Audit Committee

Raymond M. Neff
Steven H. Nigro
Simcha G. Lyons

Enterprise Risk Management Committee – (Global Committee)

Arturo M. Raschbaum
Karen A. Schmitt
Patrick J. Haveron
Thomas H. Highet
Lawrence F. Metz
William T. Jarman
Lesley R. Bosniack
Michael J. Tait

Investment Committee

Arturo M. Raschbaum
Karen A. Schmitt
Paul W. Hawk, Jr.

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, not inconsistent with each other, may be held by the same person.

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

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Thomas H. Highet
Paul W. Hawk, Jr.
Lawrence F. Metz
Stacy C. Armstrong
Cheryl A. Brunette
Steven A. Calvitto

President
Vice President and Treasurer
Senior Vice President, General Counsel & Secretary
Vice President
Assistant Secretary
Assistant Treasurer

AFFILIATED COMPANIES

Holding Company

The Company is part of an insurance holding company system as defined in GS § 58-19. MRNA, the Company's direct parent, is an insurance company domiciled in the state of Missouri. MHL, a publicly traded company incorporated in Bermuda, is the ultimate controlling entity. The Company's December 31, 2014, Annual Statement Schedule Y contains a complete organization chart.

Affiliated Transactions

The Company has an underwriting management and administrative services agreement with Maiden Re Insurance Services, LLC ("MRe"), a managing general agent, effective September 1, 2009. According to Addendum No.1 of the agreement, effective August 1, 2011, the Company is provided various services including, but not limited to, underwriting, claims processing, actuarial, accounting, information technology and other administrative services. The Company pays MRe a servicing fee calculated as 105% of the direct and allocated costs incurred. Servicing fees charged by MRe during 2014 and 2013, were approximately \$1,029,286 and \$6,631,617, respectively.

The Company has an asset management agreement with All Insurance Management Limited, an AmTrust subsidiary, which was amended on May 16, 2012, whereby the Company is provided investment management and advisory services. Under this agreement, the Company incurred fees totaling \$65,018 and \$87,289 in 2014 and 2013, respectively.

The Company is included in a consolidated income tax return in accordance with a tax sharing and allocation agreement with MHL, effective December 31, 2009. The provision for federal income tax is computed as if the Company was filing a separate federal income tax return. The intercompany tax balances are to be settled within 30 days after the consolidated return is filed.

FIDELITY BONDS

The Company is insured under a blanket fidelity bond issued for MHL and its subsidiaries. The bond provides coverage of \$10 million for a single loss with a \$20 million aggregate limit. The coverage exceeds the NAIC's recommended minimum amount of fidelity bond coverage for the Company.

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BENEFIT PLANS

The Company has no direct employees as most of the individuals who perform functions related to the administration of the Company's business are employed by MRe. Expenses are allocated to the Company under an administrative services agreement.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company is licensed only in North Carolina and operates as a surplus lines writer in the other forty-nine states and the District of Columbia. Although the Company is qualified to write business in all jurisdictions, it is currently in runoff and writes no new business. The Company surrendered its certificate of authority as a direct carrier in Georgia as of August 26, 2011. 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, by state, of the Company's statutory deposits. As of December 31, 2014, the statutory deposits were sufficient to meet the capital deposit requirements for the states where the Company is doing business.

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department and from the last report on examination, illustrates the trends of the Company for the five (5) year period ended December 31, 2014:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Gross Premiums Written</u>	<u>Net Premiums Earned</u>	<u>Net Income</u>
2014	76,694,511	51,883,078	35,951,874	(2,463,799)	3,006,147
2013	82,727,493	48,939,640	86,175,694	7,850,182,	2,898,915
2012	89,098,831	46,163,701	98,844,933	15,645,531	1,226,611
2011	71,508,494	36,280,266	88,456,378	7,475,897	118,949
2010	50,771,872	30,692,756	62,586,088	2,415,998	1,674,798

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 NAIC Annual Statement Instructions require a statement from the appointed actuary setting forth an opinion relating to claim reserves and any other actuarial items included on or attached to the annual statement.

The statutory reserves and related items for 2014 were reviewed and certified by the Company's Appointed Actuary, Ronald T. Kuehn, FCAS, MAAA, CERA, FCA, ARM, and CPCU of Huggins Actuarial Services, 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 reserve. According to the actuarial opinions, the Company's reserve for 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 expense obligations of the Company.

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REINSURANCE

Reinsurance Ceded

Excess of Loss Coverage

The Company has an excess of loss agreement with MRNA effective October 1, 2012. Pursuant to the agreement, the Company cedes 100% of its aggregate net per risk exposure of 10% or more of its prior year ending policyholder surplus. The Company ceded premiums totaling \$ -0- and \$554,167 in 2014 and 2013, respectively, to MRNA under this contract.

Stop Loss Coverage

The Company entered into a stop loss reinsurance contract with MRNA on September 1, 2009. The stop loss attaches at 100% of the Company's combined loss and expense ratio. Pursuant to the contract, the Company cedes 1% of its net earned premiums. The Company ceded premiums totaling \$78,857 and \$237,401 in 2014 and 2013, respectively, to MRNA under this contract.

ACCOUNTS AND RECORDS

The Company's main administrative office is located in Mount Laurel, NJ. All policy and claim functions for business processed in Mount Laurel, as well as most financial, administrative and information system services, are performed at the Company's Mount Laurel office location.

Independent Auditor

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). BDO USA LLP of New York, NY, 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.

FINANCIAL STATEMENTS

The accompanying financial statement presents the Company's statutory financial position as of December 31, 2014, and statutory results of operations for the period then ended as reported by the Company to the Department in its 2014 Annual Statement and adjusted, as necessary, based on the results of our examination. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the GS. The financial statement and supporting schedules as of December 31, 2013, are unexamined and are presented for comparative purposes only.

Maiden Specialty Insurance Company
Statutory Statement of Admitted Assets

	December 31,	
	2014	2013
		<i>(unexamined)</i>
<u>Admitted Assets</u>		
Bonds	\$ 31,535,364	39,277,061
Cash and short-term investments	29,501,442	11,796,080
Total cash and invested assets	61,036,806	51,073,141
Investment income due and accrued	317,414	381,192
Premiums and agents' balances in course of collection	2,467,693	5,698,225
Premiums and agents' balances booked but deferred and not yet due	11,227,575	17,958,025
Reinsurance recoverable	923,408	7,255,164
Net deferred tax asset		1,333
Receivable from parent and affiliates	63,204	
Due from related parties	1,136	77,381
Other receivable	657,275	283,032
Total admitted assets	\$ 76,694,511	82,727,493

See accompanying notes to the statutory financial statement

Maiden Specialty Insurance Company
Statutory Statement of Liabilities, Capital and Surplus

	December 31,	
	2014	2013
		<i>(unexamined)</i>
<u>Liabilities</u>		
Losses	\$ 5,722,029	2,664,383
Loss adjustment expenses	623,480	1,146,360
Commissions payable, contingent commissions and other similar charges	454,702	1,074,822
Other expenses	165,191	188,206
Current federal income tax liability	1,449,447	481,239
Net deferred tax liability	119,272	
Unearned premiums	11,942	(274,926)
Ceded reinsurance premiums payable	15,548,820	25,843,632
Funds held by Company under reinsurance contracts	500,000	1,000,000
Provision for reinsurance		29,564
Payable to parent, subsidiaries and affiliates	216,395	562,265
Due to related parties	155	958,324
Due to GMACI		113,984
		113,984
Total liabilities	24,811,433	33,787,853
<u>Capital and Surplus</u>		
Common capital stock	5,000,000	5,000,000
Gross paid in and contributed surplus	28,506,015	28,506,015
Unassigned funds	18,377,063	15,433,625
		15,433,625
Total capital and surplus	51,883,078	48,939,640
Total liabilities, capital and surplus	\$ 76,694,511	82,727,493

See accompanying notes to the statutory financial statement

Maiden Specialty Insurance Company
Statutory Statement of Operations

	Year Ended December 31,	
	2014	2013
	<i>(unexamined)</i>	
<u>Underwriting Income (Loss)</u>		
Premiums earned	\$ (2,463,799)	7,850,182
Losses incurred	(1,851,388)	345,157
Loss adjustment expenses incurred	(856,144)	4,043,258
Other underwriting expenses incurred	(2,517,610)	4,235,522
Total underwriting deductions	(5,225,142)	8,623,937
 Net underwriting gain (loss)	 2,761,343	 (773,755)
<u>Investment Income</u>		
Net investment income earned	1,703,375	1,807,163
Net realized capital gains	18,118	655,543
Net investment gain	1,721,493	2,462,706
<u>Other (Loss) Income</u>		
Net gain from agents' or premium balances charged off		37,520
(Loss) gain from sale of SRS	(35,632)	1,089,171
Miscellaneous	(1,366)	(40,282)
Other service fee income		270,305
Total other (loss) income	(36,998)	1,356,714
 Federal income tax incurred	 1,439,691	 146,750
 Net income	 \$ 3,006,147	 2,898,915

See accompanying notes to the statutory financial statement

Maiden Specialty Insurance Company
Statutory Statement of Capital and Surplus

	December 31,	
	2014	2013
	<i>(unexamined)</i>	
Capital and surplus, beginning of year	\$ 48,939,640	46,163,701
Capital and surplus increases (decreases):		
Net income	3,006,147	2,898,915
Change in net deferred income tax	(120,605)	(935,820)
Change in non-admitted assets	28,332	701,792
Change in provision for reinsurance	29,564	111,052
Change in surplus as regards policyholders for the year	2,943,438	2,775,939
Capital and surplus, end of year	\$ 51,883,078	48,939,640

See accompanying notes to the statutory financial statement

Maiden Specialty Insurance Company
Statutory Statement of Cash Flow

	Year ended December 31,	
	2014	2013
Cash From (Used by) Operations		<i>(unexamined)</i>
Premiums collected net of reinsurance	\$ (2,983,132)	(3,527,111)
Net investment income	1,489,072	2,234,673
Miscellaneous income	(36,997)	1,356,714
Totals	(1,531,057)	64,276
Benefit and loss related payments	(11,240,790)	706,773
Commissions, expenses paid and aggregate write-ins for deductions	(2,207,742)	7,862,106
Federal income taxes paid (recovered) net of tax on capital gains (losses)	481,239	18,494
Totals	(12,967,293)	8,587,373
Net cash from (used by) operations	11,436,236	(8,523,097)
Cash From Investments		
Proceeds from investments sold, matured or repaid	13,484,644	28,193,394
Cost of investments acquired	5,436,992	12,369,020
Net cash from investments	8,047,652	15,824,374
Cash (Used by) From Financing and Miscellaneous Sources		
Other cash(applied) provided	(1,778,526)	3,014,228
Net cash (used by) from financing and miscellaneous sources	(1,778,526)	3,014,228
Reconciliation of Cash and Short-Term Investments		
Net change in cash and short-term investments	17,705,362	10,315,505
Cash and short-term investments, beginning of year	11,796,080	1,480,575
Cash and short-term investments, end of year	\$ 29,501,442	11,796,080

See accompanying notes to the statutory financial statement

Maiden Specialty Insurance Company
Notes to the Statutory Financial Statement
December 31, 2014

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statement has been prepared in conformity with the accounting practices prescribed by the GS. 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.

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.

2. Analysis of Assets

The following represents an analysis of the Company's net admitted assets:

	December 31, 2014		
	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$ 31,535,364		31,535,364
Cash and short-term investments	29,501,442		29,501,442
Total cash and invested assets	61,036,806		61,036,806
Investment income due and accrued	317,414		317,414
Premiums and agents' balances in course of collection	2,469,059	1,366	2,467,693
Premiums and agents' balances booked but not yet due	11,227,575		11,227,575
Reinsurance recoverable	923,408		923,408
Receivable from parent and affiliates	63,204		63,204
Other prepaid expenses	1,111	1,111	
Due from related parties	1,136		1,136
Other receivable	657,275		657,275
Total admitted assets	\$ 76,696,988	2,477	76,694,511

3. Reinsurance

The Company has two 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 no longer utilizes the services of a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Maiden Specialty Insurance Company

Notes to the Statutory Financial Statement

December 31, 2014

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

	December 31,	
	2014	2013
	<i>(unexamined)</i>	
Direct written	\$ 35,951,874	86,175,694
Ceded written	38,128,805	87,662,869
Net written	(2,176,931)	(1,487,175)
Direct earned	54,912,459	97,971,309
Ceded earned	57,376,258	90,121,127
Net earned	\$ (2,463,799)	7,850,182

4. Reserves

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

	December 31,	
	2014	2013
	<i>(unexamined)</i>	
Reserve for losses and loss adjustment expenses, beginning of year	\$ 3,810,743	6,161,697
Add:		
Provision for losses and loss adjustment expenses, current year	(7,968,736)	714,374
Change in estimated losses and loss adjustment expenses, prior years	5,261,205	3,674,040
Total incurred	(2,707,531)	4,388,414
Deduct:		
Losses and loss adjustment expenses paid, current year	(7,935,861)	17,070
Losses and loss adjustment expenses paid, prior year	2,693,564	6,722,298
Total paid	(5,242,297)	6,739,368
Reserve for losses and loss adjustment expenses, end of year	6,345,509	3,810,743
Increase in reserve for losses and loss adjustment expenses	\$ 2,534,766	(2,350,954)

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 \$29,391,117 and \$40,560,213, respectively, for amounts to be recovered from reinsurers.

Maiden Specialty Insurance Company

Notes to the Statutory Financial Statement

December 31, 2014

5. Capital and Surplus

The following, in conjunction with the Statutory Statement of Surplus (see page 11), represents the changes in the Company's capital and surplus since the Department's last examination:

	December 31,		
	2012	2011	2010
	<i>(unexamined)</i>	<i>(unexamined)</i>	<i>(unexamined)</i>
Capital and surplus, beginning of year	\$ 36,280,264	30,692,753	27,541,029
Capital and surplus increases (decreases):			
Net income	1,226,611	118,949	1,674,798
Change in net deferred income tax	367,590	571,847	29,117
Change in nonadmitted assets	322,635	(493,726)	(363,196)
Change in provision for reinsurance	(33,399)	134,183	1,794,130
Surplus adjustments to paid in capital	8,000,000	5,300,000	
Miscellaneous		(43,742)	16,875
Change in surplus as regards policyholders for the year	9,883,437	5,587,511	3,151,724
Capital and surplus, end of year	\$ 46,163,701	36,280,264	30,692,753

6. Contingencies and Commitments

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. The Company is of the opinion that these proceedings will not have a material effect on the financial position of the Company.

Maiden Specialty Insurance Company

Appendix A – Report Distribution

December 31, 2014

Cheryl A. Brunette
Vice President - Compliance
Maiden Global Servicing Company, LLC
6000 Midlantic Drive
Suite 200 South
Mount Laurel, NJ 08054-1516

Thomas H. Highet, President
Maiden Specialty Insurance Company
6000 Midlantic Drive
Suite 200 South
Mount Laurel, NJ 08054-1516

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.

Respectfully submitted,

A handwritten signature in blue ink that reads "Monique D. Smith". The signature is written in a cursive style and is positioned above a horizontal line.

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

August 14, 2015

STATE OF NORTH CAROLINA
COUNTY OF WAKE

Herb Maltba, Supervising Examiner, 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: Herb Maltba Date: August 28, 2015
Herb Maltba

Sworn and subscribed before me this 28 day of August, 2015.

Notary Public Signature: Thomas Smith Notary Public Seal:

