

New South Insurance Company

Winston-Salem, North Carolina

Report on Examination

As of December 31, 2014

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February 26, 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

New South Insurance Company

(hereinafter referred to as the “Company”), at its main administrative office located at 5630 University Parkway, Winston-Salem, North Carolina, 27105. 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 seventeen (17) insurance company subsidiaries of National General Holdings Corporation, collectively known as the "National/Integon Subgroup". North Carolina served as the Facilitating State, and Participating States included Alabama, California, Louisiana, Michigan, Missouri, New Jersey, and Texas. In addition, a concurrent coordinated financial examination of the insurance company subsidiaries of AmTrust Financial Services, Inc. was conducted with Delaware serving as the Lead State.

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:

Pricing and Underwriting
Claims Handling
Reserving
Reinsurance Assuming
Reinsurance Ceding
Related Parties
Investing and Capital

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). BDO, LLP of New York, New York, 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, Ronald Kuehn, FCAS, MAAA, CERA, CPCU, ARM, FCA of Huggins Actuarial Services, Inc.

REPORT ACRONYMS

"AAIC"	Agent Alliance Insurance Company
"AARC"	Agent Alliance Reinsurance Company, Ltd.
"ACAC"	American Capital Acquisition Corporation
"ACP Re"	ACP Re., Ltd.
"AFS"	Audited Financial Statements
"AIM"	AII Insurance Management Limited
"AmTrust"	AmTrust Financial Services, Inc.
"APRC"	Allied Providers Reinsurance Company, Ltd.
"AS"	Annual Statement
"ASP"	Annual Statement Instructions
"ATNA"	AmTrust North America, Inc.
"CIM"	CIM Insurance Corporation
"GMAC"	General Motors Acceptance Corporation, Inc.
"GS"	General Statutes of North Carolina
"ICIC"	Integon Casualty Insurance Company
"IFCIC"	Imperial Fire and Casualty Insurance Company
"IGIC"	Integon General Insurance Corporation
"IIC"	Integon Indemnity Corporation
"INIC"	Integon National Insurance Company
"IPIC"	Integon Preferred Insurance Company
"MCCA"	Michigan Catastrophic Claims Association
"MIC"	Motors Insurance Corporation
"MICG"	MIC General Insurance Corporation
"MICPAC"	MIC Property & Casualty Insurance Corporation
"NAIC"	National Automotive Insurance Company
"Nat Gen Re"	National General Re, Ltd.
"NCRF"	North Carolina Reinsurance Facility
"NGAC"	National General Assurance Company
"NGHC"	National General Holdings Corporation
"NGIC"	National General Insurance Company
"NGIM"	National General Insurance Marketing, Inc.
"NGIO"	National General Insurance Online, Inc.
"NGMC"	National General Management Corporation
"NHIC"	National Health Insurance Company
"NJSIA"	New Jersey Skylands Insurance Association
"NJSIC"	New Jersey Skylands Insurance Company
"NSIC"	New South Insurance Company
"PEIC"	Personal Express Insurance Company
"RSL"	Risk Services, LLC

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

- a. A review of the Company's board of directors minutes revealed that starting in 2008, the Company's investments were not approved pursuant to GS § 58-7-168. The Statute states that "an insurer shall not make any investment or loan, other than a policy loan or annuity contract loan of a life insurer, unless the investment or loan is authorized or approved by the insurer's board of directors or by a committee authorized by the board and charged with the supervision or making of the investment or loan. The minutes of any such committee shall be recorded and regular reports of the committee shall be submitted to the board of directors." The Company was directed to comply with the GS § 58-7-168. This issue was resolved prior to the current examination.

CURRENT EXAMINATION

- a. The Company did not file in a timely manner its Audited Financial Statements with the Department for each filing year from 2010 to 2014 in accordance with GS §58-10-195. The Company is directed to file its Audited Financial Statements on or before June 1st for the year ended December 31 immediately preceding, pursuant to GS §58-10-195.
- b. The Company did not file amendments to add new parties to related party agreements with the Department in a timely manner in compliance with GS § 58-19-30(b)(3) and (4). The Company filed the amendments after the effective date for the following parties acquired during the period under examination: National Health Insurance Company, Personal Express Insurance Company, Imperial Fire and Casualty Insurance Company, National Automotive Insurance Company and Agent Alliance Insurance Company. The Company is directed to notify the Department of amendments to related party agreements at least 30 days prior to the effective date pursuant to GS § 58-19-30(b)(3) and (4).

COMPANY HISTORY

The Company was originally incorporated on December 15, 1952, under the laws of North Carolina.

INIC acquired PEIC on April 1, 2014, and AAIC on July 1, 2014. IIC acquired NHIC on November 1, 2012. NGHC acquired IFCIC and NAIC on June 27, 2014. NGHC acquired NJSIA and NJSIC on September 15, 2014. In conjunction with each of the aforementioned acquisitions, certain agencies and non-insurance companies were also acquired by NGHC and its subsidiaries.

CAPITAL STOCK

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

Description	Value
Number of authorized common capital shares	30,000
Number of shares issued and outstanding	30,000
Total common capital stock	\$3,000,000
Par value per share	\$100

No additional shares were issued during the period under examination. As of December 31, 2014, all outstanding shares are owned by NGMC, which is wholly-owned by NGHC, an insurance holding company incorporated in the State of Delaware, with its principal office in New York.

At December 31, 2014, the Company reported \$0 in gross paid-in and contributed surplus and \$3,890,485 in unassigned funds.

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 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 exceeding these limits are considered extraordinary and require prior Department approval. The Company paid dividends of \$3,453,740 and \$0 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 is subject to review by the Board. The bylaws specify that the number of directors shall be no less than two. 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 as of December 31, 2014:

Name	Location	Principal Occupation
Barry S. Karfunkel	Lawrence, NY	NGHC Chief Marketing Officer
Michael H. Weiner	New City, NY	NGHC Chief Financial Officer
Jeffrey A. Weissmann	Clifton, NJ	NGHC Secretary & General Counsel

The Board has appointed the following committees of the holding company to act on behalf of the Company: NGHC Finance Committee, NGHC Audit Committee, NGHC Compensation Committee, and NGHC Nominating and Governance Committee.

The following individuals served on committees as of December 31, 2014:

Finance Committee

Michael H. Karfunkel, Chair
Michael H. Weiner
Peter A. Rendall

Nominating & Governance Committee

Michael H. Karfunkel, Chair
Barry Zyskind
Donald DeCarlo

Audit Committee

Ephraim Brecher, Chair
Patrick Fallon
Barbara Paris

Compensation Committee

Michael H. Karfunkel, Chair
Patrick Fallon
Donald DeCarlo

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, except for those of president and secretary.

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

Name	Title
Byron W. Storms**	President
Jeffrey A. Weissmann	Secretary
Peter A. Rendall	Treasurer
Donald J. Bolar	Vice President & Chief Accounting Officer
Michael H. Weiner	Chief Financial Officer
George H. Hall, Jr.	Vice President & Chief Claims Officer
Berta A. Castellano	Vice President

** Subsequently resigned on July 15, 2015. On August 18, 2015, the Board appointed Barry S. Karfunkel as President, effective July 15, 2015.

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

We reviewed the minutes of the meetings of the Board and its 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 directors approved these transactions and events.

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. On November 12, 2010, the Company amended its Articles of Incorporation and Bylaws to make them consistent across the NGHC personal lines insurance companies and to change the number of directors to be no less than two. The minutes of the meetings of the Board and Executive Committee were reviewed for the period under examination. Based on the review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

CORPORATE ORGANIZATION

The Company is part of an insurance holding company system as defined in GS §58-19. The Company is wholly-owned by NGHC, a Delaware corporation, a specialty personal lines insurance holding company. Formerly known as ACAC, the corporation was formed in 2009 to acquire the private passenger auto insurance business of the U.S. consumer property and casualty insurance segment of GMAC, which had been in operation since 1939. GMAC insurance companies were acquired by ACAC on March 1, 2010. The holding corporation's name was changed to NGHC effective July 1, 2013. Shares of NGHC common stock began trading on the NASDAQ Global Market on February 20, 2014.

The ultimate controlling persons of NGHC are Michael Karfunkel and his wife Leah Karfunkel, as sole trustee of the Michael Karfunkel 2005 Grantor Retained Annuity Trust, with 48.8% of collective stock ownership at December 31, 2014. In addition, AmTrust owns 13.2% of NGHC stock. Michael Karfunkel has an ownership interest in AmTrust, Maiden Holding, Ltd. and ACP Re. The Company's 2014 AS Schedule Y contains a complete organization chart.

NGHC's corporate headquarters is located at 59 Maiden Lane, 38th Floor, New York, New York, 10038. The Company's statutory home office, principal place of business and primary location of its books and records is located at 5630 University Parkway, Winston-Salem, North Carolina, 27105.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2014 AS 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 are maintained at the main administrative office at 5630 University Parkway, Winston-Salem, North Carolina, 27105.

The Company's significant applications are hosted on Oracle and SQL at the Company's main administrative office in Winston Salem, North Carolina, and the offices of its related party service providers in Cleveland, Ohio. The majority of the Company's financially significant applications were either developed and hosted in-house, or developed and hosted by related parties pursuant to related party service agreements.

FIDELITY BONDS AND OTHER INSURANCE

The Company is a named insured under a fidelity bond issued to NGHC with coverage totaling \$5,000,000 in aggregate. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the Handbook for NGHC on a consolidated basis.

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

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has no employees, and company operations are conducted by NGMC pursuant to a related party management services agreement. Employee benefit plans are administered through the Company's ultimate parent, NGHC.

RELATED PARTY AGREEMENTS

The Company and its affiliated insurers have a management services agreement with NGMC, effective January 1, 2012, whereby NGMC provides underwriting, claims, actuarial, policyholder services, accounting, information technology and certain other administrative functions for a management fee of 2% of the aggregate gross written premium of the North Carolina domiciled insurers. In addition, the Company reimburses NGMC quarterly for direct and common expenses paid on its behalf and allocated in accordance with the agreement. Under this agreement, the Company paid management fees totaling \$2,593,669 and \$3,580,914 in 2014 and 2013, respectively.

NGHC and NGMC on behalf of itself and the insurance company subsidiaries, including the Company, have an asset management agreement with AIM, effective March 1, 2010, whereby AIM provides investment management services for a quarterly fee of 0.05% of the average value of assets under management. Under this agreement, the Company paid investment fees totaling \$26,651 and \$26,819 in 2014 and 2013, respectively.

The Company is included in a consolidated income tax return in accordance with a tax allocation agreement between the North Carolina insurers and affiliates, NGHC, NGMC, NGIM and GM Motor Club, Inc., effective March 1, 2010. The agreement sets forth the parties' obligations in connection with their filing as a consolidated tax filing group. Each entity shall remit to NGHC any amount determined to be due in accordance with the agreement no more than 30 days after the taxes are due. Refunds received by NGHC resulting from tax savings shall be remitted to the applicable entity on or before the 30th of each month following the calendar quarter in which that part of the tax refund was received. Refunds received by NGHC resulting from adjustments to previously filed tax returns shall be remitted to the applicable entity no more than 30 days after such payments are received.

NGHC has a master services agreement with ATNA effective February 22, 2012, for ten years from the acceptance of all phases of the initial work statement and which can be automatically renewed thereafter for subsequent five-year terms. Under this agreement, ATNA provides postage and billing services to NGHC for premiums written on NGHC's new policy administration system. In addition, ATNA provides NGHC information technology development services in connection with the development of the policy administration system at cost. In 2014, ATNA began providing NGHC services in managing the premium receipts from its lockbox facilities at a fixed cost per item processed.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company was licensed in twenty-nine (29) jurisdictions:

Alaska	Colorado	Connecticut	Georgia	Illinois
Indiana	Kentucky	Louisiana	Maryland	Mississippi
Missouri	Nebraska	Nevada	New York	North Carolina
North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania
Rhode Island	South Carolina	South Dakota	Tennessee	Texas
Virginia	Washington	West Virginia	Wisconsin	

The Company writes property & casualty lines of business. The Company operates through independent agents and affinity partners to write standard auto, preferred auto, non-standard auto liability, homeowners, recreational vehicle, commercial auto liability and motorcycle insurance.

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(loss)
2014	\$60,345,048	\$6,890,485	\$135,002,022	\$0	\$320,839
2013	\$82,148,530	\$15,621,495	\$170,079,537	\$0	\$4,091,281
2012	\$86,984,943	\$13,196,025	\$138,415,005	\$0	\$11,317,559
2011	\$113,364,310	\$27,174,879	\$207,228,129	\$49,899,016	\$1,784,113
2010	\$119,963,749	\$26,492,377	\$231,954,666	\$53,754,257	(\$5,145,833)

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, Ronald Kuehn, FCAS, MAAA, CERA, CPCU, ARM, FCA 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 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 loss and loss adjustment expense obligations of the Company.

REINSURANCE

REINSURANCE CEDED

The Company had an intercompany pooling reinsurance agreement, effective March 1, 2010 to December 31, 2011, whereby INIC assumed 100% of the business from the pool and then retroceded a portion of the business back to the participants. Pool participants included ICIC, IGIC, IPIC, IIC, NSIC, NGIC, NGAC, NGIO, and MICG. Effective January 1, 2012, the intercompany reinsurance agreement was amended to provide for 100% cession to INIC, with no amounts retroceded to the participants, and previously pooled business was recaptured by INIC. During 2014, several new affiliates were added to this agreement: NHIC (January 1, 2014), PEIC (April 1, 2014), IFCIC (June 26, 2014), NAIC (June 26, 2014) and AAIC (July 1, 2014). In 2014 and 2013, the Company ceded premiums of approximately \$135,002,000 and \$169,956,000, respectively, to INIC under this contract.

The Company has a loss portfolio and quota share reinsurance agreement with INIC, MIC, CIM, and MICPAC, effective December 31, 2011. The original agreement between INIC, MIC, CIM and MICPAC, dated February 28, 2010, was novated, whereby NSIC ceded, assigned and transferred to INIC all of its rights and obligations under the original agreement. In 2014 and 2013, the Company ceded premiums of approximately \$0 and \$0, respectively, to INIC under this contract.

REINSURANCE ASSUMED

The Company assumed no reinsurance as of December 31, 2014.

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.

New South Insurance Company
Statutory Statement of Admitted Assets
December 31,

	2014	2013 <i>(unexamined)</i>
Bonds	\$6,996,698	\$13,568,183
Cash and short-term investments	590,968	74,623
Receivable for securities	-	82,125
Total cash and invested assets	7,587,666	13,724,931
Investment income due and accrued	57,040	216,765
Uncollected premiums and agents' balances	3,369,093	4,989,599
Deferred premiums and agents' balances	40,212,190	49,634,544
Amounts recoverable from reinsurers	7,248,672	8,289,572
Federal income tax recoverable	-	71,324
Receivables from parent and affiliates	1,870,387	5,221,726
Miscellaneous Receivable	-	69
Total Admitted Assets	\$60,345,048	\$82,148,530

New South Insurance Company
Statutory Statement of Liabilities, Capital and Surplus
December 31,

	2014	2013 <i>(unexamined)</i>
Losses	\$ -	\$ -
Reinsurance payable on paid losses and loss adjustment expenses	-	-
Loss adjustment expenses	-	-
Other expenses	20,001	-
Current federal income taxes	377,172	-
Net deferred tax liability	685,316	945,479
Ceded reinsurance premiums payable	52,372,074	65,581,556
Total Liabilities	\$53,454,563	\$66,527,035
Common capital stock	3,000,000	3,000,000
Gross paid in and contributed surplus	-	7,546,260
Unassigned funds (surplus)	3,890,485	5,075,235
Surplus as regards policyholders	6,890,485	15,621,495
Total Liabilities, Capital and Surplus	\$60,345,048	\$82,148,530

New South Insurance Company
Statutory Statement of Operations
December 31,

	2014	2013 <i>(unexamined)</i>
Underwriting Income		
Premiums earned	\$ -	\$ -
Deductions		
Losses incurred	-	-
Loss adjustment expenses incurred	-	-
Other underwriting expenses incurred	-	-
Total underwriting deductions	-	-
Net underwriting gain (loss)	-	-
Investment Income		
Net investment income earned	586,526	452,801
Net realized capital gains (losses)	193,929	35,543
Net investment gain (loss)	780,455	488,344
Other Income		
Other income	-	-
Net income before taxes	780,455	488,344
Federal income taxes incurred	459,616	(3,602,937)
Net Income (Loss)	\$320,839	\$4,091,281

New South Insurance Company
Statutory Statement of Capital and Surplus
December 31,

Capital and Surplus Account	2014	2013 <i>(unexamined)</i>
Capital and surplus, beginning of year	\$15,621,495	\$13,196,025
Capital and surplus increases (decreases):		
Net Income (Loss)	320,839	4,091,281
Change in net deferred income tax	260,163	(1,991,855)
Change in non-admitted assets	1,687,988	326,044
Surplus adjustments to paid-in capital	(7,546,260)	-
Dividends to stockholders	(3,453,740)	-
Change in capital and surplus as regards policyholders for the year	(8,731,010)	2,425,470
Capital and surplus, end of year	\$6,890,485	\$15,621,495

New South Insurance Company
Statutory Statement of Cash Flow
December 31,

	2014	2013 <i>(unexamined)</i>
Cash From (Used By) Operations		
Premiums collected net of reinsurance	\$(1,365,369)	\$1,184,735
Net investment income	957,588	683,465
Total	(407,781)	1,868,200
Benefit and loss related payments	(1,040,900)	(4,246,853)
Commissions, expenses paid and aggregate write-ins	(20,001)	57
Federal income taxes paid (recovered)	115,544	(2,449,915)
Total	(945,357)	(6,696,711)
Net cash from (used by) operations	537,576	8,564,911
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	13,903,404	4,201,042
Cost of investments acquired	7,138,667	6,257,835
Net cash from (used by) investments	6,764,737	(2,056,793)
Cash From (Used By) Financing and Miscellaneous Sources		
Cash from capital and paid-in surplus	(7,546,260)	-
Dividends to stockholders	3,453,740	-
Other cash provided (applied)	4,214,032	(6,773,204)
Net cash from (used by) financing and miscellaneous sources	(6,785,968)	(6,773,204)
Reconciliation of Cash and Short-Term Investment		
Net change in cash, cash equivalents and short-term investments	516,345	(265,086)
Cash and short-term investments, beginning of year	74,623	339,709
Cash and short-term investments, end of year	\$590,968	\$74,623

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 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.

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.

Business acquisition costs: Charged to income as 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 charged against surplus.

Losses & loss adjustment expense: Includes amounts determined from individual case reserves 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	\$6,996,698		\$6,996,698
Cash and short-term investments	590,968		590,968
Total cash and invested assets	7,587,666		7,587,666
Investment income due and accrued	57,040		57,040
Uncollected premiums and agents' balances	3,484,048	114,955	3,369,093
Deferred premiums and agents' balances	40,212,190		40,212,190
Amounts recoverable from reinsurers	7,248,672		7,248,672
Electronic data processing equipment & software	1,055,715	1,055,715	-
Receivables from parent and affiliates	1,870,387		1,870,387
Total Assets	\$61,515,718	\$1,170,670	\$60,345,048

Reinsurance:

The Company's affiliate, INIC, provides quota share and 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 Aon Benfield, Inc. as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

From 2010 to 2012, the Company was a participant in a reinsurance pooling arrangement with its insurance affiliates, where INIC assumed 100% of the business from the pool and then retroceded a portion of the business back to the participants. In 2012, the reinsurance arrangement was amended to provide for 100% cession to INIC, with no amounts retroceded to the participants.

The reinsurance transactions of the National/Integon Subgroup companies, including the Company, include premiums written under state-mandated involuntary plans for commercial vehicles and premiums ceded to state-provided reinsurance facilities, such as MCCA and NCRF, for which the Company retains no loss indemnity risk.

Direct and ceded premiums written and earned are as follows:

	2014	2013
Direct and written	\$135,002,022	\$170,079,537
Ceded written	135,002,022	170,079,537
Net written	-	-
Direct and earned	148,485,294	175,241,887
Ceded earned	148,485,294	175,241,887
Net earned	\$ -	\$ -

Summary of Reserves:

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 \$107,522,000 and \$111,188,000 respectively, for amounts to be recovered from reinsurers.

The Company reported no net reserves as of December 31, 2014 and 2013.

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
Capital and surplus, beginning of year	\$27,174,879	\$26,492,377	\$28,853,525
Capital and surplus increases (decreases):			
Net income (loss)	11,317,559	1,784,113	(5,145,833)
Change in net unrealized capital gain (loss)	18,842	(18,842)	-
Change in net deferred income tax	(2,478,054)	67,271	3,482,729
Change in nonadmitted assets	(1,060,452)	(1,150,040)	(698,044)
Surplus adjustments to paid-in capital	(8,304,206)	-	-
Dividends to stockholders	(15,695,794)	-	-
Prior year adjustment	2,223,251	-	-
Change in surplus as regards policyholders for the year	(13,978,854)	682,502	(2,361,148)
Capital and surplus, end of year	\$13,196,025	\$27,174,879	\$26,492,377

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 July 15, 2015, Byron W. Storms resigned as President, and was replaced by Barry S. Karfunkel.

On July 15, 2015, NGHC entered into an agreement to acquire the lender-placed insurance business of QBE North America, a division of QBE Financial Institution Risk Services, Inc., pursuant to a Master Transaction Agreement. The transaction, which included the acquisition of certain assets, including loan-tracking systems and technology, client servicing accounts, intellectual property and vendor relationships, was finalized and became effective on October 1, 2015. The business will be branded National General Lender Services. In conjunction with this transaction, effective October 1, 2015, INIC entered into a Quota Share Agreement with QBE Specialty Insurance Company and Praetorian Insurance Company, subsidiaries of QBE Corporation, whereby INIC assumes 100% of the lender-placed insurance business.

On August 24, 2015, NGHC entered into an agreement to acquire certain business lines and assets from Assurant Health, which is a business segment of Interfinancial, Inc. ("Interfinancial"), pursuant to a Master Transaction Agreement. This transaction was finalized and became effective on October 1, 2015. In conjunction with this transaction, effective October 1, 2015, INIC entered into two Coinsurance Reinsurance Agreements with Time Insurance Company and John Alden Life Insurance Company, subsidiaries of Interfinancial, whereby INIC assumes 100% of certain blocks of small group self-funded and supplemental accident and health business.

Effective October 1, 2015, INIC amended its existing Quota Share Reinsurance Agreement with Nat Gen Re to change the cession percentage from 60% to 50%.

Effective January 6, 2016, NAIC merged into IFCIC, with IFCIC as the surviving entity.

New South Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2014

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

February 26, 2016

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Herb Maltba, 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: *Herb Maltba* Date: March 7, 2016
Herb Maltba

Sworn and subscribed before me this 7th day of March, 2016.

Notary Public Signature: *Dydael B. Muna* Notary Public Seal:

