

Universal Insurance Company

Winston-Salem, North Carolina

Report on Examination

As of December 31, 2014

Universal Insurance Company

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Universal Insurance Company
Report on Examination
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

Universal Insurance Company

(hereinafter referred to as the “Company”), at its main administrative office located at 770 Highland Oaks Drive, Winston-Salem, North Carolina 27103. 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.

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”), as those balances are critical to determining financial solvency.

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SUMMARY OF SIGNIFICANT FINDINGS

Comments, Recommendations and Directives

- a. The Company did not notify the Commissioner in writing of its intention to enter into an agency agreement with American Auto Club Insurance Agency ("AACIA"), its affiliate, at least 30 days prior to the transaction, as required by GS § 58-19-30(b)(4). The Company is directed to comply with the GS.
- b. The Company could not provide evidence that the Board of Directors ("Board") authorizes or approves its investments. According to Company management, an investment committee meets quarterly to review investments and approve transactions; however, the committee does not maintain any meeting minutes.

The Company is in violation of GS § 58-7-168, which states that "an insurer shall not make any investment or loan...unless the investment or loan is authorized and approved by insurer's Board or by a committee authorized by the Board". The minutes of any such committee shall be recorded and regular reports of the committee shall be submitted to the Board. The Company is directed to comply with the GS.

COMPANY HISTORY

The Company was incorporated on June 15, 1976, under the laws of the state of North Carolina as a stock fire and marine insurance company. The Company commenced business on July 1, 1976, with 500,000 shares of \$1 par value capital common stock authorized. The Company issued 400,000 shares of its common stock to Bruce MacFaden Enterprises, Inc., at \$2.00 per share on December 31, 1977. On December 8, 1980, the Company amended its charter to increase the number of authorized shares of \$1 par value capital common stock to 1.0 million shares and issued a stock dividend of 100,000 shares on December 17, 1980. The Company issued another stock dividend of 300,000 shares on December 15, 1982, and became a stock property and casualty insurance company on October 13, 1983, with 800,000 shares of capital common stock issued and outstanding. On December 11, 1986, the Company issued a stock dividend for the remaining 200,000 shares of authorized common stock and, on December 23, 1986, all of the Company's outstanding capital stock was acquired by The Innovative Company.

On December 28, 1990, the Company issued a \$1.0 million certificate of contribution bearing interest at the rate of 10% to The Innovative Company, its sole shareholder, who subsequently forgave the debt in 1994. On March 23, 1992, the Company amended its charter to increase the number of authorized shares of \$1 par value common stock to 1.8 million shares and issued a stock dividend of 800,000 shares on March 31, 1992. The Company received additional surplus contributions from The Innovative Company in 1993, 1994 and 1996, which increased the Company's gross paid in and contributed surplus to \$4.5 million at December 31, 1996.

On December 1, 1997, The Seibels Bruce Group, Inc. ("Seibels"), a publicly traded holding company incorporated in the state of South Carolina, purchased all outstanding capital stock of the Company and contributed an additional \$1,550,000 to paid-in surplus. Seibels, which is controlled by a majority shareholder, directly or indirectly owns all of the stock of Catawba Insurance Company, Seibels Bruce & Company and Insurance Network Services, Inc.

Effective February 27, 2004, Seibels became a privately held Company. In 2009 and 2011, Seibels contributed paid-in surplus in the amount of \$1,350,000 and \$751,500, respectively, in order to strengthen the Company's surplus position.

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On January 31, 2012, Seibels sold the Company to TMIC Holdings ("TMIC") and effective January 1, 2012, the Company became a subsidiary of the Carolina Motor Club (i.e. AAA Carolinas) ("CMC") in an all cash transaction and contributed an additional \$3.0 million to paid-in surplus. The Company is now part of a holding company structure that includes The Members Insurance Company ("MIC"), a property and casualty underwriter who operates in North Carolina.

As of December 31, 2014, the Company had \$1.8 million authorized and issued shares of \$1 par value common stock, \$11,151,500 in gross paid-in and contributed surplus, and \$4,271,614 in unassigned funds.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the 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 directors approved these transactions and events; except for transactions related to the Company's investments. (Refer to the Summary of Significant Findings).

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. There were no amendments made to the Articles of Incorporation and the Bylaws.

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 3, but not more than 12. 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>
Jess F. Davis	Charlotte, NC	Vice President and Secretary of Company, CMC and its subsidiaries
Henry J. McCafferty	Charlotte, NC	President of Company, TMIC, MIC and various subsidiaries of CMC
David E. Parsons	Charlotte, NC	Chief Executive Officer and President, CMC and its subsidiaries
Heidi A. Shimp-Fava	Waxhaw, NC	Secretary/Treasurer of Company, CMC and its subsidiaries

Committees

The Board has the authority to establish committees including, but not limited to, an executive committee, consisting of at least two members of the Board. These committees have the powers and duties deemed appropriate by the Board. This power may not exceed the power of the Board.

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The established committees and the individuals elected and serving as of December 31, 2014, were as follows:

Audit Committee

David E Parsons
Henry J. McCafferty

Investment Committee

Jess F. Davis
Henry J. McCafferty
Heidi A. Shimp-Fava

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:

Henry J. McCafferty	President
Jess F. Davis	Vice President, Finance
Heidi A. Shimp-Fava	Secretary/Treasurer
Kevin T. Roberson	Assistant Vice President

AFFILIATED COMPANIES

Holding Company

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is owned by TMIC and controlled by CMC. The Company's December 31, 2014 AS Schedule Y contains a complete organizational chart.

Affiliated Transactions

- a. The Company has an administrative services agreement with CMC, effective January 1, 2012, whereby the Company is provided the use of employees to perform services for the Company in connection with its insurance business. Under this agreement, the Company is required to reimburse CMC for payroll and other employee related expenses based on the allocation of work hours. Under this agreement, the Company incurred expenses totaling \$4,185,928 and \$4,046,032 in 2014 and 2013, respectively.
- b. The Company has an agency agreement with AACIA, effective August 1, 2012, whereby AACIA has the authority to write business and bind risks on behalf of the Company in exchange for a commission based on a percentage of premiums written. Under this agreement, the Company incurred commission expenses totaling \$325,608 and \$255,179 in 2014 and 2013, respectively.
- d. The Company is included in a consolidated income tax return in accordance with a tax sharing agreement with CMC, effective January 1, 2012. The provisions for federal income tax are computed as if each company were filing separate income tax returns. Benefits, which arise from tax credits and

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net operating losses, are allocated to the company producing such results to the extent they are utilized in the consolidated income tax provisions. Intercompany tax balances are to be settled within 120 days after the consolidated tax return is filed.

FIDELITY BONDS

The Company had fidelity bond coverage totaling \$750,000, which exceeds the minimum amount recommended by the NAIC. The Company is a named insured under a fidelity bond issued to CMC. The coverage exceeded the minimum amount of fidelity bond coverage recommended by the NAIC for the companies on a consolidated basis.

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 CMC. Expenses are allocated to the Company based on the previously described administrative services agreement.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company was licensed in the states of North Carolina and South Carolina. 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, 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.

The Company is a property and casualty insurer that specializes in writing personal nonstandard auto physical damage and liability coverage. The Company utilizes independent agents for the distribution of its products and solicitation of business. All policies are issued annually and semi-annually. Insureds may elect to pay on an installment basis.

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 2014:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Gross Premiums Written</u>	<u>Net Earned Premiums</u>	<u>Net Income(Loss)</u>
2014	25,422,039	8,679,886	32,771,622	11,540,122	489,521
2013	23,317,797	8,012,429	29,271,707	10,205,107	240,240
2012	24,866,446	7,461,866	38,355,848	13,088,589	124,632
2011	22,828,376	4,808,514	43,763,285	16,538,284	(3,719,988)
2010	24,650,662	8,858,664	42,719,461	16,783,460	(1,114,633)

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 AS Instructions require a

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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, John P. Booher, ACAS, MAAA of Actuarial Insurance Consultants, LTD.

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 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.

REINSURANCE

Reinsurance Ceded

The Company cedes substantially its entire nonstandard private passenger liability business to the North Carolina Reinsurance Facility ("Facility"). With respect to amounts ceded to the Facility, the Company remains contingently liable for its proportionate share of the Facility's unfunded losses for each policy year. In 2014 and 2013, the Company ceded premiums totaling approximately \$20.4 million and \$18.7 million, respectively, to the Facility.

ACCOUNTS AND RECORDS

The Company's main administrative office is located at 770 Highlands Oaks Drive in Winston-Salem, North Carolina. All policy and claim functions for business are processed in Winston-Salem. Centralized corporate activities including: centralized capital, investment and reinsurance management, corporate actuarial, financial, administrative, and enterprise risk management, are located at the corporate offices at 6600 AAA Drive in Charlotte, North Carolina.

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). Strohm Ballweg, LLP of Madison, Wisconsin, the designated independent public accountant of the Company, issued an unqualified opinion for each of the years ended 2014, 2013 and 2012. Prior to 2012, the books and records of the Company were audited annually by, independent certified public accountants, Johnson Lambert & Co. LLP of Raleigh, North Carolina.

Information System

The Company utilizes several information system platforms and/or applications in the processing of the Company's business. All companies within the CMC holding company system use a common, integrated general ledger application, which can produce financial statements on a consolidated, legal entity or profit center basis. Several of the information systems utilized by the Company fully integrate with the current general ledger application and require minimal manual calculation and data entry.

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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 AS 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.

Universal Insurance Company
Statutory Statement of Admitted Assets

	December 31,	
	2014	2013
	<i>(unexamined)</i>	
<u>Admitted Assets</u>		
Bonds	\$ 2,184,872	2,458,627
Common stocks	2,127,254	1,941,746
Cash and short-term investments	5,531,245	6,258,516
Other invested assets	<u>254,605</u>	
Total cash and invested assets	10,097,976	10,658,889
Investment income due and accrued	11,888	20,757
Premiums and agents' balances in course of collection	1,762,502	2,134,577
Premiums and agents' balances booked but deferred and not yet due	7,706,736	5,981,299
Reinsurance recoverable	5,489,037	3,875,372
Federal income tax recoverable	9,618	237,129
Net deferred tax asset	283,532	242,986
Guaranty funds receivable or on deposit	550	
Accounts receivable various	60,000	
Leasehold improvements	200	
Taxes, licenses and fess		<u>166,788</u>
Total admitted assets	<u>\$ 25,422,039</u>	<u>23,317,797</u>

See accompanying notes to the statutory financial statement

Universal Insurance Company
Statutory Statement of Liabilities, Capital and Surplus

	December 31,	
	2014	2013
	(unexamined)	
<u>Liabilities</u>		
Losses	\$ 3,210,389	3,307,206
Loss adjustment expenses	2,864,688	3,242,292
Commissions payable, contingent commissions and other similar charges	257,473	(868)
Other expenses	425,520	475,254
Taxes, licenses and fees	82,395	10,668
Unearned premiums	4,231,139	3,425,455
Advance premium	48,908	192,119
Ceded reinsurance premiums payable	2,014,161	1,777,343
Amounts withheld or retained by Company for account of others	174,222	74,797
Payable to parent, subsidiaries and affiliates	2,172,695	1,568,814
Unapplied premium	19,322	52,589
Accounts payable-escheats	459,556	501,061
Deferred revenue	781,685	678,638
	16,742,153	15,305,368
<u>Capital and Surplus</u>		
Common capital stock	1,800,000	1,800,000
Gross paid in and contributed surplus	11,151,500	11,151,500
Unassigned funds	(4,271,614)	(4,939,071)
	8,679,886	8,012,429
	\$ 25,422,039	23,317,797

See accompanying notes to the statutory financial statement

Universal Insurance Company
Statutory Statement of Operations

	Year Ended December 31,	
	2014	2013
	<i>(unexamined)</i>	
<u>Underwriting Loss</u>		
Premiums earned	\$ 11,540,122	10,205,107
Losses incurred	7,240,446	5,847,053
Loss adjustment expenses incurred	936,657	1,241,062
Other underwriting expenses incurred	4,778,001	5,069,131
Total underwriting deductions	12,955,104	12,157,246
Net underwriting loss	(1,414,982)	(1,952,139)
<u>Investment Income</u>		
Net investment income earned	115,296	111,907
Net realized capital gains (losses)	20,701	(5,315)
Net investment gain	135,997	106,592
<u>Other Income</u>		
Net loss from agents' or premium balances charged off	(924,943)	(922,630)
Finance and service charges not included in premiums	2,920,959	2,770,731
Miscellaneous income		557
Total other income	1,996,016	1,848,658
Net income before federal income taxes	717,031	3,111
Federal income tax incurred (benefit)	227,510	(237,129)
Net income	\$ 489,521	240,240

See accompanying notes to the statutory financial statement

Universal Insurance Company
Statutory Statement of Capital and Surplus

	December 31,	
	2014	2013
	<i>(unexamined)</i>	
Capital and surplus, beginning of year	\$ 8,012,429	7,461,866
Capital and surplus increases (decreases):		
Net income	489,521	240,240
Change in net unrealized capital gains	109,599	332,609
Change in net deferred income tax	(8,753)	(334,502)
Change in non-admitted assets	77,090	312,216
Change in surplus as regards policyholders for the year	667,457	550,563
Capital and surplus, end of year	\$ 8,679,886	8,012,429

See accompanying notes to the statutory financial statement

Universal Insurance Company
Statutory Statement of Cash Flow

	Year ended December 31,	
	2014	2013
Cash (Used by) From Operations		<i>(unexamined)</i>
Premiums collected net of reinsurance	\$ 11,097,727	10,382,966
Net investment income	135,437	138,675
Miscellaneous income	1,996,016	1,848,658
Totals	13,229,180	12,370,299
Benefit and loss related payments	8,950,928	5,002,387
Commissions, expenses paid and aggregate write-ins for deductions	5,709,431	6,415,507
Federal income taxes recovered net of tax on capital gains	(1)	
Totals	14,660,358	11,417,894
Net cash (used by) from operations	(1,431,178)	952,405
Cash Used by Investments		
Proceeds from investments sold, matured or repaid	2,822,773	1,200,689
Cost of investments acquired	2,880,911	2,275,261
Net cash used by investments	(58,138)	(1,074,572)
Cash From (Used by) Financing and Miscellaneous Sources		
Other cash applied	762,045	(1,324,459)
Net cash from (used by) financing and miscellaneous sources	762,045	(1,324,459)
Reconciliation of Cash and Short-Term Investments		
Net change in cash and short-term investments	(727,271)	(1,446,626)
Cash and short-term investments, beginning of year	6,258,516	7,705,142
Cash and short-term investments, end of year	\$ 5,531,245	6,258,516

See accompanying notes to the statutory financial statement

Universal 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.

Common stocks: Carried at fair value, which include certain money market funds.

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

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

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items.

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	\$ 2,184,872		2,184,872
Common stocks	2,127,254		2,127,254
Cash and short-term investments	5,531,245		5,531,245
Other invested assets	254,605		254,605
Total cash and invested assets	10,097,976		10,097,976
Investment income due and accrued	11,888		11,888
Premiums and agents' balances in course of collection	1,778,630	16,128	1,762,502
Premiums and agents' balances booked but not yet due	7,706,736		7,706,736
Reinsurance recoverable	5,489,037		5,489,037
Federal income tax recoverable	9,618		9,618
Net deferred tax assets	293,905	10,373	283,532
Guaranty funds receivable or on deposit	550		550
Furniture and equipment	257	257	
Accounts receivable - various	66,015	6,015	60,000
Prepaid expenses	38,702	38,702	
Auto	50,490	50,490	
Special deposits	200		200
Total admitted assets	\$ 25,544,004	121,965	25,422,039

Universal Insurance Company
Notes to the Statutory Financial Statement
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3. Reinsurance

The Company cedes non-standard auto liability insurance to the Facility 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.

Direct and ceded premiums written and earned are as follows:

	December 31,	
	2014	2013
		<i>(unexamined)</i>
Direct written	\$ 32,771,622	29,271,707
Ceded written	20,425,812	18,807,536
Net written	12,345,810	10,464,171
Direct and earned	31,247,483	32,489,563
Ceded earned	19,707,361	22,284,456
Net earned	\$ 11,540,122	10,205,107

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Notes to the Statutory Financial Statement
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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	\$ 6,549,498	7,274,285
Add:		
Provision for losses and loss adjustment expenses, current year	7,859,883	6,676,604
Change in estimated losses and loss adjustment expenses, prior years	(317,220)	(411,282)
Total incurred	8,177,103	7,087,886
Deduct:		
Losses and loss adjustment expenses paid, current year	5,828,268	4,768,328
Losses and loss adjustment expenses paid, prior year	2,823,256	3,044,345
Total paid	8,651,524	7,812,673
Reserve for losses and loss adjustment expenses, end of year	6,075,077	6,549,498
Decrease in reserve for losses and loss adjustment expenses	\$ (474,421)	(724,787)

The Company reduced reserves by anticipated salvage and subrogation of \$0 and \$411,000 at December 31, 2014 and 2013, respectively.

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2014 and 2013, the liability for losses and loss adjustment expenses was reduced by approximately \$20,988,000 and \$28,476,000, respectively, for amounts to be recovered from reinsurers.

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Notes to the Statutory Financial Statement
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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	<u>\$ 4,808,514</u>	<u>8,858,664</u>	<u>10,000,841</u>
Capital and surplus increases (decreases):			
Net income	124,632	(3,719,988)	(1,114,633)
Change in net unrealized capital gain	14,763		
Change in net deferred income tax	(207,841)	53,000	28,000
Change in nonadmitted assets	427,440	(87,013)	(55,544)
Surplus adjustments to paid in capital	3,000,000	751,500	
Reclassification of deferred revenue		(1,047,649)	
Prior period adjustment actuary re-valuation	(705,642)		
Change in surplus as regards policyholders for the year	<u>2,653,352</u>	<u>(4,050,150)</u>	<u>(1,142,177)</u>
Capital and surplus, end of year	<u>\$ 7,461,866</u>	<u>4,808,514</u>	<u>8,858,664</u>

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.

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Appendix A– Report Distribution

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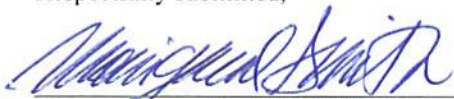
Shelia S. Smith, Accounting Manager
770 Highland Oaks Drive
Winston-Salem, NC 27103

Henry J. McCafferty, President
6000 AAA Drive
Charlotte, NC 28212

Heidi A. Shimp-Fava, Secretary/Treasurer
6000 AAA Drive
Charlotte, NC 28212

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,




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

September 22, 2015

STATE OF NORTH CAROLINA
COUNTY OF WAKE

Keith Greene, Examiner In-Charge, 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:  Date: 9/28/15
Keith Greene

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

Notary Public Signature:  Notary Public Seal

